Post Hearing Information Pack of

CHICMAX

Shanghai Chicmax Cosmetic Co., Ltd.
上海上美化妝品股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

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CHICMAX

Shanghai Chicmax Cosmetic Co., Ltd.
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[REDACTED]

Number of [REDACTED] under the [REDACTED]	:	**[REDACTED] H Shares (subject to the [REDACTED])**
Number of [REDACTED]	:	**[REDACTED] H Shares (subject to [REDACTED])**
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Nominal value	:	**RMB[1.00] per H Share**
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EXPECTED TIMETABLE[1]

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OVERVIEW

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

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

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

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

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

OUR BRANDS AND PRODUCTS

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

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

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

Note:

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

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

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

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

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

Note:

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

RESEARCH AND DEVELOPMENT

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

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

OUR SALES CHANNELS

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

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

Note:

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

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

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

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

PRICING

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

CUSTOMERS AND SUPPLIERS

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

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

OUR SUPPLY CHAIN

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

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

COMPETITIVE STRENGTHS AND BUSINESS STRATEGY

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

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

RISK FACTORS

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

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

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

Summary of Consolidated Statements of Profit or Loss

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

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

NON-IFRS FINANCIAL MEASURE

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

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

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

Notes:

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

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

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

Gross profit and gross profit margin by brands

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

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

Note:

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

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

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

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

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

Gross profit and gross profit margin by sales channels

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

Note:

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

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

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

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

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

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

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

Gross Profit and Gross Profit Margin by Product Category

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

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

Note:

(1) Others primarily consist of makeups and toiletries.

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

Summary of Consolidated Balance Sheets

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

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

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

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

Summary of the Consolidated Statements of Cash Flows

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

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

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

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

KEY FINANCIAL RATIOS

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

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

Notes:

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

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

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

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

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

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

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

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

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

Gross profit margin

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

Net profit margin

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

Return on total assets

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

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

Return on equity

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

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

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

Gearing ratio

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

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

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

USE OF [REDACTED]

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

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

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

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

- Approximately [**REDACTED**] or HK$[**REDACTED**] will be used for increasing the breadth and depth of our sales networks to enhance the penetration of our products;

- Approximately [**REDACTED**] or HK$[**REDACTED**] will be used for enhancing our digitization and information infrastructure;

- Approximately [**REDACTED**] or HK$[**REDACTED**] will be used for working capital and other general corporate purposes.

OUR CONTROLLING SHAREHOLDERS

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

[REDACTED]

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

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

Notes:

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

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

IMPACT OF COVID-19 OUTBREAK

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

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

Sales and Marketing

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Production

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

Logistics

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

Impacts on Our Profit in 2022

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

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

RECENT DEVELOPMENT

Our Financial Performance since June 30, 2022

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

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

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

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

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

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

Industry Development

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

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

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

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

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

DIVIDENDS

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

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

[REDACTED]

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

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

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

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

In this Document, unless the context otherwise requires, the following terms and expressions have the meanings set forth below.

"Accountants' Report"	the accountants' report of our Company, the text of which is set out in Appendix I to this document
"AFRC"	the Accounting and Financial Reporting Council of Hong Kong
"Anxin Zhipu Investment"	Shenzen Anxin Zhipu Investment Consulting Partnership (Limited Partnership) (深圳安信智普投資諮詢合夥企業(有限合夥)), a limited partnership established in the PRC on December 4, 2019, one of our Pre-[**REDACTED**] Investors, the details of which are set out in the section headed "History, Conversion and Corporate Structure" in this document
"Articles of Association" or "Articles"	the articles of association of our Company, which was passed by our Shareholders at the Shareholders' meeting on December 21, 2021, which shall become effective on the [**REDACTED**], as amended, supplemented, or otherwise modified from time to time, a summary of which is set out in Appendix VI to this document
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Audit Committee"	the audit committee of our Company
"Authorized Representative(s)"	the authorized representative(s) of our Company
"Baby Elephant Cosmetic"	Shanghai Baby Elephant Cosmetic Co., Ltd. (上海紅色小象化妝品有限公司), a limited liability company incorporated in the PRC on December 28, 2015, and our wholly owned subsidiary
"Baby Elephant Cosmetic Sales Service"	Shanghai Baby Elephant Cosmetic Sales Service Co., Ltd. (上海紅色小象化妝品銷售服務有限公司), a limited liability company incorporated in the PRC on June 12, 2018, and our wholly owned subsidiary
"Board" or "Board of Directors"	the board of Directors of our Company
"Board Committee(s)"	the board committees of our Company, namely the Audit Committee, the Remuneration and Appraisal Committee and the Nomination Committee

DEFINITIONS

"Business day" or "business day"	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"BVI"	the British Virgin Islands
"[**REDACTED**]"	[●]

[**REDACTED**]

"China" or "PRC"	the People's Republic of China for the purpose of this document and for geographical reference only, except where the context requires, references in this document to "China" and the "PRC" do not apply to Hong Kong SAR, Macau Special Administrative Region and Taiwan Region
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies (Winding up and Miscellaneous Provisions) Ordinance"	the Companies (Winding up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company", "our Company" or "Shanghai Chicmax (上海上美)"	Shanghai Chicmax Cosmetic Co., Ltd. (上海上美化妝品股份有限公司) (including our predecessors, Shanghai Chicmax Cosmetic Co., Ltd. (上海上美化妝品有限公司) and Shanghai Kaka Cosmetic Co., Ltd. (上海卡卡化妝品有限公司))
"Compliance Advisor"	has the meaning ascribed to it under the Listing Rules
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"connected transaction(s)"	has the meaning ascribed to it under the Listing Rules
"core connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and, unless the context requires otherwise, refers to Mr. Lyu Yixiong, Hongyin Investment, Shanghai Kans, Nanyin Investment and Shanghai Shengyan, for further details, see "Relationship with Controlling Shareholders" in this document
"Conversion"	the conversion of our Company into a joint stock company as described in the section headed "History, Conversion and Corporate Structure" in this document
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Directors"	the directors of our Company

"Domestic Share(s)"	ordinary shares in the share capital of our Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi
"Domestic Shareholder(s)"	holder(s) of Domestic Share(s)
"Douyin"	Douyin (抖音), a Chinese short video social media app
"EIT Law"	Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法), as amended, supplemented or otherwise modified from time to time
"Extreme Conditions"	extreme conditions caused by a super typhoon as announced by the government of Hong Kong

[**REDACTED**]

"Group", "our Group", "the Group", "we", "us", or "our"	our Company, subsidiaries and consolidated affiliated entities from time to time
"HK$" or "Hong Kong dollars" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong

[**REDACTED**]

[**REDACTED**]

"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchange and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC

[**REDACTED**]

"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited

[**REDACTED**]

"Hongyin Investment"	Shanghai Hongyin Investment Co., Ltd. (上海紅印投資有限公司), a limited liability company incorporated under the laws of the PRC on February 11, 2015, the details of which are set out in the sections headed "Relationship with Controlling Shareholders" and "Appendix VII – Statutory and General Information – 5. Employee Share Ownership Plan"

"IFRS"	International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by the International Accounting Standards and interpretation issued by the International Accounting Standards Committee
"Independent Third Party(ies)"	any entity(ies) or person(s) who is not a connected person of our Company within the meaning of the Listing Rules

[**REDACTED**]

[**REDACTED**]

"Japanese Yen"	the lawful currency of Japan
"JD" or "JD.com"	jd.com (京東商城), also known as Jingdong, a Chinese e-commerce platform which offers a wide range of products including, among others, household appliances, digital products, clothing, shoes and toys

[**REDACTED**]

"Joint Sponsors"	J.P. Morgan Securities (Far East) Limited, China International Capital Corporation Hong Kong Securities Limited and CLSA Capital Markets Limited
"Kuaishou"	Kuaishou Technology (快手科技), a online short video marketing solutions provider and online content services provider in China and listed at Hong Kong Stock Exchange in 2021
"Latest Practicable Date"	December 3, 2022, being the latest practicable date prior to the date of this document for the purpose of ascertaining certain information contained in this document
"Leading Investment"	Shanghai Leading Investment Co., Ltd. (上海潮尚投資有限公司), a limited liability company incorporated in the PRC on February 14, 2014, and our wholly owned subsidiary

"[**REDACTED**]"	the [**REDACTED**] of our H shares on the main board of the Hong Kong Stock Exchange
"Listing Committee"	the Listing Committee of the Hong Kong Stock Exchange
"[**REDACTED**]"	the date, expected to be on or about [**REDACTED**] on which the H Shares are [**REDACTED**] on the Main Board of the Hong Kong Stock Exchange and from which dealings in the H Shares are permitted to commence on the Main Board of the Hong Kong Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"Main Board"	the stock market (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
"MOF"	Ministry of Finance of the PRC (中華人民共和國財政部)
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"Mr. Lyu Yixiong" or "Mr. Lyu"	Mr. Lyu Yixiong (呂義雄), one of the Controlling Shareholders of our Company
"Mr. Zhang Huai'an"	Mr. Zhang Huai'an (張懷安), one of our Pre-[**REDACTED**] Investors, the details of which are set out in the section headed "History, Conversion and Corporate Structure" in this document
"Nanyin Investment"	Shanghai Nanyin Investment Co., Ltd. (上海南印投資有限公司), a limited liability company incorporated in the PRC on February 11, 2015, the details of which are set out in the sections headed "Relationship with Controlling Shareholders" and "Appendix VII – Statutory and General Information – 5. Employee Share Ownership Plan"

"Negative List"	the Special Administrative Measures for Access of Foreign Investment (Negative List) (2021 Edition), most recently jointly promulgated by the MOFCOM and the NDRC on December 27, 2021 and which became effective on January 1, 2022, as amended, supplemented or otherwise modified from time to time
"NMPA"	National Medical Products Administration (國家藥品監督管理局)
"Nippon Shuichi"	Nippon Shuichi Cosmetics Co., Ltd. (日本秀一化妝品株式會社), a limited liability company established in Japan on July 4, 2017, and our wholly owned subsidiary

[**REDACTED**]

"PRC Company Law"	the Company Law of the PRC (《中華人民共和國公司法》), enacted by the Standing Committee of the Eighth National People's Congress on December 29, 1993 and effective on July 1, 1994, and subsequently amended on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and October 26, 2018, as amended, supplemented or otherwise modified from time to time
"PRC GAAP"	the PRC Accounting Standards and Accounting Regulations for Business Enterprises (企業會計準則) promulgated by the MOF on February 15, 2006 and its supplementary regulations, as amended, supplemented or otherwise modified from time to time
"PRC Legal Advisors"	Commerce & Finance Law Offices (北京市通商律師事務所), our legal advisors as to the laws of the PRC
"Pre-[**REDACTED**]"	Ximei Investment and the Series B Investors

[**REDACTED**]

"province"	each being a province or, where the context requires, a provincial-level autonomous region or municipality under the direct supervision of the central government of the PRC

[**REDACTED**]

"Regulation S"	Regulation S under the U.S. Securities Act

"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration, including local branches, when applicable
"SAIC"	State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), now known as the SAMR
"SAMR"	the State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局), formerly known as the SAIC
"SAT"	State Taxation Administration of the PRC (中華人民共和國國家稅務總局)
"Securities Law" or "PRC Securities Law"	the Securities Law of the PRC (中華人民共和國證券法), as amended, supplemented or otherwise modified from time to time
"Series A Investors"	White Sand (HK), Shanghai Lianyi and Ximei Investment
"Series B Investors"	Youngor Investment, Mr. Zhang Huai'an, Shanghai Yingfu and Anxin Zhipu Investment
"SFC"	the Securities and Futures Commission of Hong Kong
"Shanghai Asnami"	Shanghai Asnami Cosmetic Co., Ltd. (上海安彌兒化妝品有限公司), a limited liability company incorporated in PRC on May 15, 2019, and our wholly owned subsidiary
"Shanghai Chengyin"	Shanghai Chengyin Enterprise Management Co., Ltd. (上海誠印企業管理有限公司), a limited liability company incorporated under the laws of the PRC on February 8, 2021, the details of which are set out in the section headed "Appendix VII – Statutory and General Information – 5. Employee Share Ownership Plan"
"Shanghai Hongdao"	Shanghai Hongdao Cosmetic Co., Ltd. (上海紅道化妝品有限公司), a limited liability company incorporated in the PRC on February 2, 2018, and our wholly owned subsidiary

"Shanghai Kans"	Shanghai Kans Enterprise Management Co., Ltd. (上海韓束企業管理有限公司) (previously known as Shanghai Kans Cosmetics Co., Ltd. (上海韓束化妝品有限公司)), a limited liability company incorporated in the PRC on June 11, 2003, the details of which are set out in the section headed "Relationship with Controlling Shareholders" in this document
"Shanghai Kans Biotechnology"	Shanghai Kans Biotechnology Co., Ltd. (上海韓束生物科技有限公司), a limited liability company incorporated in the PRC on March 18, 2021, and our wholly owned subsidiary
"Shanghai Kans Cosmetic Sales"	Shanghai Kans Cosmetic Sales Service Co., Ltd. (上海韓束化妝品銷售服務有限公司), a limited liability company incorporated in the PRC on June 29, 2016, and our wholly owned subsidiary
"Shanghai Lianyi"	Shanghai Lianyi Venture Capital Center (Limited Partnership) (上海聯毅創業投資中心(有限合夥), now known as Shanghai Lianxin Phase III Venture Capital Center (Limited Partnership) (上海聯新三期創業投資中心(有限合夥)), a limited partnership established in the PRC on September 18, 2014, one of the Series A Investors, the details of which are set out in the section headed "History, Conversion and Corporate Structure" in this document
"Shanghai One Leaf"	Shanghai One Leaf Cosmetic Co., Ltd. (上海一葉子化妝品有限公司), a limited liability company incorporated in the PRC on September 9, 2014, and our wholly owned subsidiary
"Shanghai Shengyan"	Shanghai Shengyan Business Management Centre (上海盛顏商務管理中心), a sole proprietorship established by Mr. Lyu Yixiong under the laws of the PRC on February 11, 2020, the details of which are set out in the section headed "Relationship with Controlling Shareholders" in this document
"Shanghai Shumei"	Shanghai Shumei Cosmetic Co., Ltd. (上海東美化妝品有限公司), a limited liability company incorporated in the PRC on September 8, 2009, and our wholly owned subsidiary

"Shanghai Stock Exchange"	the Shanghai Stock Exchange (上海證券交易所)
"Shanghai Yingfu"	Shanghai Yingfu Enterprise Management Partnership (Limited Partnership) (上海盈輔企業管理合夥企業(有限合夥)), a limited partnership established in the PRC on October 15, 2020, one of our Pre-[**REDACTED**] Investors, the details of which are set out in the section headed "History, Conversion and Corporate Structure" in this document
"Shanghai Zhongyi"	Shanghai Zhongyi Daily Chemical Co., Ltd. (上海中翊日化有限公司) (previously known as Shanghai Zhongyi Investment Co., Ltd. (上海中翊投資有限公司)), a limited liability company incorporated in the PRC on August 5, 2010, and our wholly owned subsidiary
"Share(s)"	ordinary shares in the capital of our Company with a nominal value of RMB1.00 each, comprising Domestic Share(s) and H Share(s)
"Shareholder(s)"	holder(s) of the Share(s)
"Special Regulations"	the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定)

[**REDACTED**]

"Stock Exchange" or "Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong
"subsidiaries"	has the meaning ascribed to it in section 15 of the Companies Ordinance
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Supervisor(s)"	member(s) of our Supervisory Committee
"Supervisory Committee"	the supervisory committee of our Company

"Takeovers Code"	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
"Tmall"	tmall.com (天貓), the largest business-to-consumer retail platform in Asia enabling businesses to sell directly to hundreds of millions of consumers throughout China
"Tmall Supermarket"	chaoshi.tmall.com (天貓超市), a proprietary sector of Tmall that mainly engaged in direct sales of grocery and daily consumption products
"Track Record Period"	the three years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022

[**REDACTED**]

"U.S." or "United States"	the United States of America, its territories and possessions, any State of the United States, and the District of Columbia
"US$", "USD" or "U.S. dollars"	United States dollars, the lawful currency of the United States
"VIP.com"	vip.com (唯品會), a Chinese e-commerce website which offers branded products at discounts to retail prices with various product categories
"Weibo"	Weibo (微博), a leading social media platform for people to create, distribute, and discover content
"White Sand (HK)"	White Sand (HK) Investment Limited (白沙興盛(香港)投資有限公司), a limited liability company incorporated under the laws of Hong Kong on April 1, 2014, one of the Series A Investors, the details of which are set out in the section headed "History, Conversion and Corporate Structure" in this document

"Xiaohongshu"	xiaohongshu.com, also known as "RED" (小紅書), a thriving lifestyle community platform which tailors content recommendations to individual users and incubates new consumer trends
"Ximei Investment"	Shanghai Ximei Investment Center (Limited Partnership) (上海希美投資中心(有限合夥)), a limited partnership established in the PRC on February 3, 2015, one of our Pre-[**REDACTED**] Investors, the details of which are set out in the section headed "History, Conversion and Corporate Structure" in this document
"Youngor Investment"	Youngor Investment Co., Ltd. (雅戈爾投資有限公司), a limited liability company incorporated in the PRC on April 20, 2007, one of our Pre-[**REDACTED**] Investors, the details of which are set out in the section headed "History, Conversion and Corporate Structure" in this document
"%"	per cent

In this Document, the terms "associate," "close associate," "connected person," "core connected person," "connected transaction," "controlling shareholder" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

Certain amounts and percentage figures included in this Document have been subject to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

For ease of reference, the names of the PRC established companies or entities, laws or regulations have been included in this Document in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain technical terms used in this document in connection with our Company and our business. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.

"artemisinin"	a drug extracted from the plant Artemisia annua, sweet wormwood, a herb employed in Chinese traditional medicine, and is used in the treatment of malaria
"biotechnology"	the use of micro-organisms, such as bacteria or yeasts, or biological substances, such as enzymes, to perform specific industrial or manufacturing process
"CAGR"	compound annual growth rate
"collagen"	a natural protein that provides structural support in the body including skin
"cosmetic"	having beautifying, enhancing, improving or beneficial effects on facial or bodily appearance, and "cosmetics" and "cosmetic products" shall mean products having the foregoing effects, including products for face care and body care
"emerging media platforms"	platforms that allow users to communicate and share their lives and experiences with the community through short videos and pictures, such as *Douyin*, *Kuaishou*, and *Xiaohongshu*
"fermentation"	a biological process carried out by mass culture of micro-organisms to produce desired products
"fundamental research"	a type of scientific research focusing on strategic basic and frontier scientific research and common technology research in the field of cosmetics
"GB/T31962-2015"	a national standard that specifies quality standards for discharging wastewater to municipal sewers
"Generation Z"	the demographic cohort with the starting birth years of mid-to-late 1990s and the ending birth years of early 2010s
"GMV"	gross merchandise volume

"hyaluronic acid"	a polymer mucopolysaccharide composed of N-acetylglucosamine and D-glucuronic acid, which is widely distributed in the vitreous body, joints, umbilical cord, skin, and other parts of human bodies. As one of the main components of human epidermis and dermis, it can increase hydration in the skin by binding water to collagen and trapping it in the skin, making the skin appear plumper, dewier, and more moisturized
"ISO"	the International Organization for Standardization, a worldwide federation of national standards bodies
"ISO14001"	an international standard that specifies requirements for an effective environment management system
"ISO45001"	an international standard that specifies requirements for an occupational health and safety management system
"ISO9001"	an international standard that specifies requirements for a quality management system
"KOL(s)"	key opinion leader(s), person(s) who have expert knowledge and influence in a respective field
"lactobacillus"	an ingredient that helps calm and comfort skin to relieve the dry, tight, bothered sensations that come with irritation
"major e-commerce platform(s)"	mainstream platforms where consumers shop products and make payments to sellers electronically, such as *Tmall*, *JD.com* and *VIP.com*
"maternity and childcare product"	the product that provides skin and personal care specifically for pregnant women, new-born mothers and children (under 12 years old).
"natural"	when referring to an ingredient used in skincare products, cosmetics and toiletries, means an ingredient that is an extract stemming directly from agricultural production, harvesting or exploitation and that is not transformed, or which is derived from such means solely through authorized physical procedures

"nicotinamide"	a water-soluble vitamin that works with the natural substances in your skin to help visibly minimize enlarged pores, tighten lax or stretched out pores, improve uneven skin tone, soften fine lines and wrinkles, diminish dullness, and strengthen a weakened surface
"OEM"	original equipment manufacturing, where a manufacturer manufactures a product in accordance with the customer's design and specifications and is marketed and sold under the customer's brand name or under no specific brand
"ODM"	original design manufacturing, where a manufacturer designs and manufactures a product which is specified by the customer and eventually sold under the brand name of the customer or under no specific brand
"organic"	when referring to skincare products, means products that exclude certain chemicals and principally consist of natural ingredients and ingredients produced not utilizing manufactured chemicals
"PP2A"	Protein phosphatase 2A, a protein phosphatase
"retail sales"	Retail sales is the monetary value paid by final consumers on purchasing finished goods
"retinol"	a derivative of vitamin A, which plays a key role in helping cells regenerate. The ingredient is effective in battling wrinkles, roughness, hyperpigmentation and other skin imperfections
"R&D"	research and development
"sales order amount"	the purchase amount specified in the orders placed by the customers with the Company
"SAP system"	System Applications and Products system, an enterprise resource planning software developed by SAP SE, a German company, which incorporates various key business functions
"sodium hyaluronate"	a form of hyaluronic acid that can enter the deep layers of your skin. It attracts moisture and reduces inflammation, and is effective in reducing dryness and wrinkles

"thermus thermophilus"	a gram-negative bacterium used in a range of biotechnological applications. The bacterium is extremely thermophilic
"toiletries"	cosmetics and other articles used in washing and dressing skin and hair
"VOC detectors"	volatile organic compound detectors
"Xylitol"	a crystalline alcohol that is a derivative of xylose

FORWARD-LOOKING STATEMENTS

This Document includes forward-looking statements. All statements other than statements of historical facts contained in this Document, including, without limitation, those regarding our future financial position, our strategy, plans, objectives, goals, targets and future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words "believe," "expect," "estimate," "predict," "aim," "intend," "will," "may," "plan," "consider," "anticipate," "seek," "should," "could," "would," "continue," or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- general political and economic conditions, including those related to the PRC;
- our business prospects and our ability to successfully implement our business plans and strategies;
- future developments, trends and conditions in the cosmetics industry and markets in which we operate or into which we intend to expand;
- our capital expenditure plans;
- the actions and developments of our competitors;
- our financial condition and performance;
- our dividend policy;
- any changes in the laws, rules and regulations of the central and local governments in the PRC and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business and our business plans;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the cosmetics industry and markets in which we operate;
- various business opportunities that we may pursue; and
- capital market developments, changes in the global economic conditions and material volatility in the global financial markets.

FORWARD-LOOKING STATEMENTS

Additional factors that could cause actual performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors" and elsewhere in this Document. We caution you not to place undue reliance on these forward-looking statements, which reflect our management's view only as of the date of this Document. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Document might not occur. All forward-looking statements contained in this Document are qualified by reference to the cautionary statements set out in this section.

In addition to other information in this document, you should carefully consider the following risk factors before making any investment decision in relation to our Shares. Any of the following risks may materially and adversely affect our business, financial condition or results of operations, or otherwise cause a decrease in the trading price of our Shares and cause you to lose part or all of the value of your investment in our Shares.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Our business and future growth prospects rely on consumer demand for our products. Any shift in consumer demand, or any unexpected situation with a negative impact on consumer demand, may materially and adversely affect our business and results of operations.

We operate in an industry that is subject to rapid and unpredictable changes in consumer demand and trends. Our success depends on our ability to identify and respond to constantly shifting consumer demand and trends, develop new and appealing products on a timely basis, and achieve acceptance of such new products by customers.

In particular, we depend on, to a significant extent, continued consumer demand for skincare products and we cannot assure you that consumers will continue to demand such products. If we fail to anticipate and respond appropriately to changing consumer trends and preferences, or if consumer preferences shift away from our products, our brands, results of operations and financial condition may be materially and adversely affected.

Moreover, the choices and preferences of consumers may be influenced by new products that appear in the market. Accordingly, we have been continuously improving the quality, brand awareness and packaging of our existing products, as well as developing, launching and promoting new products to maintain our competitiveness. To support our product upgrade and expansion plans, we need to devote significant resources to researching and developing our products, and recruiting production and marketing professionals that are appropriate for our products. Moreover, we need to explore greater financial, technical or marketing resources to earn greater brand recognition and acquire larger customer bases. All these tasks involve risks, and require substantial planning, effective execution and significant expenditures. We rely on big data analytics and market surveys to anticipate changes and trends in consumer demand and adjust our product mix accordingly. If we misjudge consumer demand, we may incur development, production and marketing costs which we are not able to recover, and our business and results of operations may be adversely affected.

Our business depends on market recognition of our brands. Any damage to our reputation or brands may materially and adversely affect our business, financial condition and results of operations.

We currently derive a large portion of our revenue from our core brands, namely *KANS*, *One Leaf* and *Baby Elephant*. During the Track Record Period, the revenue from sales of *KANS*, *One Leaf* and *Baby Elephant* accounted for 86.6%, 91.8%, 92.2% and 93.0% of our total revenue, respectively. Our continued success and growth therefore depend significantly on our ability to protect and promote, in our existing markets and new markets we intend to enter into, our core brands. Promoting and defending our brands also depend, in part, on securing the cooperation of retailers and distributors and controlling the distribution of our products through our sales channels. If we fail to successfully promote our core brands or to protect and enhance our core brands' identity, or if we fail to launch or operate new brands or fail to protect our brands and brand position, or if we fail to properly supervise the distribution or use of our products by third-party distributors, or if such third-party distributors fail to comply with our policies, the market recognition of our core brands may deteriorate, we may not be able to sell our products at acceptable prices and/or volumes, and, as a result, our results of operations may be adversely affected. Further, we face an inherent business risk of exposure to product liability claims in the event that the use of our products results, or is alleged to result, in undesirable side effects, health or safety issues or damage. If we experience any material product recalls of our products, the reputation of our core brands may suffer damage. We maintain insurance to cover financial loss we may sustain as a result of product liability claims; however, a successful product liability claim against us could cause a deterioration of our core brands, and could be in excess of our available insurance coverage and established reserves, result in legal costs incurred in connection with such claim or other adverse allegations and costs incurred in connection with a product recall campaign or in rectifying any product defects, any of which could have an adverse effect on our business, financial condition and results of operations.

Failure to compete effectively may materially and adversely affect our business, financial condition, results of operations and prospects.

The cosmetics industry is highly competitive and is characterized by consumers' focus on quality and function and frequent introduction of new products. We face strong competition from our existing competitors as well as new industry entrants, including domestic and international manufacturers of skincare products. Some of these manufacturers are large-scale domestic players or multi-national conglomerates with ample business resources, financial resources and/or proven track records in developing and marketing skincare products. We compete on the basis of brand awareness, product development, sales and distribution network, quality and marketing, as well as our ability to tailor our products to consumer preferences and market trends.

Many multinational consumer companies have greater financial, technical or marketing resources, longer operating histories, greater brand recognition or larger customer bases than we do, and may be able to respond more effectively to changing business and economic conditions than we can. In addition, it is difficult for us to accurately predict the timing and scale of our competitors' activities or whether new competitors will emerge in the cosmetics industry. Moreover, further technological breakthroughs, including new and enhanced technologies which increase competition in the online retail market, new product offerings by competitors and the strength and success of our competitors' marketing programs may impede our growth and the implementation of our business strategy.

Our ability to compete also depends on the continued strength of our brands and products, the success of our marketing, innovation and execution strategies, the continued diversity of our product offerings, the successful management of new brand and product introductions and innovations, strong operational execution, including order fulfillment, and our success in entering new markets and expanding our business in existing geographies. In order to compete effectively, we may need to increase our marketing expenses from time to time, which may materially and adversely affect our financial condition and results of operations. If we are unable to maintain our competitive advantages and compete successfully against our competitors and any new industry entrant in the future, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our business and operations may be materially and adversely affected by natural disasters, health epidemics and pandemics. In particular, the COVID-19 outbreak in China and worldwide has adversely affected, and may continue to adversely affect the economy in China, which in turn may have a material adverse impact on our business and operations.

Our business could be materially and adversely affected by natural disasters, such as snowstorms, earthquakes, fires or floods, the outbreaks of widespread health epidemics, or other events, such as wars, acts of terrorism, environmental accidents, power shortage or communication interruptions. Outbreaks of contagious diseases and other adverse public health developments in China or any other market in which we operate and conduct business could severely damage our supply chain operation, or impair the productivity of our workforce. The outbreak of any severe epidemic disease, such as avian flu, H1N1 flu, SARS or the COVID-19, may disrupt our business operations such as offline sales channels, which could negatively affect our financial condition, results of operations, supply chain management and future prospects.

While COVID-19 has begun to show signs of stabilizing in certain areas of China, the downturn brought by and the duration of the COVID-19 outbreak is difficult to assess or predict and the full impact of the COVID-19 outbreak on our operations will depend on many factors beyond our control. Our business operation and financial results have been materially and adversely affected by the COVID-19 outbreak. Please see "Financial Information – The Impact of Covid-19 Outbreak." Our business, results of operations, financial condition and future prospects may continue to be materially adversely affected to the extent that COVID-19 harms Chinese and global economy in general. Our business operations could be disrupted if any of our employees is suspected of contracting COVID-19, since our employees could be quarantined and/or our offices may be shut down for disinfection. In addition, we may experience inventory shortage if our suppliers of raw materials are affected by COVID-19. Besides, customer demand for our products may decline due to the COVID-19 outbreak. The extent to which the COVID-19 outbreak may impact our business, results of operations and financial condition remains uncertain, and we are closely monitoring its impact on us.

Our sales and marketing strategies may not be able to adapt to market changes, which could harm our business, financial condition and results of operations.

The success of our business and operations depends on our ability to continuously offer quality products that are attractive to consumers. The cosmetics industry is driven in part by technologies, fashion and beauty trends, and consumer preferences and behavior, which may shift quickly and have been heavily affected by the rapidly increasing use and proliferation of social and digital media by consumers, and the speed with which information and opinions are shared. As technologies, industry trends and consumers' preferences and behavior continue to change, we must also continually work to develop, produce and market new products, maintain and enhance the recognition of our brands, achieve a favorable mix of products and refine our approach as to how and where we market and sell our products. Our success depends on our products' appeal to a broad range of consumers whose preferences and behavior cannot be predicted with certainty and may change rapidly, and on our ability to anticipate and respond in a timely and cost-effective manner to industry trends and consumer preferences and behavior through product innovations, product line extensions and marketing and promotional activities, among other things. Drawing on our deep engagement with our customers and our advanced big data analytics, we have been able to anticipate and react to industry trends and consumer preferences and behavior in an effective and efficient manner; however, we cannot assure you that we will be able to successfully anticipate and respond to consumer preferences and behavior at all times, especially as we continue to broaden our customer base and diversify our product offerings aimed at customers with differing characteristics. In addition, our sales and marketing strategies may not be applicable to new brands that we may launch in the future. In such events, we may need to implement new sales and marketing strategies, which may not be effective. If our sales and marketing strategies are unable to accurately anticipate and respond to market changes and consumer preferences and behaviors, we may fail to continuously develop products with wide market acceptance, capture emerging growth opportunities, adopt competitive sales strategies for our existing products, or properly predict and manage our inventory. Such failure could also negatively impact our brand image and result in diminished customer experience and brand loyalty. Any of these occurrences could materially and adversely affect our business, financial condition and results of operations.

Our marketing activities may not be cost-effective in attracting consumers, which may in turn adversely affect our results of operations.

As a part of our strategies, we have invested, and will continue to invest, a large amount of financial and other resources in promoting our brand awareness and acquiring customers, including expanding our marketing and sales teams, strengthening KOL marketing and purchasing advertisements. In 2019, 2020, 2021 and the six months ended June 30, 2022, we incurred RMB1,324.9 million, RMB1,535.8 million, RMB1,572.3 million and RMB607.9 million in selling and distribution expenses, respectively, accounting for 46.1%, 45.4%, 43.4% and 48.2% of our total revenue, respectively. Our marketing and branding activities may not be well received, successful or cost-effective, which may lead to significantly higher marketing expenses in the future. We may also not be able to continue our existing marketing and branding activities, or successfully identify and utilize new trends in marketing strategies, channels and approaches that appeal to or fit into the lifestyle of our targeted customers. We may also fail to adjust our sales and marketing strategies fast enough to stay current with consumers' behavioral changes in using internet and mobile devices. Failure to refine our existing marketing strategies or introduce new effective marketing strategies in a cost-effective manner could negatively impact our business, results of operations and financial condition.

During the Track Record Period, we engaged a number of KOLs to promote our products, which is in line with the industry norm as confirmed by Frost & Sullivan. Revenue generated from our top five KOLs for 2019, 2020, 2021 and the six months ended June 30, 2022 accounted for 1.8%, 6.4%, 10.3% and 5.9%, respectively, of our total revenues during those periods. However, we cannot guarantee you that we will be able to find suitable KOLs or continue to maintain our business relationships with our existing KOLs to promote our products. We also cannot guarantee you that our marketing strategy in relation to KOLs will be successful or effective in the future as the industry may be affected by factors such as tightening regulations or alternative promotion methods that are beyond our control.

Any quality issues related to our products or the cosmetics industry could result in a loss of customers and sales and, if related to our products, may subject us to product liability claims.

The success of our business depends on our ability to consistently deliver products with high quality and reliability. Maintaining consistent product quality depends significantly on the effectiveness of our quality control systems, which in turn depends on a number of factors, including the design of our quality control systems and our ability to ensure that our employees and other third parties involved in our operations adhere to those quality control policies and guidelines. Although we implement certain quality control standards and measures throughout our entire manufacturing process (see "Business – Product Safety and Quality Control"), we cannot assure you that our quality control systems will prove to be effective at all times, or that we will be able to identify any defects in our quality control systems in a timely manner. If the quality of any of our products deteriorates for any reason, or if consumers do not perceive our products to be effective as they claim to be, we may be faced with returns or cancellations of orders and customer complaints. Even though there have been no quality issues related to our products, allergic reactions or undesirable or unexpected outcomes may occur. In the event that such incidents occur, we may be subject to negative publicity, which could lead to potential loss of consumer confidence. Additionally, our products, like most skincare products, contain a number of ingredients, some of which or the combination of which may have actual or perceived unknown adverse effects on the environment or human health. As a result, there may be, from time to time, complaints or concerns among consumers about certain of our products, or certain cosmetic products in general, which in turn could jeopardize customers' confidence in our products.

Moreover, if any defect or adverse effect of our products or certain skincare or personal care products in general results in property damage or personal injury, we may suffer from product liability claims or product recalls, resulting in financial and reputational damages. These legal claims may be expensive for us to defend even if we prevail in the end. Although we have purchased product liability insurance, we cannot assure you that such insurance covers all risks and compensations. See "Business – Insurance." Furthermore, if there is a pattern of quality issues in the cosmetics industry in general, consumers' perception of, and willingness to purchase, our products may also be negatively affected, regardless of whether such quality issues relate to us. Any quality issues related to our products or the household care industry, actual or perceived, may have a material and adverse effect on our business, financial condition, results of operations and prospects.

Our efforts in developing, launching and promoting new brands and products, and diversifying our brand and product portfolio, may not be successful.

We have consistently devoted our efforts to developing new products and exploring new technology in order to not only adapt to evolving consumer preferences, but also influence market trends. However, we cannot assure you that such efforts will be successful. The new products resulting from such efforts may not be well received by consumers, sometimes due to factors beyond our control.

We also intend to further expand our product portfolio and diversify our brand portfolios by launching new brands in the future. The launch of new product series or brands and entry into new product categories involves inherent risks such as those relating to incorrect judgments regarding consumer preferences, market demand and new brand images and pricing. Failure to successfully diversify our products and brands to adapt to constantly changing consumer preferences and market trends may cause our profit margin to decrease as we will not be able to recoup the associated costs, jeopardize our competitive advantage and market share, and result in continued reliance on our existing products and brands. Any of these events could materially and adversely affect our business, financial condition, results of operations and prospects.

Our efforts in developing and investing in research and development may not generate expected outcomes.

We have been devoted to continuously developing skincare and personal care technologies to be used in our products. As of June 30, 2022, our research and development team consisted of 204 staff; however, we cannot assure you that our future efforts in developing skincare technologies will be successful, in which case, our products may lose their competitive advantage. In addition, we cannot assure you that the skincare and personal care technologies we have developed will be well received by consumers, in which case our business, financial condition, results of operations and prospects could be materially and adversely affected.

In addition, we rely on technology in many aspects of our operations. See "Business – Research and Development." Although we continuously upgrade our technologies to stay abreast of the latest industry developments, we cannot assure you that our investment in these technologies will produce the expected outcomes, in which case our business, financial condition, results of operations and prospects could be materially and adversely affected.

Changes in supply, quality and costs of raw materials, transportation and other necessary supplies or services may impact our business, financial condition and results of operations.

Our raw materials primarily consist of packaging materials and ingredients. Costs of raw materials represent a substantial portion of our total cost of sales. In 2019, 2020, 2021 and the six months ended June 30, 2022, cost of raw materials represented 81.3%, 82.9%, 83.8% and 83.3% of our total cost of sales, respectively. We are subject to fluctuation in the prices of raw materials, as well as transportation and other necessary supplies or services, due to factors beyond our control, such as inflation, fluctuations in currency exchange rates, changes in weather or changes in the supply and demand for such related raw materials. We may not be able to offset price increases by raising the prices of our products, in which case our profit margin will decrease, and our financial condition and results of operations may be materially and adversely affected. Additionally, we may lose our competitive advantage if the prices of our products rise significantly. This in turn could result in loss of sales and customers. In both cases, our business, financial condition and results of operations may be materially and adversely affected.

During the Track Record Period, we generally did not enter into any long-term agreements with our suppliers and negotiated prices with our suppliers on a case-by-case basis. If any of our key suppliers are unable to satisfy our order requirements or significantly increase the price of raw materials, we may experience an interruption, reduction or termination of raw material supplies and will be required to seek alternative suppliers. We cannot assure you that we will be able to find suitable suppliers that can provide raw materials at the same quality and prices or at all. Should this situation arise, we may be exposed to (i) an increase in costs of raw materials, which we may not be able to pass on to our customers, (ii) a reduction in the quality of our raw materials, or (iii) a shortage of raw materials, which may result in an increase in our cost of sales or impair the quality of our products. As such, our business, financial condition and results of our operations may be adversely impacted.

If third-party e-commerce platforms we rely on to sell our products online are interrupted or if our cooperation with such platforms terminates, deteriorates or becomes more costly, our business and results of operations may be materially and adversely affected.

Currently, we rely on third-party e-commerce platforms such as *Tmall*, *JD.com* and *VIP.com*, among others, for online sales of our products and derive a material portion of our online sales revenue through and from such platforms. If such platforms' services or operations are interrupted, if such platforms fail to provide satisfactory customer experience and fail to attract new and retain existing users, if our cooperation with such third-party e-commerce platforms terminates, deteriorates or becomes more costly, or if we fail to incentivize such platforms to drive traffic to our stores or promote the sale of our products, our business and results of operations may be materially and adversely affected. We cannot guarantee that we will be able to find alternative channels on terms and conditions commercially acceptable to us in a timely manner, or at all, especially given their leading position and significant influence in China's e-commerce industry. In addition, any negative publicity about such third-party e-commerce platforms, or any public perception or claims that non-authentic, counterfeit or defective goods are sold on such platforms, be it with merit or proven or not, most of which are beyond our control, may deter visits to the platforms and result in less customer traffic to our stores or fewer sales of our products, which may negatively impact our business and results of operations.

Failure to comply with applicable advertising laws and regulations when promoting our products may subject us to potential risks and penalties.

We advertise our brands and products through various channels, such as *Douyin*, *Tmall*, television channels, billboards, newspapers and magazines, which are subject to applicable PRC laws and regulations. We have been subject to fines by relevant authorities in the past, and while the amount of the fines is immaterial, we have taken measures to ensure our compliance with advertising laws and regulations. For example, from time to time, we may be scrutinised for the source of certain data or choice of certain words used in our advertising. If our employees or the third-party service providers we engage fail to comply with such laws and regulations, or the relevant government authorities, who have discreation in interpreting the laws and regulations, ultimately take a view that is inconsistent with our understanding in the process of administrative law enforcement, we may be subject to potential risks and penalties. We cannot ensure that inadvertent noncompliance will not happen in the future, which may subject us to further penalties imposed by the relevant authorities and may further damage our brand image and reputation. We may need to increase compliance costs in the future to comply with applicable advertising laws and regulations. Accordingly, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We may not be able to efficiently manage our inventory risks.

Our business requires us to manage a large volume of inventory effectively. We depend on our forecasts of demand for, and popularity of, various products to make purchasing decisions and to manage our inventory of stock-keeping units. Demand for products, however, can change significantly between the time inventory, components, packaging materials and ingredients are ordered and the date of sale. Demand may be affected by seasonality, new product launches, rapid changes in product cycles and pricing, product defects, promotions, changes in consumer spending patterns, changes in consumer tastes with respect to our products and other factors, and our consumers may not purchase products in the quantities that we expect. It may be difficult to accurately forecast demand and determine appropriate levels of product or componentry. If we fail to manage our inventory effectively or negotiate favorable commercial terms with third-party manufacturers and suppliers, we may be subject to a heightened risk of inventory obsolescence, a decline in inventory values, and significant inventory write-downs or write-offs in the case of overestimation of consumer demand, or increased costs to secure necessary production and delivery delays in the case of underestimation of consumer demand. In 2019, 2020, 2021 and the six months ended June 30, 2022, we recorded under other expenses RMB69.8 million, RMB57.8 million, RMB66.9 million and RMB21.5 million of inventory impairment and scrap, respectively. An inability to meet consumer demand and delays in the delivery of our products to our customers could result in reputational harm and damaged customer relationships. In addition, if we are required to lower sale prices in order to reduce inventory level or to pay higher prices to our manufacturers and suppliers, our profit margins might be negatively affected. Any of the above may materially and adversely affect our business, financial condition and results of operations.

We are subject to risks relating to the warehousing of our products and logistical problems.

Before delivery of products to end-customers or third-party distributors, we temporarily store them in warehouses owned by ourselves or our third-party logistics service providers as supplemental warehousing facilities. If we or any third-party warehousing provider engaged by us fail to store our inventory at optimal conditions, such as at optimal temperatures and humidity levels, the quality and shelf-life of our products may be adversely affected, and we may as a result suffer damage to our reputation, which may adversely affect our results of operations. We maintain property-related insurance that covers financial losses we may sustain as a result of accidents, including fire, explosion, lightning strike, rainstorm and other disasters; however, if such accidents were to occur, causing damages to the products we sell or our warehouses, our ability to supply products to third-party distributors and deliver goods to end-customers could be adversely affected. We rely on our enterprise resource planning and other related information technology systems for the ordering, delivery arrangement and inventory management of our products. We may experience disruptions and technical failures or errors in the operation of such systems. Also, we rely on independent third-party logistics companies for the distribution and transportation of our products. The services provided by such logistics companies could be suspended, which could interrupt the supply of our products to points of sale due to force majeure or other unforeseen events. Delivery disruptions may occur for various reasons beyond our control, including poor handling, transportation bottlenecks, natural disasters and labor strikes, and could lead to delayed or lost deliveries or damaged goods.

The occurrence of any of these incidents could also require us to make significant unanticipated capital expenditures. Lost sales or increased costs that we may incur due to such disruption of operations and delay in delivery may not be recoverable under our existing insurance policies, and prolonged business disruptions could result in a loss of end-customers. If any one or more of the above risks were to materialise, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We may face inadequate production capacity issue, which could hinder our capabilities to satisfy customers' demand and growth prospects.

As of the Latest Practicable Date, we had one plant in Shanghai, China and one plant in Okayama, Japan. See "Business – Our Supply Chain – Our Production Bases." We cannot assure you that we will be able to meet the overall demand for our products or specific demand for any of our products in particular, should the production in any of our production facilities be disrupted in the future, especially during the period when we experience high demand for some or all of our products. See "– We may experience disruptions and delays in our production, which may materially and adversely affect our results of operations and financial condition." Under these circumstances, our business, financial condition, results of operations and prospects may be materially and adversely affected.

In the future, as our business grows, we may need to expand our production capacity by various measures including construction of new premises. See "Business – Our Supply Chain – Our Production Expansion Plan." We cannot assure you that our new premises will be ready in time or our production capacity will otherwise be successfully expanded. A number of factors could delay our expansion plan or increase our costs, including:

- failure to raise sufficient funds to establish and maintain working capital to operate our business at the new premises;
- failure to obtain environmental and regulatory approvals, permits or licenses from the relevant government authorities in a timely manner;
- failure to find new sites for our production facilities;
- shortage or late delivery or increased prices of building materials and production equipment resulting in late delivery of the premises for our use and occupancy;
- various factors affecting construction progress and resulting in late delivery of the premises for our use and occupancy; and
- technological changes, capacity expansion or other changes to our plans for the new premises necessitated by changes in market conditions.

Failure to expand our production capacity could hinder our capacity to satisfy customers' demand and growth prospects. Furthermore, if market demand declines in the future, we may not be able to recoup the costs incurred for construction of new premises and maintenance of expanded production capacity. The delay or cancellation of our expansion could also subject us to disputes with various counterparties, including, but not limited to, general contractors and sub-contractors, equipment suppliers, financiers and relevant government authorities. As a result, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Any failure by our suppliers to supply raw materials or provide services that are consistent with our standards or applicable regulatory requirements could harm our brands, cause consumer dissatisfaction, and require us to find alternative suppliers of such raw materials or services.

We use multiple third-party suppliers and a limited number of manufacturers based in China and overseas to procure our raw materials. We engage our third-party suppliers and manufacturers on a purchase order basis, and are not party to long-term contracts of more than one year with any of them. The supply ability of these third parties may be affected by competing orders placed by other customers and the demands of those customers. If we experience significant increases in demand, or need to replace a significant number of existing suppliers, there can be no assurance that additional supply capacity will be available when required on terms that are acceptable to us, or at all, or that any supplier will allocate sufficient capacity to us in order to meet our requirements.

Furthermore, our third-party suppliers may:

- have economic or business interests or goals that are inconsistent with ours;
- take actions contrary to our instructions, requests, policies or objectives;
- be unable or unwilling to fulfill their obligations under relevant purchase orders, including obligations to meet our production deadlines, quality standards, pricing guidelines and product specifications, and to comply with applicable regulations, including those regarding the safety and quality of products and ingredients;
- have financial difficulties;
- encounter raw material or labor shortages;
- encounter increases in raw material or labor costs which may affect our procurement costs;
- disclose our confidential information or intellectual property to competitors or third parties;

- engage in activities or employ practices that may harm our reputation; and
- work with, be acquired by, or come under control of, our competitors.

The occurrence of any of these events, alone or together, could have a material adverse effect on our business, financial condition and results of operations. In addition, such problems may require us to find new third-party suppliers, and there can be no assurance that we would be successful in finding third-party suppliers meeting our standards of innovation and quality. Hence, our business, financial condition and results of operations may be materially and adversely affected.

We may not be able to adequately protect our intellectual property rights, which could harm the value of our brands and adversely affect our business.

We rely on trademarks, copyrights, patents and the domain names we use to protect our brands and proprietary information, technologies and processes. Our principal intellectual property assets include the registered trademarks "*KANS*," "*One Leaf*" and "*Baby Elephant*." Our trademarks are valuable assets that support our brands and consumers' perception of our products.

Although we have existing and pending trademark registrations for our brands in China and in the foreign countries in which we operate, we may not be successful in asserting trademark or trade name protection in all jurisdictions. We also have not applied for trademark protection in all relevant foreign jurisdictions and cannot assure you that our pending trademark applications will be approved. Third parties may also oppose our trademark applications domestically or abroad, or otherwise challenge our use of the trademarks. In the event that our trademarks are successfully challenged, we could be forced to rebrand our products in some jurisdictions, which could result in the loss of brand recognition and could require us to devote resources to advertising and marketing new brands.

In addition, counterfeiting and imitation have occurred in the past for many consumer products, including skincare and personal care products. As our brands are well-known in China, we have in the past experienced counterfeiting and imitation of our products. We are unable to guarantee that counterfeiting and imitation would not occur or, if it does occur, that we would be able to detect and address the problem effectively. Any occurrence of counterfeiting or imitation could impact negatively upon our reputation and brand names, lead to loss of consumer confidence in our brands, and, as a consequence, adversely affect our results of operations. Consequently, we do our utmost to fight against any counterfeiting and imitation of our products or brands.

The laws of some foreign countries do not protect our proprietary rights as fully as do the laws of European Union member states or the United States. As a result, we may not be able to protect our intellectual property rights adequately by legal means in some of the jurisdictions where we do business.

Litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. The costs required to protect our trademarks, trade names and patents, including legal fees and expenses, could be substantial. Litigation may also be necessary to defend against claims of infringement or invalidity by others as we actively pursue innovation in the cosmetics and toiletries industry and enhance the value of our intellectual property portfolio. An adverse outcome in litigation or any similar proceedings could adversely affect our business, financial condition and results of operations. In addition, the diversion of management's attention and resources while addressing any intellectual property litigation claim, regardless of whether the claim is valid, could be significant and could significantly affect our business, financial condition and results of operations.

See "Business – Intellectual Property" for further information relating to our intellectual property.

We may be subject to risks in relation to our sales to retailers and distributors.

We manage a broad sales and distribution network and sell our products through both online and offline channels. During the Track Record Period, we sold our products to certain retailers and distributors, which further sell our products to consumers.We cannot assure you that we will be able to maintain our relationships with our key retail and distribution partners in the future. Should any of the retailers and distributors reduce substantially the demands for our products or terminate the business relationship with us, we may experience a decline in our sales performance. Due to the large number of our retailers and distributors, it is difficult to monitor their practices. Non-compliance by any of our retailers and distributors with the relevant agreements or our sales policies may adversely affect our ability to implement development strategies. If any of the distributors fail to distribute our products to their customers in a timely manner, or carry out actions which are inconsistent with our business strategy, it may affect our future sales. In addition, although we have contractual relationships with our distributors, we cannot assure you that the distributors will at all times comply with our sales policies or that they will not develop any sub-distributors. This may in turn materially and adversely affect our business, financial condition, results of operations and prospects.

We are exposed to risks in relation to our consignment arrangements with our retailers.

We have no ownership or managerial control over any of our retailers under consignment arrangements. We cannot assure you that our retailers will at all times strictly adhere to the terms and conditions under our consignment arrangement. Any wrongdoing of them may harm our business or give rise to product liability claims or customer complaints against us. If any of our online retailers fails to distribute our products in a timely or effective manner or in accordance with the terms of our consignment arrangements, or at all, or if our consignment arrangements are suspended, terminated or otherwise expired without renewal, our business, financial condition and results of operations may be materially and adversely affected.

The retailers may not be able to market and sell our products successfully or maintain their competitiveness as a result of various factors. The loss of our retailers, reduced orders from them or reduce in sales price, could adversely affect our access to consumers and/or our sales volume and revenue. Please see "Business – Our Sales Channels." If we fail to successfully maintain our relationships with our retailers or our retailers fail to operate successfully, our ability to effectively sell our products could be negatively impacted.

Our delivery, return and exchange policies may adversely affect our results of operations.

We have adopted shipping policies that do not necessarily pass the full cost of shipping on to our customers. We also have adopted customer-friendly return and exchange policies that make it convenient and easy for customers to change their minds within seven days after completing direct online purchases from us. We may also be legally required to adopt new or amend existing return and exchange policies from time to time. These policies improve customers' shopping experience and promote customer loyalty, which in turn help us acquire and retain customers. However, these policies also subject us to additional costs and expenses which we may not recoup through increased revenues. If our delivery, return and exchange policies are misused by a significant number of customers or if the return or exchange rates increase beyond historical records or otherwise substantially, our costs may increase significantly, and our results of operations may be materially and adversely affected. If we revise these policies to reduce our costs and expenses, our customers may be dissatisfied, which may result in loss of existing customers or failure to acquire new customers at a desirable pace, which may materially and adversely affect our results of operations.

Laws and regulations related to e-commerce activities in China may impose additional requirements and obligations on our online operations.

As the e-commerce industry is evolving rapidly in China, new laws and regulations may be adopted to address new issues that arise from time to time and to impose additional restrictions on our e-commerce business. If the PRC government establishes stricter regulatory requirements on e-commerce activities in the future, we may need to comply with additional obligations with respect to our business on online channels, and we cannot assure you that we would be able to meet the evolving regulatory requirements in a timely manner. In 2019, 2020, 2021 and the six months ended June 30, 2022, the revenue derived from our sales through online channels accounted for 52.4%, 75.2%, 74.6% and 73.8% of our total revenue, respectively. Although we are not operators of e-commerce platforms, we may still need to change our online sales models to comply with the new regulations, which could affect our operation structure, require additional investment or make it more onerous to operate online business. In addition, any non-compliance with such rules and regulations may also adversely affect our online business, which would further impair our profitability.

We may not be able to retain or promptly recruit senior management members or other key personnel required for our operations.

The composition and continued commitment of our management team has been a key element of our success and ability to operate effectively. Our future success is also significantly dependent upon the continued service of our key executives and other personnel who make up our management team, and our ability to attract and retain personnel who have the necessary experience and expertise. Although we believe we offer our management team and employees competitive compensation packages and a collaborative working environment, we cannot guarantee you that if we experience any significant, material changes to the composition of our management team, we would be able to recruit suitable or qualified replacements, and may incur additional expenses to recruit and train new personnel, which could disrupt our business and limit our ability to grow. Further, if we lose our senior management or key personnel to our competitors, our competitiveness, operations and our ability to grow may be adversely affected.

We may be unable to attract and retain the research and development personnel required for our operations.

Our success and future growth depend largely upon the continued services of our experienced and skilled research and development personnel and our product development capability. We have established a Sino-Japan dual R&D center system involving our R&D staff in Shanghai, China and Kobe, Japan. We cannot assure you that we will be able to attract competent researchers to our group in the future, and that our existing research and development personnel will not voluntarily terminate their employment with us. The failure to attract personnel with cosmetic research expertise or loss of any of our research and development personnel could be detrimental to our operations. Experienced personnel in the cosmetics industry are in high demand, and competition for relevant talents is intense. Many of the companies with which we compete for experienced research and development personnel have greater resources than we have. We cannot assure you that we will be able to attract and maintain adequate skilled research and development personnel necessary for us to execute our research and development efforts, nor can we guarantee that staff costs will not increase as a result of a shortage in the supply of skilled research and development personnel. If we fail to attract new research and development personnel or fail to retain and motivate our current research and development personnel, our business and prospects could be adversely affected.

Any failure to obtain, maintain or renew any of the requisite licenses, permits, registrations and filings required for our business could adversely affect our operations.

Our operations such as manufacturing and sales of cosmetics products in China require multiple licenses, permits, filings and approvals. Certain licenses, permits or registrations we hold are subject to periodic renewal. If we fail to maintain or renew one or more of our licenses and certificates when their current terms expire, or obtain such renewals in a timely manner, our operations could be disrupted. If we fail to properly renew and maintain any of such requisite licenses on time, we may face penalties. In addition, given the constant evolution of government regulations governing our business, it might become increasingly onerous for us to comply with such evolving regulations, and any non-compliance may expose us to liability. In case of any non-compliance, we may have to incur monetary expenses and divert substantial management time and resources to resolving any deficiencies. We may also experience negative publicity arising from such deficiencies, which may adversely affect our business and financial performance.

Further, due to uncertainties of interpretation and implementation of existing laws and the adoption of additional laws and regulations, the licenses, permits, registrations or filings we hold may be deemed insufficient by PRC governments, which may restrain our ability to expand our business scope and may subject us to fines or other regulatory actions. Furthermore, as we develop and expand our business scope, we may need to obtain additional permits and licenses, and we cannot assure that we will be able to obtain such permits on time or at all.

We may experience disruptions and delays in our production, which may materially and adversely affect our results of operations and financial condition.

As of the Latest Practicable Date, we manufactured our products at our two production bases located in Shanghai, China and Okayama, Japan. Natural or man-made disasters, such as adverse weather, fires, technical or mechanical difficulties, storms, explosions, earthquakes, strikes, acts of terrorism, wars and outbreaks of epidemics, or other interruptions such as power and water suspension, may cause significant damage to our production facilities, which could be costly and time-consuming to reinstate and could cause significant disruptions to our operations. We may incur additional costs and may experience a disruption in the supply of products until the affected production facilities become available and operational.

Additionally, we rely on the timely supply of our raw materials, including packaging materials and ingredients, in order to carry out our production plans as scheduled. Any delays or disruptions in raw material supplies from our suppliers may have a material and adverse impact on our ability to meet our contractual obligations to customers. In addition, any natural or man-made disasters or other unanticipated catastrophic events, including adverse weather, fires, technical or mechanical difficulties, storms, explosions, earthquakes, strikes, acts of terrorism, wars and outbreaks of epidemics could disrupt our transportation channels and impair the operations of our suppliers, and impede our ability to manufacture and deliver our products to customers in a timely manner. For example, incidents such as the COVID-19 outbreak in the first quarter of 2020 and 2022 have put extra strain on offline distribution channels. Furthermore, from March 28 to April 18, 2022, in response to the local government's pandemic controlling measures, our Fengxian Plant has temporarily suspended its production activities. See "Financial Information – Impact of COVID-19." Any disruption or delay in our production in the future could have an adverse impact on our ability to produce sufficient quantities of products, which could in turn impair our ability to meet the needs of our customers. In such cases, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Any failure or perceived failure to comply with data privacy and security laws, or other concerns about our practices or policies with respect the collection, use, storage, retention, transfer, disclosure, and other processing of data, could damage our reputation and deter current and potential users from using our services.

Currently, we rely on third-party e-commerce platforms such as *Tmall, JD.com* and *VIP.com*, among others, for online sales of our products. Although we do not collect users' personal information and other data directly, the aforementioned third-party e-commerce platforms share the transaction-related information of certain users with us, to the extent where it is necessary for the conclusion or performance of the contracts between the users and us. We only use such information or data we obtain for entering into and performing the aforementioned contracts, including delivering of our products, providing after-sales services and sending the most up-to-date information on our brands and online stores as authorized. We are subject to a variety of laws and regulations relating to data security and privacy, including restrictions on the collection, use, storage, retention, transfer, disclosure and other processing of data. The interpretation and application of laws, regulations and standards relating to cybersecurity, data protection and privacy remain uncertain and are constantly changing, and these regulations are also affected by different interpretations or significant changes which leads to uncertainty about the scope of our responsibility in this regard. For instance, on June 10, 2021, the Standing Committee of the National People's Congress promulgated the Data Security Law of the People's Republic of China (《中華人民共和國數據安全法》) (the "Data Security Law," effective since September 1, 2021). The Data Security Law sets out a number of obligations on data security and privacy undertaken by entities and individuals engaged in data-related activities. It also prohibits any individual or entity in China from providing data stored in China to foreign judicial or law enforcement departments without the approval of the competent authorities in China. The Personal Information Protection Law of the People's Republic of China (《中華人民共和國個人信息保護法》) (the "Personal Information Law"), which was promulgated on August 20, 2021 and shall come into effect on November 1, 2021, reiterates the situations in which personal information processors can handle personal information and codifies the requirements for such cases. The Personal Information Law defines the scope of application, the definition of personal information and sensitive personal information, the legal basis for the processing of personal information, and the basic requirements for notification and consent. While we strive to comply with our privacy guidelines as well as all applicable data protection laws and regulations, any failure or perceived failure to comply may result in proceedings or actions against us by government entities or others, and could damage our reputation. User and regulatory attitudes towards privacy are evolving, and future regulatory or user concerns about the extent to which personal information is shared with merchants or others may adversely affect our ability to share certain data with merchants, which may limit certain methods of targeted marketing.

Our information technology networks and systems may encounter malfunction, unexpected system failure, interruption, insufficiency or security breaches.

We rely on information technology networks and systems to market and sell our products, to process, transmit and store electronic and financial information, to manage and monitor a variety of business processes and activities and to comply with regulatory, legal and tax requirements. We are dependent on a variety of information systems to effectively process and fulfill customer orders. We also depend on our information technology infrastructure for digital marketing activities, for managing our various distribution channels, for electronic communications among our personnel, customers, manufacturers and suppliers and for synchronization with our manufacturers and logistics providers on demand forecast, order placements and manufacturing and service status and capacity. These information technology systems, some of which are managed by third parties, may be susceptible to damage, disruptions or shutdowns due to failures during the process of upgrading or replacing software, databases or components, power outages, hardware failures, computer viruses, attacks by computer hackers, telecommunication failures, user errors or catastrophic events. Any material disruption of our systems, or the systems of our third-party manufacturers, e-commerce platforms or service providers, could disrupt our ability to track, record and analyze the products that we sell and could negatively impact our operations, shipment of goods, ability to meet customer requests, ability to process financial information and transactions, and ability to receive and process orders or engage in normal business activities. If our information technology systems suffer damage, disruption or shutdown, we may incur substantial costs in repairing or replacing these systems, and if we do not effectively resolve the issues in a timely manner, our business, financial condition and results of operations maybe materially and adversely affected, and we could experience delays in reporting our financial results.

Our Controlling Shareholder has substantial influence over our Company, and his interests may not be aligned with the interests of our other Shareholders.

Our Controlling Shareholder has substantial influence over our business, including matters relating to our management, policies and decisions regarding mergers, expansion plans, consolidations and sales of all or substantially all of our assets, election of Directors and other significant corporate actions. Immediately following the completion of the [**REDACTED**] and assuming the [**REDACTED**] is not exercised, our Controlling Shareholder will hold a [**REDACTED**]% interest in the issued share capital of our Company. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive other Shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and might reduce the price of our Shares. These events may occur even if they are opposed by our other Shareholders. In addition, the interests of our Controlling Shareholder may differ from the interests of our other Shareholders. It is possible that our Controlling Shareholder may exercise substantial influence over us and cause us to enter into transactions or take, or fail to take, actions or make decisions that conflict with the best interests of our other Shareholders.

We may be subject to intellectual property infringement claims, which may be expensive to defend and may disrupt our business and operations.

We cannot be certain that our operations or any aspects of our business do not or would not infringe upon or otherwise violate patents, copyrights or other intellectual property rights held by third parties. We have been, and from time to time in the future may be, subject to legal proceedings and claims relating to the intellectual property rights of others. In addition, there may be other third-party intellectual properties that are infringed by our products, services or other aspects of our business. There could also be existing patents of which we are not aware that our products may inadvertently infringe. There can be no assurance that holders of patents purportedly relating to some aspect of our technology platform or business, if any such holders exist, would not seek to enforce such patents against us in the PRC or any other jurisdictions, as applicable. Furthermore, the application and interpretation of PRC patent laws and the procedures and standards for granting patents in the PRC are still evolving and are uncertain, and there can be no assurance that PRC courts or regulatory authorities would agree with our analysis. If we are found to have violated the intellectual property rights of others, we may be subject to liability for our infringement activities or may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives of our own. In addition, we may incur significant expenses, and may be forced to divert management's time and other resources from our business and operations to defend against these third-party infringement claims, regardless of their merits. Successful infringement or licensing claims made against us may result in significant monetary liabilities and may materially disrupt our business and operations by restricting or prohibiting our use of the intellectual property in question, which may materially and adversely affect our business, financial condition and results of operations.

We are subject to various risks relating to third-party payments.

Certain of our customers settled payments with us through third-party payment arrangements (the "**Third-party Payment Arrangements**"). Since January 7, 2022, we have ceased all third-party payments. For further information, see "Business – Third-Party Payment Arrangements."

We are subject to various risks relating to such Third-party Payment Arrangements, including possible claims from third-party payors for the return of funds as they were not contractually indebted to us, and possible claims from liquidators of third-party payors. In the event of any claims from third-party payors or their liquidators, or legal proceedings (whether civil or criminal) instituted or brought against us in respect of third-party payments, we will have to expend financial and managerial resources to defend against such claims and legal proceedings, and our financial condition and results of operations may as a result be adversely affected.

We are exposed to credit risks related to our trade and bills receivables.

We enter into a wide variety of contractual arrangements with different counterparties in the ordinary course of our business. We generally grant a credit period to retailers of 45 to 90 days for sales and purchase arrangements. Our net trade and bills receivables as of December 31, 2019, 2020, 2021 and June 30, 2022 amounted to RMB396.9 million, RMB340.8 million, RMB374.9 million and RMB295.9 million, respectively. In 2019, 2020, 2021 and the six months ended June 30, 2022, our trade and bills receivables turnover days were 62.5 days, 45.2 days, 39.6 days and 51.3 days, respectively. We had incurred net impairment losses for trade receivables in 2019 and 2021. Our senior management regularly reviews the recoverability of overdue balances of trade and bills receivables and may make impairment provision when needed. As there is limited financial or public information on many of our counterparties, we cannot assure you that all of our counterparties are creditworthy and reputable and will not default on us in the future, despite our efforts to conduct credit assessments on them. As a result, we are exposed to risks that our counterparties may fail to fulfill their obligations to us under our contracts.

Our expansion and/or development plans to be financed with net [REDACTED] may not be successful.

We may consider growing our business through organic growth, and investments in and/or acquisitions of companies that are complementary to our business in the future. Our ability to complete the acquisition depends upon our ability to identify suitable targets and to obtain necessary funding for the acquisitions. We have limited experience in acquisitions. Our net [**REDACTED**] may not be able to cover the target investment, and we may not be able to obtain bank loans or other financing resources to complete the relevant acquisition. We may expose to risks if our expansion and/or development plans to be financed with net [**REDACTED**] fail.

We recorded negative operating cash flows in the six months ended June 30, 2022.

We had a net cash generated from operating activities of RMB77.4 million, RMB266.0 million and RMB335.2 million in 2019, 2020 and 2021, respectively. We had a net cash used in operating activities of RMB74.6 million in the six months ended June 30, 2022 primarily due to (i) the 31.1% decrease in our revenue mainly in relation to (a) the impact of COVID-19 on our production and delivery in Shanghai, from RMB1,831.7 million in the six months ended June 30, 2021 to RMB1,262.4 million in the six months ended June 30, 2022. See "Financial Information – Period-To-Period Comparison of Results of Operations – Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021." (b) our marketing efficiencies as our sales and marketing staff's capabilities to conduct offline marketing activities, such as customer visit and market research, were limited due to travel restrictions; and (c) our new product development and existing product upgrades as our R&D activities were affected during the same time; (ii) our accelerated settlement with trade and bills payables with our suppliers for supplier management maintenance and enhancement during the same time and (iii) the increase in our tax paid as we settled certain tax payables as of December 31, 2021. We may continue to record negative operating cash flows in the future, which may affect our liquidity position and our ability to finance our operations.

We recorded net liabilities and net current liabilities in the past.

We had net liabilities of RMB193.7 million as of December 31, 2019 primarily due to our accumulated loss as of January 1, 2019. We had net current liabilities of RMB869.0 million and RMB175.2 million as of December 31, 2019 and December 31, 2020, respectively, as compared to net current assets of RMB223.0 million and RMB77.6 million as of December 31, 2021 and 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. We recorded a net current assets position of RMB223.0 million and RMB77.6 million as of December 31, 2021 and June 30, 2022. However, we may continue to record net current liability position in the future, which may affect our liquidity position and our ability to finance our operations.

The fair value of our financial assets at fair value through profit or loss ("financial assets at FVTPL") and our financial assets at fair value through other comprehensive income ("financial assets at FVOCI") are subject to changes beyond our control. Fluctuations in the changes in fair value of such financial assets at FVTPL and financial assets at FVOCI would affect our financial results.

Our financial assets at FVTPL during the Track Record Period comprised structured deposits only. As of December 31, 2019, 2020 and 2021 and June 30, 2022, our structured deposits, which met the definition of financial assets at FVTPL in accordance with our accounting policies (refer to note 2.3 of the Accountants' Report attached to this document as appendix I), amounted to nil, nil, nil and RMB29.0 million, respectively. Our financial assets at FVOCI during the Track Record Period comprised bills receivables only. As of December 31, 2019, 2020 and 2021 and June 30, 2022, our bills receivable, which met the definition of financial assets at FVOCI in accordance with our accounting policies, amounted to RMB10.0 million, RMB19.4 million, RMB9.8 million and RMB10.5 million, respectively. There are a range of factors that may cause adverse changes in fair value of our financial assets at FVTPL and our financial assets at FVOCI, including, but not limited to, general economic conditions, changes in market interest rates and exchange rates, stability of the capital markets and credit risk of counterparty, which are beyond our control. Any of these factors, among others, could cause the fair value of our financial assets at FVTPL and our financial assets at FVOCI to fluctuate substantially, which would, in turn, affect our financial results.

We may be exposed to impairment loss risks associated with our prepayments, other receivables and other assets.

During the Track Record Period, our prepayments mainly consisted of prepaid advertising and endorsement expenses, prepaid marketing expenses and payments in advance for procurement of goods and services. Our other receivables mainly consisted of various operating deposits in our business operation. Our other assets mainly consisted of deductible input VAT, corporate income tax recoverable and right-of-return assets. Our prepayments, other receivables and other assets amounted to RMB259.0 million, RMB135.3 million, RMB201.7 million and RMB219.5 million as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively. As of December 31, 2019, 2020, 2021 and June 30, 2022, we made impairment allowance of RMB2.3 million, RMB2.3 million, RMB3.1 million and RMB3.5 million, respectively. While we did not experience any material impairment loss during the Track Record Period, we cannot assure you that we will not incur any material impairment losses in the future.

We may not be able to recover our deferred tax assets, which may adversely affect our financial condition in the future.

We are required to make judgments, estimates and assumptions about the carrying amounts of our deferred tax assets. As of December 31, 2019, 2020, 2021 and June 30, 2022, we had deferred tax assets of RMB198.3 million, RMB150.0 million, RMB103.1 million and RMB99.6 million, respectively. For details of the movements of our deferred tax assets during the Track Record Period, see Note 19 of the Accountants' Report set out in Appendix I to this document. 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 utilized. This requires significant judgment on the tax treatments of certain transactions and also an assessment on the probability, timing and adequacy of future taxable profits available for the deferred tax to be recovered. The estimates and associated assumptions are based on historical experience and other relevant factors. As a result, actual results may differ from these accounting estimates. The realization of deferred income tax assets depends primarily on our estimate of whether sufficient future profits will be available. If sufficient future taxable profits are not expected to be generated or if taxable profits are lower than expected, we may fail to recover our deferred tax assets, which may have a material adverse effect on our financial condition in the future.

We recorded gain on disposal of a subsidiary in 2019, which was non-recurring in nature.

We recorded RMB67.5 million of gain on disposal of a subsidiary in 2019 under other income and gains. Such gain was due to the disposal of one of our subsidiaries, Shanghai Biyoulan, which was mainly engaged in cosmetic products manufacturing, for production capacity aggregation. For more details, See Note 33 to the Accountants' Report set out in Appendix I to this document. Such gain was non-recurring in nature and we cannot assure you that we will continue to make similar disposal transactions in the future.

We may incur impairment losses on our other intangible assets.

Our other intangible assets mainly represent software we purchased for our business operations, which are measured on initial recognition at cost if acquired separately or at fair value if acquired under business combination. As of December 31, 2019, 2020, 2021 and June 30, 2022, we had other intangible assets of RMB23.2 million, RMB20.1 million, RMB18.2 million and RMB19.0 million, respectively. Our other intangible assets are tested for impairment annually and when there is an indicator for impairment. For details on the impairment assessment methods for our other intangible assets, see Note 2.3 to the Accountants' Report set out in Appendix I to this document. During the Track Record Period, we had not incurred any impairment losses on our other intangible assets. The assessment of impairment losses involves a significant degree of management judgments as well as estimates in determining the key assumptions, and unpredictable adverse changes in the future may also result in decreases in the value of our other intangible assets. Therefore, we cannot assure you that these assumptions and estimates would not result in outcomes that require a material adjustment to the carrying amounts of these other intangible assets in the future, which may in turn result in impairment losses. Significant impairment losses on other intangible assets may have a material adverse effect on our financial condition and results of operations, and may in turn limit our ability to obtain financing in the future.

We may not be able to fulfil our obligation in respect of contract liabilities, which may adversely affect our results of operations, liquidity and financial position.

Our contract liabilities are primarily advance payments from customers and sales rebates. As of December 31, 2019, 2020, 2021 and June 30, 2022, we had contract liabilities of RMB182.3 million, RMB128.9 million, RMB81.1 million and RMB74.2 million, respectively. There is no assurance that we will be able to fulfil our obligations in respect of contract liabilities. If we fail to honor our obligations under our contracts with customers, the amount of contract liabilities will not be recognized as revenue, and our customers may also require us to refund the prepayments they have made, which may in turn adversely affect our liquidity position. In addition, if we fail to honor our obligations under our contracts with customers, it may also adversely affect our relationship with such customers, which may in turn affect our results of operations in the future. As a result, our results of operations, liquidity and financial position may be materially and adversely affected.

Our share-based compensation expenses may cause shareholding dilution to our existing Shareholders and have a material and adverse effect on our financial performance.

We adopted share incentive plans for the benefit of our directors, officers and employees as remuneration for their services provided to us to incentivize and reward the eligible persons who have contributed to our success. In 2019, 2020, 2021 and the six months ended June 30, 2022, we incurred share-based compensation expenses of RMB9.0 million, RMB53.0 million, RMB41.4 million and RMB2.3 million, respectively. To further incentivize our employees, we may grant additional incentive shares in the future. Issuance of additional shares with respect to such share-based payment may dilute the shareholding percentage of our existing shareholders. Expenses incurred with respect to such share-based payment may also increase our operating expenses and therefore have a material and adverse effect on our financial performance.

We are subject to risks and uncertainties associated with our investments in associates.

We have invested in associated companies and may continue to do so in the future. The performance of our associates has affected, and will continue to affect, our results of operations and financial position. Our investments in these companies are recorded as investments in associates, which amounted to RMB1.9 million, RMB4.9 million, RMB1.6 million and

RMB1.3 million as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively. We recorded share of profits of associates of RMB0.5 million and RMB1.9 million in 2019 and 2020, respectively, whilst in 2021 and the six months ended June 30, 2022, we recorded share of losses of associates of RMB0.1 million and RMB0.4 million, respectively. Our investments in associates and results of operations might be affected by the share of results of associates. If the share of profits of these associates were to fluctuate, our results of operations may be adversely affected.

Meanwhile, our investments in associates are subject to liquidity risk if no dividend is declared by associates. Our ability to realize our anticipated investment returns will depend on the associates' ability to pay dividends or complete [**REDACTED**] or trade sale, which in turn relies on, among other things, the business and financial performance of our associates. There is no assurance that our invested associates will declare or pay any dividends. Even if we recognize share of profits of these associates under equity reporting method, our investment would not generate any cash flow for us unless our investees declare and pay dividends to us.

Furthermore, investment in associates are not as liquid as other investment products as our ability to promptly sell our interests in one or more of our associates is limited due to changing economic, financial and investment conditions, which are beyond our control. We also cannot predict the length of time needed to find a purchaser and to complete the relevant transaction. Therefore, the illiquidity nature of our investment in associates may significantly limit our ability to respond to adverse changes in the performance of our associates. As a result, we may not be able to realize the anticipated economic and other benefits from our associates.

Discontinuation of any of the preferential tax treatments or imposition of any additional taxes and surcharges could adversely affect our financial condition and results of operations.

Our PRC subsidiaries are incorporated in the PRC and are governed by applicable PRC income tax laws and regulations. The EIT Law and its implementing rules, impose a statutory rate of 25% on PRC enterprises. Under the EIT Law, its implementation regulations and other relevant rules, companies qualified as "High and New Technology Enterprise" are entitled to enjoy a preferential enterprise income tax rate of 15%. One of our subsidiaries obtained its qualification as a High and New Technology Enterprise in 2018 and 2021, and was subject to a reduced preferential tax rate of 15% during the Track Record Period. In addition, some 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.

Preferential tax treatments and incentives granted to us by PRC governmental authorities are subject to review and may be adjusted or revoked at any time in the future. We cannot guarantee that the preferential tax treatments and incentives to which our PRC subsidiaries are currently entitled would be successfully renewed. There can be no assurance that the local tax authorities will not, in the future, change their position and discontinue any of our current tax treatments, potentially with retrospective effect. The discontinuation of any of our current tax treatments could materially increase our tax obligations and adversely impact our net income.

Failure to obtain government grants that may be available to us, or the discontinuation, reduction or delay of any of the government grants currently enjoyed by us in the future could adversely affect our business, financial condition, results of operations and prospects.

During the Track Record Period, we have received government grants and financial subsidies, primarily including tax returns, subsidies, rewards, and financial assistance in relation to our contribution to the local economy and our research and development activities. In 2019, 2020, 2021 and the six months ended June 30, 2022, we recorded under other income and gains RMB60.3 million, RMB64.5 million, RMB77.5 million and RMB38.7 million of government grants, respectively.

Some of the government grants we received are discretionary incentives under policies adopted by PRC local government authorities and thus are non-recurring in nature. Local governments may decide to change or discontinue such grants or financial subsidies at any time. The discontinuation, reduction or delay of these government grants and financial subsidies could adversely affect our business, financial condition, results of operations and prospects. In addition, we may not be able to successfully or timely obtain the government grants and subsidies that may become available to us in the future, and such failure could adversely affect our business, financial condition, results of operations and prospects.

We are not in full compliance with social insurance and housing provident funds regulations.

Under the applicable PRC laws, we are required to contribute, as an employer, to social insurance (including pension fund, unemployment insurance, medical insurance, work-related injury insurance and maternity insurance) and housing provident funds for the benefit of our employees.

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

During the Track Record Period, some of our subsidiaries engaged third-party human resource agencies to pay social insurance and housing provident fund for some of our employees. This is mainly because we have a large number of employees who are our employees working in a number of cities across the nation. We engaged third-party human resource agencies as we do not have legal entities to pay social insurance premium or housing provident funds for them locally.

In addition, we failed to make social insurance contributions and housing provident funds for our employees in full. We may therefore be ordered by the relevant authorities to pay the outstanding amount within the prescribed period, failing which we may be subject to a penalty or subject to specific enforcement by the People's Court. See "Business – Employees." We cannot assure you that we will not be subject to any order to rectify this non-compliance incident in the future, nor can we assure you that there are no, or will not be any, relevant employee complaints against us. Any such order may adversely and materially affect our business, financial condition, results of operations and prospects.

Failure to comply with environmental, health and safety and fire control laws and regulations may subject us to fines or penalties or incur costs that could materially and adversely affect the success of our business.

We are subject to a number of environmental, fire control, health and safety laws and regulations, including, but not limited to, the treatment and discharge of pollutants into the environment in the process of our business operations. See "Regulatory Overview." In addition, our production lines can only be put into operation after the relevant administrative authorities in charge of environmental protection, fire control, and health and safety have examined and approved the relevant facilities in China or certain other jurisdictions. We were not fully compliant with these requirements and experienced several isolated immaterial incidents, and we cannot assure you that we will be able to comply with all regulations and obtain all the regulatory approvals for our production in a timely manner, or at all. Delays or failures in obtaining all the requisite regulatory approvals of such facilities may affect our ability to develop, manufacture and commercialize our products as we plan. As requirements imposed by such laws and regulations may change and more stringent laws or regulations may be adopted, we may not be able to comply with, or accurately predict any potential substantial cost of complying with, these laws and regulations. If we fail to comply with relevant laws and regulations, we may be subject to rectification orders, substantial fines, potentially significant monetary damages, or production suspensions in our business operations. In addition, we cannot fully eliminate the risk of accidental contamination, biological or chemical hazards or personal injury at our facilities during the process of testing, development and manufacturing of our products. In the event of such accident, we could be held liable for damages and clean-up costs which, to the extent not covered by existing insurance or indemnification, could harm our business. Other adverse effects could result from such liability, including reputational damage.

Furthermore, we may be required to incur substantial costs to comply with current or future environmental laws and regulations. These current or future laws and regulations may impair our research, development or production efforts. Failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions. Any of the foregoing could materially adversely affect our business, financial condition, results of operations and prospects.

Animal testing can result in liability and other issues, including potential disruption to our facilities as a result of protests against animal testing.

We engaged third-party institutions with requisite licenses to conduct the animal testing for the safety and efficacy of our products in accordance with the applicable requirements of relevant laws. Please see "Business – Occupational Health, Safety And Environmental Measures – Environmental Protection – Animal Testing." Acts of vandalism and other acts by animal rights activists, who object to the use of animals for such purposes, including protests at or near our facilities or offices, could have an adverse effect on our operations or reputation.

Animal testing conducted by third-party institutions must be conducted in compliance with applicable laws and regulations in the jurisdictions in which those activities are conducted. Although we have conducted background search before the engagement, we cannot assure you that such institution will remain certain assurances and certifications, as well as an accreditation, from governmental authorities. If an enforcement agency determines that the third-party institutions' equipment, facilities, laboratories or processes do not comply with applicable standards, it may issue an inspection report documenting the deficiencies and setting deadlines for any required corrective actions. In such event, our product registration procedure to relevant governmental authorities may experience delay or rejection. We may also suffer from reputational loss if animal testing institutions or the act of using animal testing for cosmetics products are disapproved by the public. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We have not completed registration procedures with relevant authorities for some of our leased properties, and these properties may have title defects.

We lease some properties as our offices, dormitories and warehouses. As of June 30, 2022, with respect to five out of 12 of our leased properties in the PRC, the lessors have not provided valid title certificates or relevant authorization documents evidencing their rights to lease the properties.

As a result, we cannot assure you that we will not be subject to any challenges, lawsuits or other actions taken against us with respect to the properties leased by us for which the relevant lessors do not hold valid title certificates. If any leases of such properties were successfully challenged, we may be forced to relocate our operations on the affected properties and may be forced to cease these activities in the event we face challenges in relation to our properties. If we fail to find suitable replacement properties on terms acceptable to us for the affected operations, or if we are subject to any material liability resulting from third-party challenges to our lease of properties for which we or our lessors do not hold valid titles, our business, financial condition and results of operations may be materially and adversely affected. In addition, under the relevant PRC law, all lease agreements are required to be registered with the relevant land and real estate administration bureaus. However, as of the Latest Practicable Date, we had only obtained the registration certificate for four of our leased properties, and the lease agreements with respect to our remaining leased properties had not been registered and filed with the relevant land and real estate administration bureaus in the PRC because the relevant lessors failed to provide necessary documents for us to register the leases with the local government authorities. As advised by our PRC Legal Advisors, failure to complete the registration and filing of lease agreements will not affect the validity of the lease agreements or result in us being required to vacate the leased properties. However, the relevant PRC authorities may require us to complete registrations within a specified timeframe and may impose a fine ranging from RMB1,000 to RMB10,000 for each of such lease agreements. See "Business – Properties."

Any negative publicity or misconduct regarding our brand ambassadors or KOLs that promotes our products could adversely affect our business.

We market our products through both online and offline media and partner with brand ambassadors. We also undertake engaging promotional partnerships with KOLs on major e-commerce platforms for special events such as Singles Day.

However, we cannot assure you that any of our brand ambassadors' endorsements or advertisements will remain effective and compatible with the messages that our brands and products aim to convey. Furthermore, we cannot give assurance that any of these brand ambassadors will remain popular or any of their images will remain positive. Our KOLs or brand ambassadors may face the recent tightening regulations target widespread tax avoidance, which may impose risks to our business. Any of our brand ambassadors' deterioration of image or misconduct, including, but not limited to, inappropriate speech, unethical behavior or offense against the relevant laws and regulations would have a significant impact on our brand images and subsequently the sales of our products. During the Track Record Period, we have terminated business cooperations with celebrities or KOLs before the end of contractual terms due to their inappropriate behaviors or negative publicities. Although we have set up comprehensive internal control measures to prevent our spokesman or brand ambassador from conducting wrongdoings which may cause negative impacts on our reputation or brand images, we cannot guarantee that such measures would be effective at all times. Although we will take proactive measures to mitigate its impact once the similar incidents occur, we cannot guarantee you that our business, financial condition, results of operations will not be affected. In the event that we need to replace our brand ambassador, we may not be able to find suitable candidates in a timely manner. In addition, we may have to dispose relevant packaging materials, removing advertising and marketing materials, which may incur additional expenses. During the Track Record Period, such expenses amounted to nil, nil, approximately RMB1.4 million and nil, respectively. Our marketing plans may be disrupted or fail as we may require more time to prepare new market materials and may therefore miss special events. We may also initiate claims, disputes or legal proceedings against KOLs or brand ambassadors for compensation, which may divert our management's attention and cause us to incur additional litigation expenses and costs. We may also be involved in negative publicities, which may reduce our brand image. If any of these situations occurs, our business, financial condition and results of operations could be materially and adversely affected.

Any negative publicity regarding our Company, Directors, employees or products, regardless of its veracity, could adversely affect our business.

Our image is sensitive to the public's perception of us as a business in entirety, which includes not only the quality, safety and competitiveness of our products, but also our corporate management and culture. We cannot guarantee that no one will, intentionally or incidentally, distribute information about us, especially information regarding the quality and safety of our products or our internal management matters, that may result in negative perception of us by the public. Any negative publicity about our Company, Directors, employees or products, regardless of veracity, could lead to potential loss of consumer confidence or difficulty in retaining or recruiting talents that are essential to our business operations. As a result, our business, financial condition, results of operations, reputation and prospects may be materially and adversely affected.

We may be involved in claims, disputes and legal proceedings in our ordinary course of business.

From time to time, we may be involved in claims, disputes and legal proceedings in our ordinary course of business. These may concern issues relating to, among others, breach of contract, employment or labor disputes, antitrust, infringement of intellectual property rights and environmental matters. In particular, the manufacture and sales of our products subjects us to potential product liability claims if our products are proved to have failed to meet relevant health and safety or other laws and regulations, or cause, or are alleged to have caused, illness or health issues. If we fail in defending against any product liability claims, we may be subject to substantial damages to compensate the claimants. Any claims, disputes or legal proceedings initiated by us or brought against us, with or without merit, may result in substantial costs and diversion of resources and may materially harm our reputation. Furthermore, claims, disputes or legal proceedings against us may be due to defective supplies sold to us by our suppliers, who may not be able to indemnify us in a timely manner, or at all, for any costs that we incur as a result of such claims, disputes and legal proceedings.

We may not be able to detect or prevent fraud or other misconduct committed by our employees or third parties.

Fraud or other misconduct by our employees, such as unauthorized business transactions, bribery and breach of our internal policies and procedures, or by third parties, such as breach of law, may be difficult to detect or prevent. Such misconduct could subject us to financial loss and sanctions imposed by governmental authorities while seriously damaging our reputation. This may also impair our ability to effectively attract prospective users, develop customer loyalty, obtain financing on favorable terms and conduct other business activities.

Our risk management systems, information technology systems and internal control procedures are designed to monitor our operations and overall compliance. However, we may be unable to identify non-compliance or suspicious transactions promptly, or at all. Furthermore, it is not always possible to detect and prevent fraud or other misconduct committed by our employees or third parties, and the precautions we take to prevent and detect such activities may not be effective. Therefore, we are subject to the risk that fraud or other misconduct may have previously occurred but was undetected, or may occur in the future. This may materially and adversely affect our business, financial condition and results of operations.

Any economic downturn may adversely affect consumer discretionary spending and demand for our products and services, which may have a material and adverse impact on our business and results of operations.

Our skincare products may be considered discretionary items for consumers. Factors affecting the level of consumer spending for such discretionary items include general economic conditions and other factors, such as consumer confidence in future economic conditions, consumer sentiment, the availability and cost of consumer credit, levels of unemployment, and tax rates. Unfavorable economic conditions may lead consumers to delay or reduce purchases of our products and consumer demand for our products may not grow as we expect. Our sensitivity to economic cycles and any related fluctuation in consumer demand for our products and services may have an adverse effect on our results of operations and financial condition.

If we fail to maintain adequate internal controls, we may not be able to effectively manage our business and may experience errors or information lapses affecting our business.

Our success depends on our ability to effectively utilize our standardized management system, information systems, resources and internal controls. As we continue to expand, we will need to modify and improve our financial and managerial controls, reporting systems and procedures and other internal controls and compliance procedures to meet our evolving business needs. If we are unable to improve our internal controls, systems and procedures, they may become ineffective and adversely affect our ability to manage our business and cause errors or information lapses that affect our business. Our efforts in improving our internal control system may not result in eliminating all risks. If we are not successful in discovering and eliminating weaknesses in our internal controls, our ability to effectively manage our business may be affected.

RISKS RELATING TO CONDUCTING OPERATIONS IN CHINA

Changes in China's economic, political and social conditions could adversely affect our business, financial condition, results of operations, cash flows and prospects.

The majority of our businesses, assets, operations and revenues are located in or derived from our operations in the PRC and, as a result, our business, financial condition and results of operations are subject to the economic, political, social and regulatory environment in the PRC. The PRC government regulates the economy and industries by imposing industrial policies and regulating the PRC's macro economy through fiscal and monetary policies.

During the past decades, the PRC government has taken various actions to promote the market economy and the establishment of sound corporate governance in business entities. Through strategically allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing governmental policy support to particular industries or companies, it also exerts significant influence over China's economic growth.

Our performance has been and will continue to be affected by China's economy, which, in turn, is influenced by the global economy. The uncertainties relating to the global economy as well as the political environment in various regions of the world will continue to impact China's economic growth. While China's economy has experienced significant growth in the past few decades, growth has been uneven across different regions and economic sectors, and there can be no assurance that such growth can be sustained. We are unable to predict all the risks and uncertainties that we face as a result of current economic, political, social and regulatory developments, and many of these risks are beyond our control. All such factors may materially and adversely affect our business and operations as well as our financial performance.

Uncertainties with respect to the PRC legal system and changes in applicable laws and regulations could adversely affect us.

The PRC legal system is a civil law system based on written statutes. Unlike the common law system, it is a system in which decided legal cases have little precedential value. The PRC legal system evolves rapidly, and the interpretations of many laws, regulations and rules may contain inconsistencies. However, these laws, regulations and legal requirements are constantly changing and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to us. In addition, we cannot predict the effect of future developments in the PRC legal system, particularly with regard to our industry, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof. Such unpredictability towards our contractual, property (including intellectual property) and procedural rights could adversely affect our business and impede our ability to continue our operations.

Restrictions on the remittance of Renminbi into and out of the PRC and governmental control of currency conversion may limit our ability to pay dividends and other obligations, and affect the value of your investment.

The PRC government imposes control on the convertibility of Renminbi into foreign currencies. We receive most of our revenue in Renminbi. We may convert a portion of our revenue into other currencies to meet our foreign currency obligations, such as payments to certain suppliers. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency, or otherwise satisfy our foreign currency-denominated obligations.

Under the existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade-and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval by complying with certain procedural requirements. However, approval from or registration with competent government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may, at its discretion, restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders. Furthermore, there can be no assurance that new regulations will not be promulgated in the future that would have the effect of further restricting the remittance of Renminbi into or out of China.

We are a PRC enterprise and we are subject to PRC tax on our global income, and any dividends paid to investors and gains on the sale of our H Shares by our investors may be subject to PRC tax. Under the EIT Law of the PRC, our offshore subsidiaries may be subject to PRC income tax on their worldwide taxable income.

As a PRC-incorporated company, under applicable PRC tax laws, we are subject to a tax of up to 25% on our global income. Under applicable PRC tax laws, regulations and statutory documents, non-PRC resident individuals and enterprises are subject to different tax obligations with respect to dividends received from us or gains realized upon the sale or other disposition of our H Shares.

Non-PRC individuals are generally subject to PRC individual income tax under the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法) with respect to PRC source income or gains at a rate of 20%. We are required to withhold related tax from dividend payments paid to non-PRC resident individuals, unless specifically exempted by the tax authority of the State Council or reduced or eliminated by an applicable tax treaty. However, pursuant to the Circular on Certain Policy Questions Concerning Individual Income Tax (《財政部、國家稅務總局關於個人所得稅若干政策問題的通知》) issued by the MOF and SAT on May 13, 1994, the income gained by foreign individuals from dividends and bonuses of foreign-invested enterprises are exempted from individual income tax for the time being. According to the Circular Declaring that Individual Income Tax Continues to Be Exempted over Individual Income from Transfer of Shares issued by the MOF and the STA (《財政部國家稅務總局關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) effective as of March 30, 1998, income from individuals' transfer of stocks of listed companies continued to be temporarily exempted from individual income tax. On February 3, 2013, the State Council approved and promulgated the Notice of Suggestions to Deepen the Reform of System of Income Distribution (《國務院批轉發展改革委等部門關於深化收入分配制度改革若干意見的通知》). On February 8, 2013, the General Office of the State Council promulgated the Circular Concerning Allocation of Key Works to Deepen the Reform of System of Income Distribution (《國務院辦公廳關於深化收入分配制度改革重點工作分工的通知》). According to these two documents, the PRC government is planning to cease foreign individuals' tax exemption for dividends obtained from foreign-invested enterprises, and the MOF and the SAT should be responsible for making and implementing details of such plan. However, relevant implementation rules or regulations have not been promulgated by the MOF and the SAT. Considering these uncertainties, non-resident individual holders of our H Shares should be aware that they may be obligated to pay PRC income tax on the dividends and bonus realized from the H Shares.

Non-PRC resident enterprises that do not have establishments or premises in the PRC, or that have establishments or premises in the PRC but their income is not related to such establishments or premises, are subject to PRC EIT at the rate of 10% on dividends received from PRC companies and gains realized upon disposition of equity interests in the PRC companies pursuant to the EIT Law and other applicable PRC tax regulations and statutory documents, which may be reduced or eliminated under special arrangements or applicable treaties between the PRC and the jurisdiction where the non-resident enterprise resides. Pursuant to applicable regulations, we intend to withhold tax at a rate of 10% from dividends paid to non-PRC resident enterprise holders of our Shares (including HKSCC Nominees and payments through CCASS). Non-PRC resident enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty will be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the applicable treaty rate, and payment of any such refund will be subject to the PRC tax authorities' verification. As of the Latest Practicable Date, there were no specific rules on how to levy tax on gains realized by non-resident enterprise holders of H Shares through the sale or transfer by other means of H Shares.

There remains uncertainty as to the interpretation and application of the relevant PRC tax laws by the PRC tax authorities, including whether and how individual income tax or EIT Law tax on gains derived by holders of our Shares from their disposition of our Shares may be collected. If any such tax is collected, the value of our H Shares may be materially and adversely affected.

Under the EIT Law, an enterprise established outside the PRC with "de facto management bodies" within China is considered a "resident enterprise," meaning that it is treated in a manner similar to a Chinese enterprise for PRC EIT purposes. The implementing rules of the EIT Law define "de facto management bodies" as "management bodies that exercise substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. In addition, the Notice Regarding the Determination of Chinese- Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》), or Circular 82, specifies that certain Chinese-controlled offshore incorporated enterprises, defined as enterprises incorporated under the laws of foreign countries or territories and that have PRC enterprises or enterprise groups as their primary controlling shareholders, will be classified as resident enterprises if all of the following are located or resident in China: (i) senior management personnel and departments that are responsible for daily production, operation and management; (ii) financial and personnel decision-making bodies; (iii) key properties, accounting books, company seal and minutes of board meetings and shareholders' meetings; and (iv) half or more of senior management or directors having voting rights. The State Administration of Taxation of the PRC, or SAT, has subsequently provided further guidance on the implementation of Circular 82.

As most of our operational management is currently based in the PRC, our offshore subsidiaries may be deemed to be "PRC resident enterprises" for the purpose of the EIT Law. If our offshore subsidiaries are deemed PRC resident enterprises, they could be subject to the EIT at 25% on our global income, except that the dividends they receive from our PRC subsidiaries may be exempt from the EIT to the extent such dividend income constitutes "dividends received by a PRC resident enterprise from its directly invested entity that is also a PRC resident enterprise." It is, however, unclear what type of enterprise would be deemed a "PRC resident enterprise" for such purposes. The EIT on our subsidiaries' global income could significantly increase our tax burden and adversely affect our cash flows and profitability.

Payment of dividends is subject to restrictions under PRC law and regulations.

Under PRC law and regulations, we may only pay dividends out of distributable profits. Distributable profits are our after-tax profits as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profit to enable us to make dividend distributions to our Shareholders, including in periods for which our financial statements indicate we are profitable. Any distributable profit not distributed in a given year is retained and available for distribution in subsequent years.

Moreover, our operating subsidiaries in the PRC may not have distributable profit as determined under PRC GAAP. Accordingly, we may not receive sufficient distributions from our subsidiaries and joint ventures for us to pay dividends. Failure by our operating subsidiaries and joint ventures to pay us dividends could adversely impact our ability to make dividend distributions to our Shareholders and our cash flow, including periods in which we are profitable.

Investors may experience difficulties in effecting service of legal process and enforcing judgments against us and our Directors, Supervisors and management.

We are a company incorporated under the laws of the PRC and the majority of our assets and subsidiaries are located in the PRC. The majority of our Directors, Supervisors and senior management reside within the PRC. The assets of these Directors, Supervisors and senior management also may be located within the PRC. As a result, it may not be possible to effect service of process upon most of our Directors, Supervisors and senior management outside the PRC. Moreover, the PRC does not have treaties providing for reciprocal recognition and enforcement of court judgments in the United States, the United Kingdom, Japan or most other countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, in the PRC or Hong Kong, recognition and enforcement of court judgments from the jurisdictions mentioned above may be difficult or impossible. On July 14, 2006, the Supreme People's Court of Mainland and the Government of the Hong Kong Special Administrative Region signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the "**2006 Arrangement**"), where any designated People's Court of the PRC or Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement, any party concerned may apply to the relevant People's Court of the PRC or Hong Kong court for recognition and enforcement of the judgment.

Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute have not agreed to enter into such a choice of court agreement in writing. Although this arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the 2006 Arrangement remain uncertain.

On January 18, 2019, the Supreme People's Court of the PRC and the government of the Hong Kong Special Administrative Region signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) (the "**2019 Arrangement**"). Although the 2019 Arrangement has been signed, it remains unclear when it will come into effect. When the 2019 Arrangement becomes effective, it will supersede the 2006 Arrangement and any party concerned may apply to the relevant PRC court or Hong Kong High Court for recognition and enforcement of the effective judgments in civil and commercial cases under the 2019 Arrangement, but will be subject to the conditions set forth in the 2006 Arrangement. Therefore, the outcome and effectiveness of any action brought under the 2019 Arrangement is still uncertain. There can be no assurance that an effective judgment that complies with the 2019 Arrangement can be recognized and enforced in a PRC court.

Although we will be subject to the Listing Rules and the Codes on Takeovers and Mergers and Share Repurchases of Hong Kong upon the [**REDACTED**] of our H Shares on the Stock Exchange, the holders of H Shares will not be able to bring actions on the basis of violations of the Listing Rules and must rely on the Stock Exchange to enforce its rules. The Listing Rules and the Codes on Takeovers and Mergers and Share Repurchases of Hong Kong do not have the force of law in Hong Kong.

Fluctuations in exchange rates could result in foreign currency exchange losses.

Fluctuations in exchange rates between the Renminbi and the U.S. dollar, Japanese Yen and other currencies may be affected by, among other things, changes in China's political and economic conditions, as well as international economic and political developments. The value of the Renminbi has been under pressure of appreciation in recent years. Due to international pressures on the PRC to allow more flexible exchange rates for the Renminbi and the economic situation and financial market developments in the PRC and abroad, the PRC government has decided to proceed further with reform of the Renminbi exchange rate regime and to enhance Renminbi exchange rate flexibility. We imported a significant portion of our cosmetic ingredients, therefore, our business is subject to such uncertainties relating to exchange rates and may be materially and adversely affected correspondingly. In addition, being a China-based company [**REDACTED**] in Hong Kong, any significant change in the exchange rates of the Hong Kong dollar against the Renminbi may materially and adversely affect any dividends payable on our H Shares in Hong Kong dollars.

RISKS RELATING TO THE [REDACTED]

There has been no prior public market for the Shares, and the liquidity and market price of our Shares may be volatile.

Prior to completion of the [**REDACTED**], there has been no public market for our Shares. There can be no guarantee that an active trading market for our Shares will develop or be sustained after completion of the [**REDACTED**]. The [**REDACTED**] is the result of negotiations between the Group and the [**REDACTED**] (for themselves and on behalf of the [**REDACTED**]), which may not be indicative of the price at which our Shares will be traded following completion of the [**REDACTED**]. The market price of our Shares may drop below the [**REDACTED**] at any time after completion of the [**REDACTED**].

The price and trading volume of our H Shares may be volatile, which could lead to substantial losses to investors.

The price and trading volume of our H Shares may be subject to significant volatility in response to various factors beyond our control, including the political uncertainties in Hong Kong and the general market conditions of the securities in Hong Kong and elsewhere in the world. In particular, the business and performance and the market price of the shares of other companies engaging in similar business may affect the price and trading volume of our H Shares. In addition to market and industry factors, the price and trading volume of our H Shares may be highly volatile for specific business reasons, such as fluctuations in our revenue, earnings, cash flows, investments, expenditures, regulatory developments, relationships with our suppliers and customers, movements or activities of key personnel, or actions taken by competitors. Moreover, shares of other companies listed on the Hong Kong Stock Exchange with significant operations and assets in China have experienced price volatility in the past, and it is possible that our H Shares may be subject to changes in price not directly related to our performance but related to the overall political and economic conditions in Hong Kong, the PRC or elsewhere in the world.

You will incur immediate and significant dilution if the [REDACTED] of the [REDACTED] is higher than the net tangible asset value per H Share, and may experience further dilution if we issue additional Shares in the future.

The [**REDACTED**] of the [**REDACTED**] is higher than the net tangible asset value per Share immediately prior to the [**REDACTED**]. Therefore, purchasers of the [**REDACTED**] in the [**REDACTED**] will experience an immediate dilution in *pro forma* consolidated net tangible asset value. There can be no assurance that if we were to immediately liquidate after the [**REDACTED**], any assets will be distributed to Shareholders after the creditors' claims. To expand our business, we may consider [**REDACTED**] and issuing additional Shares in the future. Purchasers of the [**REDACTED**] may experience dilution in the net tangible asset value per Share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share at that time.

Future sales or perceived sales of substantial amounts of our H Shares in the public market could have a material adverse effect on the price of our H Shares and our ability to raise additional capital in the future.

The market price of our H Shares could decline as a result of future sales of a substantial number of our H Shares or other securities relating to our H Shares in the public market, or the issuance of new shares or other securities, or the perception that such sales or issuances may occur. Future sales, or anticipated sales, of substantial amounts of our securities, including any future offerings, could also materially and adversely affect our ability to raise capital at a specific time and on terms favorable to us. In addition, our Shareholders may experience dilution of their holdings if we issue more securities in the future. New shares or shares-linked securities issued by us may also confer rights and privileges that take priority over those conferred by the H Shares.

There will be a gap of several days between pricing and trading of our H Shares, and the price of our H Shares when trading begins could be lower than the [REDACTED].

The initial price to the public of our H Shares sold in the [**REDACTED**] is expected to be determined on the [**REDACTED**]; however, the H Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be five business days after the [**REDACTED**]. As a result, investors may not be able to sell or otherwise deal in the [**REDACTED**] during that period. Accordingly, holders of our H Shares are subject to the risk that the price of the H Shares when trading begins could be lower than the [**REDACTED**] as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.

Certain facts, forecasts and statistics in this document obtained from official government sources relating to the PRC and global economy and the industry in which we operate may not be fully reliable.

Certain facts, forecasts and statistics in this document relating to the PRC and global economy and the industry in which we operate are obtained from official government publications that we believe are reliable. However, we cannot guarantee the quality or reliability of these sources. Neither we, the [**REDACTED**] nor our or their respective affiliates or advisors have verified the facts, forecasts and statistics nor ascertained the underlying economic assumptions obtained from these sources. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics in this document relating to the PRC and the global economy and the industry in which we operate may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. As such, no representation as to the accuracy of such facts, forecasts and statistics obtained from official government sources is made. Moreover, these facts, forecasts and statistics involve risk and uncertainties and are subject to change based on various factors and should not be unduly relied upon. Further, there can be no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case in other countries.

Dividends declared prior to the [REDACTED] will not be distributed to investors in the [REDACTED] and other new shareholders after the [REDACTED].

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. See "Financial Information – Dividends". However, no assurance can be given that dividends declared, dividends of similar amounts or at similar rates will be paid in the future or that dividends will be paid at all. Therefore, the dividends declared to pay referred to above should not be used as reference for our dividend policy, nor as a basis to forecast the amount of dividends payable in the future.

You should read the entire document carefully, and we strongly caution you not to place any reliance on any information contained in press articles and/or other media regarding us, our business, our industry or the [REDACTED].

You are strongly advised to read the entire document carefully and are cautioned against placing any reliance on the information in any press article or any other media coverage which contains information not disclosed or not consistent with the information included in this document.

Prior to the completion of the [**REDACTED**], there may be press and media coverage regarding our Group and the [**REDACTED**]. Our Directors would like to emphasize to prospective investors that we do not accept any responsibility for the accuracy or completeness of such information, and such information is not sourced from or authorized by our Directors or our management team. Our Directors make no representation as to the appropriateness, accuracy, completeness and reliability of any information or the fairness or appropriateness of any forecast, view or opinion expressed by the press or other media regarding our Group or our H Shares. In making decisions as to whether to invest in our H Shares, prospective investors should rely only on the financial, operational and other information included in this document.

In preparation for the [**REDACTED**], the Company has sought the following waivers and exemption from strict compliance with the relevant provisions of the Listing Rules:

WAIVER IN RESPECT OF MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 and 19A.15 of the Listing Rules, the Company must have sufficient management presence in Hong Kong, which normally means that at least two executive directors must be ordinarily resident in Hong Kong.

Given that (i) the Group's core business operations are principally located, managed and conducted outside Hong Kong; (ii) the Company's head office and senior management team are primarily based outside Hong Kong, and (iii) the Directors consider that the appointment of executive Directors who will be ordinarily resident in Hong Kong would not be beneficial to, or appropriate for, the Company and therefore would not be in the best interests of the Company and the Shareholders as a whole, the Company does not have, and does not contemplate in the foreseeable future that the Company will have sufficient management presence in Hong Kong for satisfying the requirement under Rule 8.12 and 19A.15 of the Listing Rules.

Accordingly, the Company has applied to the Stock Exchange for, and the Stock Exchange [has granted us], a waiver from strict compliance with Rule 8.12 and 19A.15 of the Listing Rules. The Company will ensure that there are adequate and efficient arrangements to achieve regular and effective communication between us and the Stock Exchange as well as compliance with the Listing Rules by way of the following arrangements:

1. **Authorized representatives**: The Company has appointed Mr. Feng Yifeng (馮一峰), our Company's executive Director, and Mr. Li Kin Wai (李健威), one of the joint company secretaries of the Company, as the authorized representatives ("**Authorized Representatives**") for the purpose of Rule 3.05 and 19A.07 of the Listing Rules. The Authorized Representatives will act as our principal channel of communication with the Stock Exchange and would be readily contactable by phone, facsimile and/or email to deal promptly with enquiries from the Stock Exchange and will also be available to meet with the Stock Exchange to discuss any matter within a reasonable period of time upon request of the Stock Exchange. Although Mr. Feng resides in the PRC, he possesses valid travel documents and is able to renew such travel documents when they expire in order to visit Hong Kong. Mr. Li Kin Wai (李健威) ordinarily resides in Hong Kong. Accordingly, the Authorized Representatives will be able to meet with the relevant members of the Stock Exchange to discuss any matters in relation to the Company within a reasonable period of time. See the section headed "Directors, Supervisors and Senior Management" in this Document for more information about the Authorized Representatives.

2. **Directors**: The Company will implement a policy to provide the up-to-date contact details of each Director (such as office phone numbers, mobile phone numbers, fax numbers, and email addresses) to the Authorised Representatives and to the Stock Exchange. This will ensure that the Authorised Representatives and the Stock Exchange will have the means to contact any of the Directors promptly as and when required, including when the Directors are travelling. To the best of our Company's knowledge and information, each Director who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period when required by the Stock Exchange.

3. **Compliance advisor**: The Company has appointed Maxa Capital Limited as our compliance advisor (the "**Compliance Advisor**") in compliance with Rule 3A.19 of the Listing Rules.

   The Compliance Advisor will, among other things and in addition to the Authorized Representatives and our Directors, act as an additional channel of communication of our Company with the Stock Exchange and provide us with professional advice on continuing obligations under the Listing Rules and during the period from the [**REDACTED**] to the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year immediately after the [**REDACTED**]. The Compliance Advisor will also provide advice to us when consulted by us in compliance with Rule 3A.23 of the Listing Rules. The Compliance Advisor will be available to answer enquiries from the Stock Exchange and will act as the principal channel of communication with the Stock Exchange when the Authorized Representatives and Directors are not available. In turn, they will provide to the Compliance Advisor such information and assistance as the Compliance Advisor may need or may reasonably request in connection with the performance of the Compliance Advisor's duties. The company has provided the Stock Exchange with the names, mobile phone numbers, office phone numbers, fax numbers and email addresses of at least two of our Compliance Advisor's officers who will act as the Compliance Advisor's contact persons between the Stock Exchange and the Company pursuant to Rule 19A.06(4) of the Listing Rules.

4. **Joint Company secretaries**: The Company has appointed Mr. Lian Ming (廉明) and Mr. Li Kin Wai (李健威) as our joint company secretaries. Mr. Lian and Mr. Li Kin Wai (李健威) will maintain constant contact with our Directors and senior management team members through various means.

   Meetings between the Stock Exchange and the Directors could be arranged through the Authorized Representatives, our Directors, our Compliance Advisor and/or the joint company secretaries within a reasonable time. The Company will also ensure that there are adequate and efficient means of communication among our Company, the Authorized Representatives, our Directors and other officers, the joint company secretaries and our Compliance Advisor. The Company will inform the Stock Exchange as soon as practicable in respect of any change in the Authorized Representatives, our Directors, our Compliance Advisor and/or the joint company secretaries in accordance with the Listing Rules.

WAIVER IN RESPECT OF JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the company secretary must be an individual who, by virtue of their academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of a company secretary.

Pursuant to Note 1 to Rule 3.28 of the Listing Rules, the Stock Exchange considers the following academic or professional qualifications to be acceptable:

(a) a Member of The Hong Kong Institute of Chartered Secretaries;

(b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance); and

(c) a certified public accountant (as defined in the Professional Accountants Ordinance).

Pursuant to Note 2 to Rule 3.28 of the Listing Rules, in assessing "relevant experience", the Stock Exchange will consider the individual's:

(a) length of employment with the issuer and other issuers and the roles they played;

(b) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Futures Ordinance, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance, and the Takeovers Code;

(c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and

(d) professional qualifications in other jurisdictions.

The Company appointed Mr. Lian Ming (廉明) and Mr. Li Kin Wai (李健威) as joint company secretaries of the Company on December 21, 2021. See the section headed "Directors, Supervisors and Senior Management" for further information regarding the qualifications of Mr. Lian Ming (廉明) and Mr. Li Kin Wai (李健威).

Mr. Li Kin Wai (李健威) is an associate of The Hong Kong Institute of Chartered Secretaries and Administrators and The Institute of Chartered Secretaries and Administrators and therefore meets the qualification requirements under Note 1 to Rule 3.28 of the Listing Rules and is in compliance with Rule 8.17 of the Listing Rules.

Accordingly, although Mr. Lian Ming (廉明) does not possess the formal qualifications required of a company secretary under Rule 3.28 of the Listing Rules and may not be able to solely satisfy the requirements of the Listing Rules, Mr. Li Kin Wai (李健威) has substantial experience in handling board, corporate management and administrative matters relating to our

Company. Based on the above reasons, our Company applied for a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules such that Mr. Lian Ming (廉明) may be appointed as a joint company secretary of the Company on the basis of the proposed arrangements below:

1. Mr. Li Kin Wai (李健威) acts as one of our joint company secretaries and provides assistance to Mr. Lian Ming (廉明) for an initial period of three years from the [**REDACTED**] to enable Mr. Lian Ming (廉明) to acquire the "relevant experience" under Note 2 to Rule 3.28 of the Listing Rules so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Listing Rules.

2. Mr. Li Kin Wai (李健威) will communicate regularly with Mr. Lian Ming (廉明) on matters relating to corporate governance, the Listing Rules and any other laws and regulations which are relevant to the Company and its affairs. Mr. Li Kin Wai (李健威) will work closely with, and provide assistance to, Mr. Lian Ming (廉明) in the discharge of his duties as a company secretary, including organizing the Company's Board meetings and Shareholders' general meetings. Furthermore, both Mr. Lian Ming (廉明) and Mr. Li Kin Wai (李健威) will seek and have access to advice from the Company's Compliance Advisor and Hong Kong legal and other professional advisors as and when required.

3. Mr. Lian Ming (廉明) will comply with the annual professional training requirement under Rule 3.29 of the Listing Rules and will enhance his knowledge of the Listing Rules during the three-year period from the [**REDACTED**]. Our Company will further ensure that Mr. Lian Ming (廉明) has access to the relevant training and support that would enhance his understanding of the Listing Rules and the duties of a company secretary of an issuer listed on the Stock Exchange. In addition, Mr. Lian Ming (廉明) will endeavor to attend relevant trainings and familiarize himself with the Listing Rules and duties required for a company secretary of a PRC issuer whose shares are listed on the Stock Exchange.

4. Before the end of three-year period, the Company will evaluate Mr. Lian Ming (廉明)'s experience in order to determine if he has acquired the qualifications required under Rules 3.28 of the Listing Rules, and whether on-going assistance should be arranged.

Accordingly, our Company has applied to the Stock Exchange for, and the Stock Exchange [has granted us], a three-year waiver from strict compliance with Rule 3.28 and 8.17 of the Listing Rules. Our Company will liaise with the Stock Exchange to assess whether Mr. Lian Ming (廉明) has acquired the relevant experience under Rule 3.28 of the Listing Rules before the end of the initial three-year period.

WAIVER IN RESPECT OF NON-EXEMPT CONTINUING CONNECTED TRANSACTION

We have entered into, and are expected to continue, certain transaction that will constitute non-exempt continuing connected transaction of our Company under the Listing Rules upon the [**REDACTED**].

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], waiver in relation to the continuing connected transaction between us and our connected person under Chapter 14A of the Listing Rules. See the section headed "Connected Transactions" in this document.

[**REDACTED**]

[**REDACTED**]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Lyu Yixiong (呂義雄)	Room 1407 450 Caoyang Road Putuo District Shanghai, PRC	Chinese
Ms. Luo Yan (羅燕)	Room 901, Unit 2, Block 45 Tianrui Fengming Garden Jiatang Community Woniushan Street Chaohu, Anhui PRC	Chinese
Mr. Feng Yifeng (馮一峰)	Room 401, Building 10, Lane 455 Maotai Road Changning District Shanghai, PRC	Chinese
Ms. Song Yang (宋洋)	Room 301, No. 95, Lane 99, Hulin Road, Baoshan District Shanghai, PRC	Chinese
Non-Executive Directors		
Mr. Sun Hao (孫昊)	Room 1003, No. 32, Lane 300, Jinxiu Road, Pudong New Area Shanghai, PRC	Chinese
Ms. Li Hanqiong (李寒窮)	Flat A, 3/F, Tower 31, 25 Grandeur Road Phase 3, PARC OASIS YAU YAT CHUEN Kowloon, Hong Kong	Chinese

Independent non-executive Directors

Mr. Leung Ho Sun Wilson (梁浩新)	Room G, 30th Floor, Tower 2 Robinson Place 70 Robinson Road Hong Kong	Chinese
Ms. Luo Yan (羅妍)	220 Handan Road Yangpu District Shanghai, PRC	Chinese
Mr. Liu Yi (劉毅)	Room 1913-14, No. 5, Lane 683, Guangfu West Road Putuo District Shanghai, PRC	Chinese

SUPERVISORS

Name	Address	Nationality
Mr. Li Tao (李濤)	Room 503, Building 22, Lane 369 Huanghua Road Minhang District Shanghai, PRC	Chinese
Ms. Shi Tenghua (施滕花)	777 Changjiang South Road, Haimen Street, Haimen, Jiangsu Province, PRC	Chinese
Ms. Cao Ying (曹瑛)	Room 101, No. 4, Lane 911 Jujiaqiao Road Pudong New District Shanghai, PRC	Chinese

For more information on our Directors and Supervisors, see "Directors, Supervisors and Senior Management" of this document.

PARTIES INVOLVED IN THE [REDACTED]

Joint Sponsors	**J.P. Morgan Securities (Far East) Limited** 23-29/F Chater House 8 Connaught Road Central Hong Kong
	China International Capital Corporation Hong Kong Securities Limited 29/F One International Finance Centre 1 Harbour View Street Central Hong Kong
	CLSA Capital Markets Limited 18/F One Pacific Place 88 Queensway Hong Kong

[**REDACTED**]

[**REDACTED**]

Reporting Accountants and Independent Auditor	**Ernst & Young** Certified Public Accountants Registered Public Interest Entity Auditor 27/F, One Taikoo Place 979 King's Road Quarry Bay Hong Kong
Legal Advisors to the Company	*As to Hong Kong and U.S. laws:* **Clifford Chance** 27/F, Jardine House One Connaught Place Central Hong Kong *As to PRC law:* **Commerce & Finance Law Offices** 10/F, Tower 1 Jing An Kerry Centre 1515 West Nanjing Road Shanghai PRC
Legal Advisors to the Joint Sponsors [REDACTED]	*As to Hong Kong and U.S. laws:* **Freshfields Bruckhaus Deringer** 55th Floor, One Island East Taikoo Place, Quarry Bay Hong Kong *As to PRC law:* **JunHe LLP** 26/F HKRI Centre One HKRI Taikoo Hui 288 Shimen Road (No. 1) Shanghai PRC

Industry Consultant	**Frost & Sullivan (Beijing) Inc.** Room 2401-02, Tower 2 China World Office 1 Jianguo Men Wai Avenue Chaoyang District Beijing PRC
Property Valuer	**AVISTA Valuation Advisory Limited** Suites 2401-06, 24/F Everbright Centre No 108 Gloucester Road Wan Chai Hong Kong
Compliance Advisor	**Maxa Capital Limited** Unit 1908 Harbour Center 25 Harbour Road Wanchai Hong Kong
Receiving Bank	[**REDACTED**]

Registered Office	Room 701, No. 515 Yinxiang Road, Nanxiang Town, Jiading District, Shanghai PRC
Head Office and Principal Place of Business in the PRC	25 Floor, Building B, No. 3300 Zhongshan North Road, Putuo District, Shanghai PRC
Principal Place of Business in Hong Kong	5/F, Manulife Place 348 Kwun Tong Road Kowloon Hong Kong
Company's Website	**http://www.chicmaxgroup.com** *(Information on this website does not form part of this document)*
Joint Company Secretaries	**Mr. Lian Ming (廉明)** Room 601, No. 3, Lane 2099 Xietu Road, Xuhui District, Shanghai the PRC **Mr. Li Kin Wai (李健威)** 5/F, Manulife Place 348 Kwun Tong Road Kowloon Hong Kong
Authorized Representatives	**Mr. Feng Yifeng (馮一峰)** Room 401, Building 10, Lane 455 Maotai Road Changning District Shanghai the PRC **Mr. Li Kin Wai (李健威)** 5/F, Manulife Place 348 Kwun Tong Road Kowloon Hong Kong

Audit Committee	Mr. Leung Ho Sun Wilson (梁浩新) *(chairman)* Ms. Luo Yan (羅妍) Mr. Liu Yi (劉毅)
Remuneration and Appraisal Committee	Ms. Luo Yan (羅妍) *(chairman)* Mr. Liu Yi (劉毅) Mr. Lyu Yixiong (呂義雄)
Nomination Committee	Mr. Lyu Yixiong (呂義雄) *(chairman)* Mr. Liu Yi (劉毅) Ms. Luo Yan (羅妍)

[**REDACTED**]

Principal Bank(s)	**Shanghai Pudong Development Bank Co., Ltd., Fengxian Sub-Branch** No. 7557 Nanfeng Road Fengxian District Shanghai, PRC **China Merchants Bank Co., Ltd., Shanghai Century Avenue Sub-Branch** No. 1589 Century Avenue Pudong New District Shanghai, PRC

The information and statistics set out in this section and other sections of this document were extracted from different official government publications, available sources from public market research and other sources from independent suppliers, and from the independent industry report prepared by Frost & Sullivan ("Frost & Sullivan Report"). We engaged Frost & Sullivan to prepare an independent industry report in connection with the **[REDACTED]**. *The information from official government sources has not been independently verified by us, the Joint Sponsors, the* **[REDACTED]**, *the* **[REDACTED]**, *the* **[REDACTED]**, *the* **[REDACTED]**, *the* **[REDACTED]**, *the* **[REDACTED]** *or any of their respective directors and advisers, or any other persons or parties involved in the* **[REDACTED]**, *and no representation is given as to its accuracy. The Directors confirm that, after making reasonable enquiries, there is no adverse change in the market information since the date of the Frost & Sullivan Report that would qualify, contradict or have a material impact on the information in this section.*

OVERVIEW OF CHINA'S COSMETICS INDUSTRY

Overview

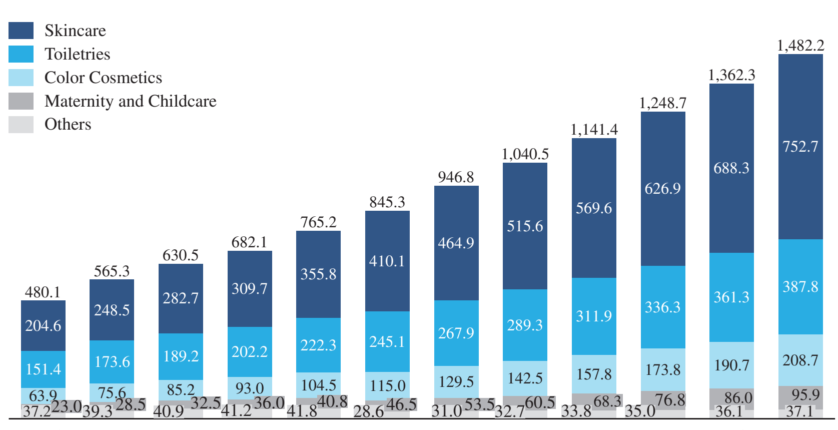
China has the second largest cosmetics market in the world. According to the Frost & Sullivan Report, the cosmetics market in China showed rapid growth from 2015 to 2021 due to its economic development as well as the increase of consumption expenditure of individuals in China. The market size of the cosmetics 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 cosmetics market grew at a CAGR of 2.2%. China has the fastest growing cosmetics industry among all major economies[1] in the world. According to Frost & Sullivan Report, the market size of cosmetics 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.

According to the Frost & Sullivan Report, cosmetics products can be divided into five categories: skincare, toiletries, color cosmetics, maternity and childcare and others. The following chart sets forth the breakdown of the market size of the cosmetics industry in China by retail sales broken down into product category.

Market Size of Cosmetic Industry in China by Retail Sales, Breakdown by Product Categories

Billion RMB, 2015-2026E

CAGR	2015-2021	2021-2026E
Skincare	14.7%	10.1%
Toiletries	10.0%	7.7%
Color Cosmetics	12.5%	10.0%
Maternity and Childcare	15.1%	12.4%
Others	-3.0%	3.7%
Total	**12.0%**	**9.4%**



Source: Frost & Sullivan Report

According to the Frost & Sullivan Report, operating multiple brands is a common feature shared by reputable international cosmetics groups based on the observation of their development histories. By adopting a multi-brand strategy, cosmetics companies can more effectively broaden the boundaries of their business and capture opportunities arising from

[1] Major economies refer to countries with more than USD2.0 trillion of nominal GDP in 2021.

categories beyond their existing product portfolios. A multi-brand strategy also enables cosmetics companies to develop in a balanced and dynamic approach, with resilience through a downturn. In 2021, all of the top ten cosmetic companies measured by retail sales were multi-brand companies. The current cosmetics market in China is also characterized by a trend in adopting a multi-brand strategy by launching and operating new brands by cosmetic companies to gain a larger market share. It has been an increasingly popular awareness that different consumer needs should be addressed by different product categories, which drives the development of product categories focusing on specific concerns of consumers. In addition, Chinese consumers are paying more attention to ingredients and technologies used in cosmetic products. In recent years, the concept of clean beauty has gradually spread from the European and American markets to China. The growing importance of environmental protection and sustainability among domestic consumers, coupled with the significant increase in consumers' awareness of cosmetic safety after the COVID-19, have all contributed to the rise of clean beauty in China. In accordance with the product safety regulations with respect to cosmetics and cosmetics industry standards, it is a common practice for cosmetics companies to perform animal testings during the product development stage, especially for products targeting sensitive skin, baby skins or eye skin, to prevent the side effects of the ingredients used in their products, such as irritation and allergy.

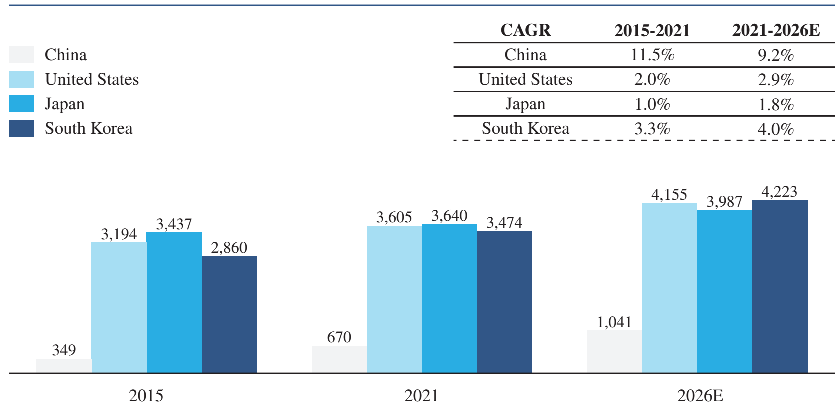
Potential for Growth in per Capita Spending on Cosmetics Products in China

Driven by the steady growth of China's economy, the improvement in living standards of Chinese people and their changing spending habits, according to the Frost & Sullivan Report, the average per capita expenditure on cosmetics products in China reached RMB670 in 2021, representing a CAGR of 11.5% from 2015 to 2021, and is expected to further reach RMB1,041 in 2026, representing a CAGR of 9.2%.

Despite the significant growth in the past few years, China's cosmetics market remains relatively under-developed when compared to developed countries; according to the Frost & Sullivan Report, the per capita expenditure on cosmetics in the United States, Japan and South Korea is RMB3,605, RMB3,640 and RMB3,474 in 2021, respectively. The per capita expenditure on cosmetics in China is lower than in such developed countries, indicating a potential for faster growth than those economies. The following chart sets forth per capita expenditure on cosmetics of selected countries.

Per Capita Expenditure on Cosmetics of Selected Countries

RMB, 2015-2026E



CAGR	2015-2021	2021-2026E
China	11.5%	9.2%
United States	2.0%	2.9%
Japan	1.0%	1.8%
South Korea	3.3%	4.0%

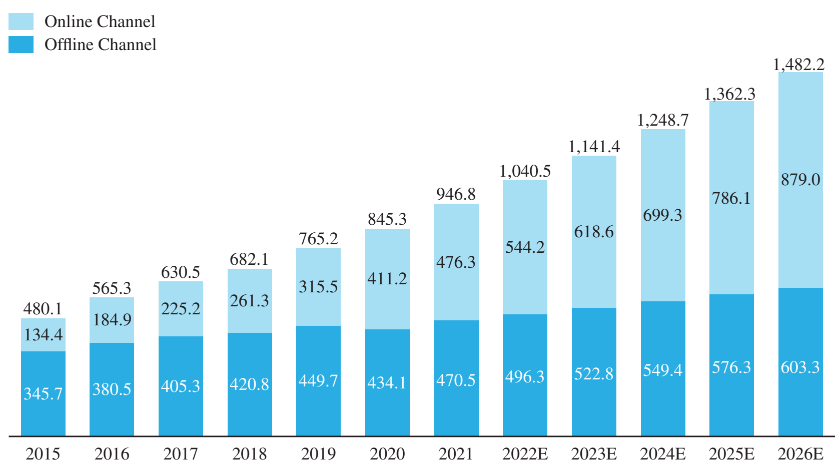
Source: World Bank, Frost & Sullivan

Growth of Online and Offline Markets

Benefitting from the development of e-commerce platforms in China, the retail sales of cosmetics products through online channels have grown at fast pace in China, with a CAGR of 23.5% from 2015 to 2021 based on data from the Frost & Sullivan Report. In 2021, the total retail sales value of cosmetics products generated from online channels in China reached RMB476.3 billion, surpassing the offline channel, according to the Frost & Sullivan Report. Offline channel sales in China maintained solid growth despite an uncertain economic environment during the COVID-19 period, and are expected to reach RMB603.3 billion in 2026. The following chart provides a breakdown of market size of China's cosmetics industry by sales channel from 2015 to 2026:

Market Size of Cosmetic Industry in China by Retail Sales, Breakdown by Sales Channels
Billion RMB, 2015-2026E

CAGR	2015-2021	2021-2026E
Online Channel	23.5%	13.0%
Offline Channel	5.3%	5.1%
Total	**12.0%**	**9.4%**



OVERVIEW OF CHINA'S SKINCARE INDUSTRY

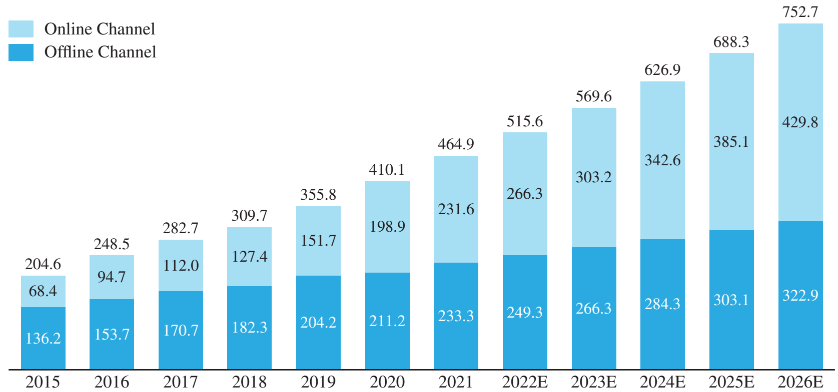
Skincare products refer to products which improve skin integrity, provide relief from skin conditions and address specific skin concerns such as acne, dark spots, hyperpigmentation, fine lines and inflammation. Skincare is the largest segment, with a market share of 49.1% in terms of retail sales in 2021, of the overall cosmetics market.

According to the Frost & Sullivan Report, the market size of the skincare market grew from RMB204.6 billion in 2015 to RMB464.9 billion in 2021, representing a CAGR of 14.7%. This growth is expected to continue at a CAGR of 10.1% from 2021 to 2026, and the market size will reach RMB752.7 billion by 2026. The development of the skincare market in China is primarily driven by the following: (i) given that the long-term skincare concept has been widely accepted by consumers, they tend to use skincare products to resolve their skin issues; (ii) there is a trend that consumers start to use skincare products at a younger age; (iii) emerging e-commerce platforms, such as social media channels and live streaming e-commerce, facilitate consumers' online purchases and improve their shopping experience, especially for Generation Z and Millennials, who are the major consumption forces for cosmetic products; and (iv) With the high operating costs of e-commerce and the waning of the online traffic dividend, the value of offline channels in terms of user experience and brand building has been emphasized again, and the expansion of offline sales channels and multi-dimensional reach to consumers will become a breakthrough for skincare brands to achieve long-term development and drive the offline channel, especially the cosmetics store channel, to burst out with new growth vitality. The following chart sets forth market size of the skincare industry in China by retail sales, broken down into sales channel.

Market Size of Skincare Industry in China by Retail Sales, breakdown by Sales Channels

Billion RMB, 2015-2026E

CAGR	2015-2021	2021-2026E
Online Channel	22.5%	13.2%
Offline Channel	9.4%	6.7%
Total	**14.7%**	**10.1%**



Source: Frost & Sullivan Report

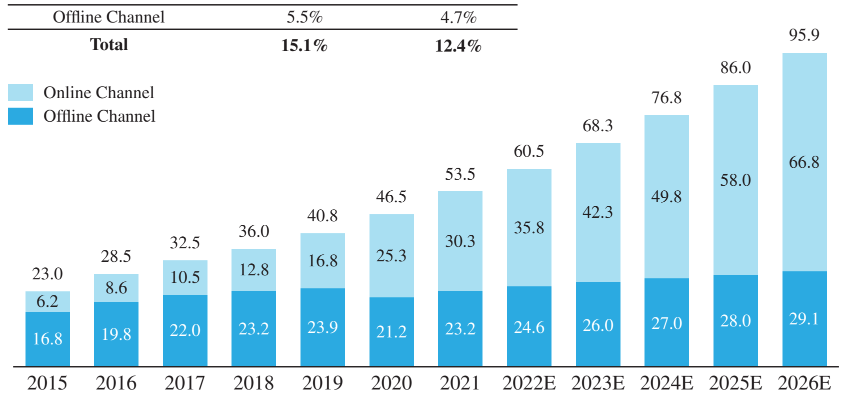
OVERVIEW OF CHINA'S MATERNITY AND CHILDCARE INDUSTRY

Maternity and childcare products are defined as those products which provide skin and personal care specifically for pregnant women, new mothers and children (under 12 years old). With the improvement of the standard of living in China, the development of the maternity and childcare market is driven by the heightened demand for high-quality and safe products for pregnant females and children. Moreover, social media platforms increase consumers' interests in maternity and childcare products through enabling them to obtain the experience shared by other consumers as well as the endorsements by KOLs. The increasingly prominent e-commerce environment also offers pregnant females and new mothers a more convenient channel to purchase relevant products. According to the Frost & Sullivan Report, growing at a CAGR of 15.1%, the size of this market reached RMB53.5 billion in 2021. The growth of this product category remains the highest among others from 2021 to 2026, and the size of this market is expected to reach RMB95.9 billion in 2026, growing at a CAGR of 12.4% from 2021. Such rapid growth has been primarily driven by the growing willingness of the large number of consumers in China for maternity and childcare products. The market size of online channels increased at a CAGR of 30.1% from 2015 to 2021 and is expected to further increase at a CAGR of 17.1% from 2021 to 2026, being the major driver for the development of the maternity and childcare market in China. The following chart sets forth market size of the maternity and childcare industry in China by retail sales, broken down into sales channel.

Market Size of Maternity and Childcare Industry in China by Retail Sales, breakdown by Sales Channels

Billion RMB, 2015-2026E

CAGR	2015-2021	2021-2026E
Online Channel	30.1%	17.1%
Offline Channel	5.5%	4.7%
Total	**15.1%**	**12.4%**



Source: Frost & Sullivan Report

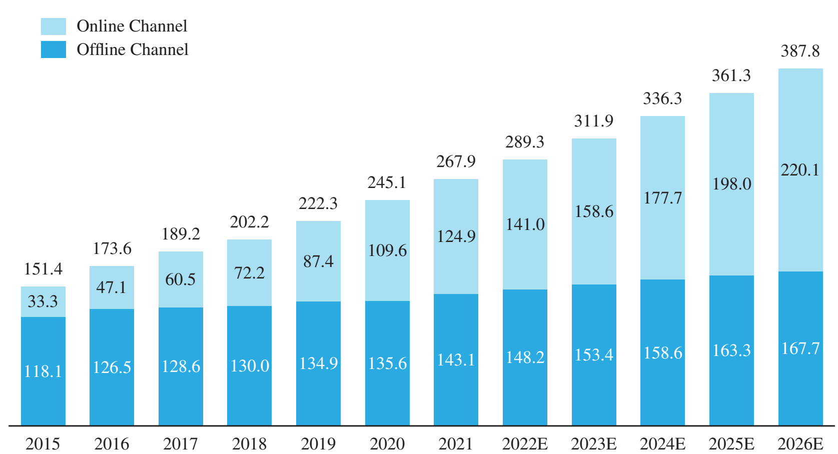
OVERVIEW OF CHINA'S TOILETRIES INDUSTRY

Toiletries products refer to products which clean and groom the skin, body, hair and mouth. Toiletries products can be mainly divided into bath and shower, hair care and oral care products. It is the second largest segment of the cosmetics industry. The growth of the toiletries market in China is primarily driven by the consumption habits of consumers underscored by consumer demands for functional products in different market segments, such as hair-loss prevention and scalp care. According to the Frost & Sullivan Report, the market size of this segment will reach RMB387.8 billion by 2026, representing a CAGR of 7.7% from 2021 to 2026. The following chart sets forth the market size of the toiletries segment in China by retail sales, broken down into sales channel.

Market Size of Toiletries Industry in China by Retail Sales, breakdown by Sales Channels

Billion RMB, 2015-2026E

CAGR	2015-2021	2021-2026E
Online Channel	24.6%	12.0%
Offline Channel	3.3%	3.2%
Total	**10.0%**	**7.7%**



Source: Frost & Sullivan Report

OVERVIEW OF CHINA'S MARKET FOR DOMESTIC BRANDED COSMETICS PRODUCTS

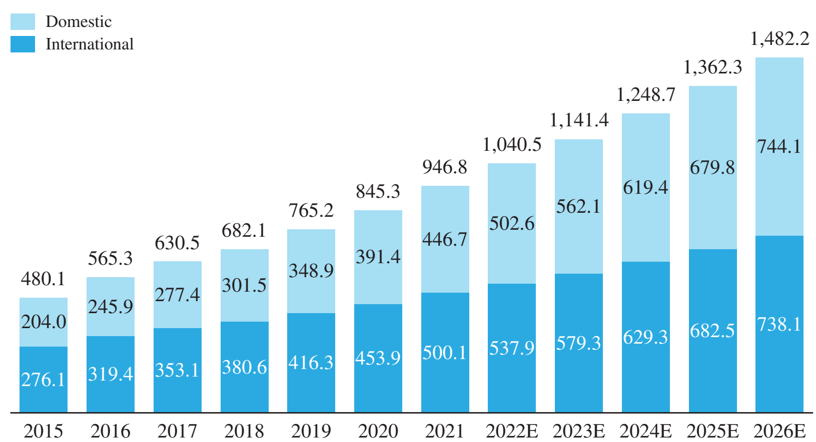
According to the Frost & Sullivan Report, Chinese domestic cosmetics brands refer to cosmetics brands owned by companies whose headquarters are located in China; foreign cosmetics brands refer to cosmetics brands owned by companies whose headquarters are located in overseas countries. Chinese domestic cosmetics brands have experienced fast development in recent years, primarily due to: (i) domestic companies' deeper insight into the demands of Chinese consumers and the changing market conditions of China market, which enable them to adapt to the popular marketing strategies on social media platforms and continuing offer of suitable products to Chinese consumers, (ii) the increasing in R&D investment of Chinese domestic cosmetics companies, (iii) the increasing spending power of younger consumer groups, such as the Millennials and Generation Z, who are more receptive to Chinese domestic cosmetics brands and products that involve traditional Chinese elements and culture, and (iv) adoption of various favorable governmental policies in the past decade to encourage the development of Chinese domestic cosmetics industry in China. They are also beginning to adopt more creative sales strategies and more favorable product designs to satisfy consumer needs.

According to the Frost & Sullivan Report, retail sales of the Chinese domestic cosmetics market in China reached RMB446.7 billion in 2021, growing at a CAGR of 13.9% from 2015 to 2021. The market size of the Chinese domestic cosmetics market in China is expected to reach RMB744.1 billion in 2026, with a CAGR of 10.7% from 2021 to 2026, higher than the growth of foreign brands during the same period at a CAGR of 8.1%. Compared with the proportion of domestic brands in developed countries, with the increase in R&D investment of domestic brands and China's per capita GDP, there is huge room for growth of the domestic cosmetics market in China, and the replacement of international brands by domestic brands will become an inevitable trend. The National Medical Products Administration issued the "Cosmetics Efficacy Claim Evaluation Specification"《化妝品功效宣稱評價規範》 in April 2021, and the "State Administration of Market Regulation issued the "Supervision and Administration of Production and Operation of Cosmetics"《化妝品生產經營監督管理辦法》 in August of the same year, both of which will come into effect in 2022. The standardized operation of the industry will accelerate the liquidation of unqualified small and medium-sized enterprises and result in consolidation of the industry. With the increase in consumer acceptance and brand power leverage of Chinese domestic cosmetics brands, product prices will also increase. This means that Chinese domestic cosmetics brands will occupy a larger share of the high-end market. The following charts sets forth the market size of the cosmetics industry in China in terms of retail sales, broken down into Chinese domestic brand and foreign brand as well as the proportion of Chinese domestic and international brand in the cosmetics industry in selected countries and areas, in terms of retail sales.

Market Size of Cosmetic Industry in China by Retail Sales, Breakdown by Domestic and International Brands

Billion RMB, 2015-2026E

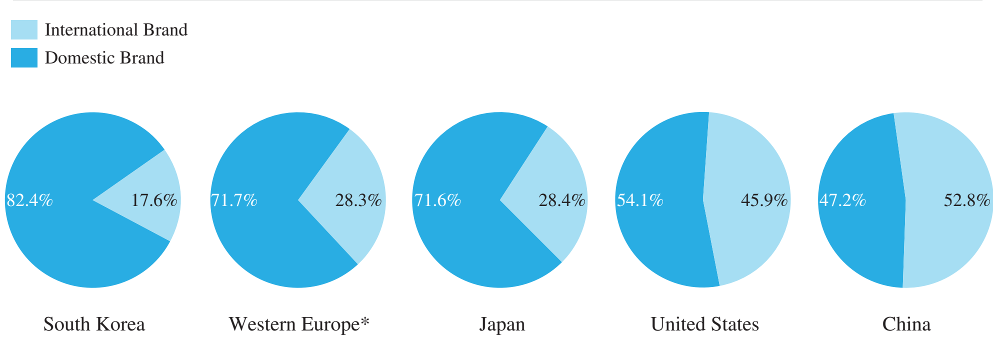
CAGR	2015-2021	2021-2026E
Domestic	13.9%	10.7%
International	10.4%	8.1%
Total	**12.0%**	**9.4%**



Source: Frost & Sullivan

Proportion of Domestic and International Brands in Cosmetic Industry in Selected Countries/Area, in terms of Retail Sales

%, 2021



* Western Europe: include Andorra, Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Gibraltar, Greece, Iceland, Ireland, Italy, Liechtenstein, Luxembourg, Malta, Monaco, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom.

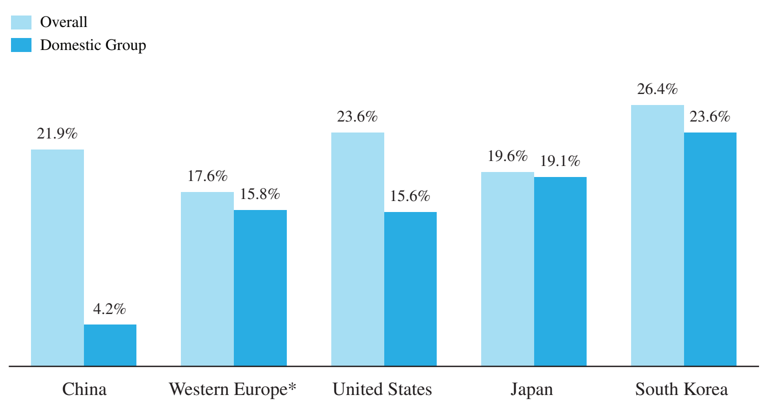
Source: Frost & Sullivan

COMPETITIVE LANDSCAPE

According to the Frost & Sullivan Report, the cosmetics market in China is fragmented, with the top five players occupied a market share of 21.9% in terms of retail sales, with all of them being international cosmetics groups. We ranked fourth in the Chinese domestic cosmetics market in China with retail sales of RMB7,556 million in 2021 and with a market share of 1.7% in the domestic cosmetics market. With more mature R&D capabilities and supply chains, advanced production facilities and extensive distribution channels, leading cosmetics companies are expected to further expand their market shares resulting in an increase in market concentration in the future. In addition, Chinese domestic cosmetics brands are expected to capture an increasing market share in China's cosmetics market. The chart below sets forth the details of market share of the top five domestic and international groups in selected countries and area in terms of retail sales.

Top 5 Market Share of Domestic and International Groups in Cosmetic Industry in Selected Countries/Area, in terms of Retail Sales

%, 2021



* Western Europe: includes Andorra, Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Gibraltar, Greece, Iceland, Ireland, Italy, Liechtenstein, Luxembourg, Malta, Monaco, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom.

Source: Frost & Sullivan

Benefiting from in-depth understanding of local markets, effective marketing strategies, enhanced R&D capabilities, popularity among young consumer groups and favorable governmental policies, Chinese domestic cosmetics brands are expected to catch up with international brands in the future in terms market share in the Chinese market. However, the brand awareness of international groups is relatively high, mainly because of the different marketing strategies of international and domestic cosmetic groups. International groups focus on brand communication and implant brand concepts into consumers' minds, while some of the domestic new celebrity brands rely on explosive products to open the market, and the cultivation of consumers' brand awareness needs to be strengthened. The chart below sets forth the details of retail sales value of the top fifteen players on the Chinese cosmetics market and the top five players on the Chinese domestic cosmetics market in 2021.

Ranking of Cosmetic Group in China, by Retail Sales (2021)

Ranking	Group Name	Retail Sales (2021) RMB Million	Market Share*
1	Company J	72,894	7.7%
2	Company K	55,745	5.9%
3	Company L	36,109	3.8%
4	Company M	23,060	2.4%
5	Company N	19,934	2.1%
6	Company O	13,088	1.4%
7	Company P	12,549	1.3%
8	Company Q	10,970	1.2%
9	Company R	9,547	1.0%
10	Company B	8,929	0.9%
11	Company A	8,379	0.9%
12	Company S	8,124	0.9%
13	Company C	7,633	0.8%
14	**Our Group**	**7,556**	**0.8%**
15	Company D	7,424	0.8%

Note: The market size of cosmetic industry by retail sales in 2021 was RMB946.8 billion.

Source: Frost & Sullivan

Ranking of Domestic Cosmetic Group in China, by Retail Sales Generated from Cosmetics Products (2021)

Ranking	Group Name	Retail Sales (2021) RMB Million	Market Share*
1	Company B	8,929	2.0%
2	Company A	8,379	1.9%
3	Company C	7,633	1.7%
4	**Our Group**	**7,556**	**1.7%**
5	Company D	7,424	1.6%

Note: The market size of domestic cosmetic group by retail sales in 2021 was RMB446.7 Billion.

Company A: A cosmetic group registered in 1995 and listed on Shanghai Stock Exchange in 2001, the revenue was RMB7.6 billion in 2021. Engaged in R&D, production and sales of skincare, household cleaning, and maternity and childcare products, focusing on offline channels such as department stores, supermarkets and cosmetics franchise stores.

Company B: A cosmetic group registered in 2006 and listed on Shanghai Stock Exchange in 2017, the revenue was RMB4.6 billion in 2021. Engaged in the R&D, production and sales of efficacy skincare products and color cosmetics, mainly focusing on online sales channels.

Company C: A cosmetic group registered in 2015 and listed on New York Stock Exchange in 2020, the net revenue was RMB5.8 billion in 2021. Mainly engaged in the R&D, production and sales of color cosmetics and skincare products, mainly focusing on online sales channels.

Company D: A cosmetic group registered in 2004, with nearly 8,000 direct employees. Engaged in R&D, production, and sales of color cosmetics, personal care products and functional foods, with a relatively even distribution of sales between online and offline sales channels.

Non-public information about industry peers is primarily based on Frost & Sullivan's primary research, including interviews with employees of these industry peers. These identities are not disclosed to fulfill confidentiality obligations without the consent of employees of these industry peers.

Source: Frost & Sullivan

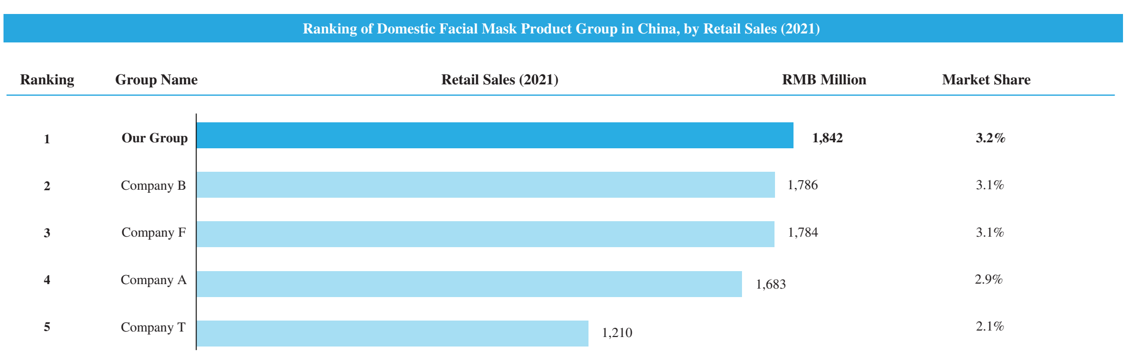
In terms of sub-segments in the cosmetics industry, according to the Frost & Sullivan Report, in 2021, we ranked third in the Chinese domestic branded skincare product market with a retail sales of RMB6,447 million, first in the Chinese domestic branded facial mask product market with a retail sales of RMB1,842 million and first in the Chinese domestic branded maternity and childcare product market with a retail sales of RMB1,789 million. Leveraging their advantages in product mix, R&D capabilities, supply chain management and marketing strategies, leading Chinese domestic cosmetics companies will increase their market shares in the future. The charts below set forth the details of market shares and retail sales value of the top five players in the domestic skincare product market, domestic facial mask product market and maternity and childcare product market in China.

Note: Skincare products include facial skincare, body care and hand care products for adult, pregnant women, newborn mothers and children (under 12 years old).

Company E: A cosmetic group registered in 2000 and owns 8 cosmetic brands. Focusing on skincare products with natural and safe ingredients, mainly focusing on offline sales channels.

Company F: A cosmetic group registered in 2012 and listed on Shenzhen Stock Exchange in 2018, the revenue was RMB5.0 billion in 2021. Engaged in R&D, production and sales of facial masks, toner, lotion, cream, color cosmetics, personal care and cleaning products, mainly focusing on online channels, such as e-commerce and self-operated platforms.

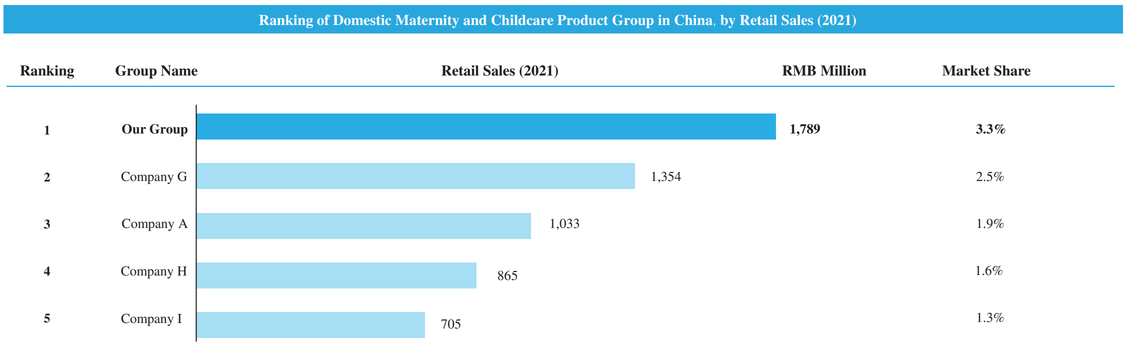
Source: Frost & Sullivan



Note: Facial mask products include facial mask products for adult, pregnant women, newborn mothers and children (under 12 years old).

Company T: A cosmetic group registered in 2017, the revenue was RMB1.6 billion in 2020. Engaged in the R&D, production and sales of medical device dressing products and functional skin care products, mainly focusing on offline sales channels.

Source: Frost & Sullivan



Note:

Company G: A personal care group registered in 2005, with over 5,000 employees. Mainly engaged in the R&D, production and sales of childcare, household hygiene and adult care products, mainly focusing on online sales channels.

Company H: A cosmetic group registered in 2000 with 3 major brands, 12 series and more than 200 products. Mainly engaged in the R&D and sales of skincare products, haircare products, childcare products and color cosmetics, mainly focusing on offline sales channels.

Company I: A cosmetic group registered in 2005, of which core brand has over 2,000 sales outlets in China. Mainly engaged in the R&D, production and sales of childcare products and lip care products, with a relatively even distribution of sales between online and offline sales channels.

Source: Frost & Sullivan Report

MARKET DRIVERS

Growing Willingness and Capabilities to Consume. Compared with developed countries such as the United States, Japan, and South Korea, the level of per capita spending on cosmetics products is still relatively low. According to the Frost & Sullivan Report, there is a strong positive correlation between per capita disposable income and per capita expenditure on cosmetics products. With the steady growth of China's economy and the improvement in the living standards of Chinese people, per capita cosmetics expenditure in China will continue its growth in the future.

Expanding Functional Product Categories. Along with the development of the cosmetics market, there emerges more segments in the cosmetics industry focusing on different functions corresponding to the evolving needs of consumers, which encourage cosmetics companies to launch new products and further enrich their product offerings. Products focusing on specific functions including anti-aging function, sensitive skin repairing, whitening, oil and acne control, anti-wrinkle and replenishing can provide more choices for Chinese consumers, who thereby increase their purchasing frequencies.

Expanding Consumer Base. The emergence of emerging media platforms, such as *Xiaohongshu*, *Weibo* and *Douyin*, and innovative marketing methods, such as live-streaming platforms, have improved the shopping experience of internet users and fostered their interests in cosmetics products. Diversified online shopping channels and marketing activities are more adaptable to the spending habits of younger consumer groups, such as Generation Z and Millennials, which are becoming the main force of consumption for cosmetics products.

Mature Supply Chain. China has formed a comprehensive supply chain for the cosmetics industry in China. A mature supply chain would enable both Chinese domestic cosmetics companies and foreign cosmetics companies to launch and produce products more effectively and efficiently in response to the changing markets.

Favorable Policies. Favorable policies have been issued by local and central governments in China to encourage the development of the cosmetics industry. For instance, the "14th Five-Year Plan" clearly pointed out that it is necessary to incubate premium Chinese domestic cosmetics brands and products. In addition, the "Shanghai Cosmetics Industry High-Quality Development Action Plan (2021-2023)《上海市化妝品產業高質量發展行動計劃(2021-2023年)》" proposed that by 2023, Shanghai's cosmetics market will strive to reach

RMB300 billion and establish 10 leading companies with revenue exceeding RMB5 billion and with three to five leading international brands. The "Several Opinions on Promoting the Development of Shanghai's Beauty and Health Industry" proposed that by 2025, Shanghai's beauty and health industry should form a RMB100 billion industrial capacity and cultivate 10 key industry enterprises with annual sales of more than RMB10 billion. In addition, Zhejiang, Guangdong and other local governments continue to introduce favorable policies for the cosmetics industry, such as the "Implementation Plan for the High-Quality Development of the Cosmetics Industry in Zhejiang Province (2020-2025) 《浙江省化妝品產業高質量發展實施方案》(2020-2025年)" and the "Implementation Plan for Promoting the High-Quality Development of the Cosmetics Industry in Guangdong Province 《廣東省推動化妝品產業高質量發展實施方案》", respectively.

INDUSTRY TRENDS

Popularity of Multi-brand Operational Model. Based on the observation of the development of international cosmetics groups, a multi-brand strategy has been proven to be a necessary path for cosmetics companies to become world-class cosmetics companies. Moreover, with different brands covering different cosmetics market segments, cosmetics groups can offer a broad product offering to consumers to address their specific demands. The multi-brand operational model also gives cosmetics companies the flexibility in formulating different sales and marketing strategies for different groups of customers. The multi-brand and multi-category operational model is strategically necessary to alleviate the risks derived from business concentration and market volatility faced by a single-brand cosmetics company.

Rise of Chinese Domestic Cosmetics Brands. Although international brands still dominate the cosmetics market, the market size of Chinese domestic brands is expected to grow at a higher CAGR than international brands from 2021 to 2026. With the increasing R&D investment from domestic cosmetics enterprises, it could be expected that they could soon compete with international brands in the cosmetics market. By business expansion and M&A in overseas markets, domestic groups are in the process of expanding their business to markets overseas. In addition, with the upgrading of the consumption structure and the deepening of urbanization in the Chinese market, consumers will have increased purchasing power for high-end cosmetics products. Based on the advantages of strong supply chain systems, R&D capabilities and brand power, leading domestic cosmetics brand groups are expected to capture more market shares in the high-end market.

Increasing R&D Investment. Nowadays Chinese consumer preferences are becoming increasingly focused on products with better and distinctive functionality and quality, as demonstrated by the rapid increase in demand for anti-aging products and sensitive skincare products, as well as the emphasis on clean beauty products. Therefore, leading domestic players in the industry are now devoting more resources into the R&D process to address the issue.

DTC Model. With increasing diversity in consumer demands, the traditional distribution model has a natural disadvantage in capturing consumer demands and responding to the market due to lack of information flow. In the meantime, some top cosmetics companies have started to establish a direct sales model to directly develop the relationship between brands and consumers. How to organically combine the omni-channel model of online sales and offline experience will be one of the most important development issues to be addressed in the future. The development of offline channels has become particularly important in recent years. The balanced development of omni-channels will provide more touchpoints for consumers, benefiting the long-term development of cosmetics companies.

Digital Transformation. With the vigorous development of the internet, China has fostered the most tech-savvy consumer group seeking an advanced digital experience. Given this background, many industries, including cosmetics, are facing the challenge to conduct digital transformation to meet the increasing demand for digital experience from Chinese consumers. Digital transformation aims to transform the entire supply chain of the industry, from upstream product production, midstream brand building to downstream sales. The specific implementation measures include, but are not limited to, flexible procurement, precision production, digital operation, personalized promotion, etc., to achieve the two core purposes of cost reduction and efficiency improvement within the enterprise and improvement in consumer experience.

Rise of Maternity and Childcare. According to the Frost & Sullivan Report, it is expected that the market size of China's maternity and childcare industry will exceed RMB60.5 billion in 2022. New retail models will become a major development trend in the maternity and childcare industry, which is believed to be expanding from products to services, from mass to high-end and be more subdivided and diversified. Products with professional and additive-free formulas and featured functions have started to gain recognition in the market.

ENTRY BARRIERS

Branding Barrier. As living standards improve and consumption philosophies and patterns evolve, brand recognition and loyalty have become important factors in consumption decision-making in the cosmetics industry. Brand awareness is a comprehensive illustration of product design, product quality, brand culture, manufacturing skills, management and service, marketing network and public recognition that requires large amounts of investment of capital, resources and time. The renowned enterprises at present have built their branding barrier and market recognition via years of operation in the industry, and new entrants would experience difficulties in achieving such brand recognition in a short period of time.

R&D Barrier. One challenge faced by the cosmetics industry is to develop new products that fulfill market demands in response to evolving industry trends. R&D of cosmetics products involves life science, chemistry, dermatology, botanical science, etc. Cross-section application and research would require a complete R&D process ranging from foundational R&D to engineering application which could fulfill the requirements of coordination and system completeness. As a result, existing companies who have more R&D experience, more funds, talents, and resources could obtain more R&D results and achieve commercialization of newly developed technology, thereby posing a technological barrier to new entrants in the industry.

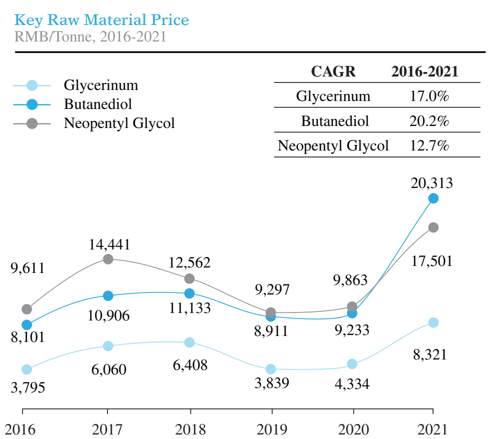
Regulation Barrier. Multiple departments and agencies in China have the authority to regulate and manage the import of ingredients and products, and the manufacturing process of the products. Multiple laws, regulations, administrative guiding opinions have been issued to set up a high standard for cosmetics products and in turn raised the entry barrier for the industry. For instance, the Regulation on the Supervision and Administration of Cosmetics issued by the State Council of China came into effect in January 2021. Multiple regulations and administrative measures followed simultaneously to specify the details in the tightened regulation environment, such as Measures for the Supervision and Administration of Production and Distribution of Cosmetics issued by State Administration for Market Regulation that came into effect in 2022, Technical Guidelines of Cosmetic Safety Evaluation (2021) issued by the National Medical Products Administration that came into effect on May 1, 2021, and Measures for Cosmetics Registration that came into effect in May 2021. These regulations have made the regulation environment tighter than before, posing an entry barrier of regulation for new entrants. The National Medical Products Administration released the "Cosmetics Classification Rules and Classification Catalogue" 《化妝品分類規則和分類目錄》in April 2021, pointing out that products for pregnant and lactating women are new efficacy products and need to be registered and regulated as special cosmetics, cosmetics for pregnant and lactating women. In addition, a series of registration and filing regulations such as the "Measures for the Administration of Cosmetic Registration and Filing" 《化妝品註冊備案管理辦法》and "Regulations for the Administration of Cosmetic Registration and Filing Information" 《化妝品註冊備案資料管理規定》clearly stipulate that new product registration and filing should be submitted with the product formula or overall ingredients. Cosmetics companies will be faced with the risk of formula leakage for OEM/ODM factories. The new policies make having independent R&D capabilities one of the barriers to entry for cosmetic companies.

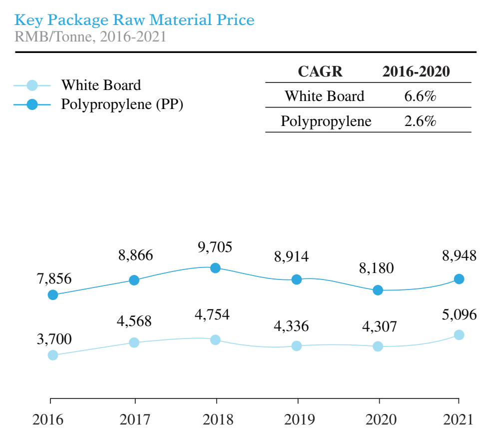
Supply Chain Barrier. Nowadays, the success of developing a product requires cooperation and coordination of multiple subjects and geographical areas, and the success of a product requires cooperation and coordination of multiple functions, including R&D, ingredient procurement, distribution network, etc., all of which pose a challenge to the construction of a global supply chain. And the alternative to building a global supply chain, the ODM model, would raise the issue of intellectual property. The cost of establishing a global supply chain poses a barrier to those who have not entered the industry.

Channel Barrier. Cosmetics products are highly reliant on sales channels as the products would directly face end consumers. Channel maturity and stability are of vital importance to cosmetics enterprises. Mature brands, accumulated operational experience, a well-established management team, and heavy capital investment is crucial for building a nationwide marketing network covering department stores, supermarkets, drug stores, e-commerce platforms, etc. It would be a serious challenge for new entrants to catch up.

PRICE TRENDS OF RAW MATERIALS

The cost of raw materials represents a major cost item for a typical cosmetics company in China. The raw materials used in cosmetics product production primarily consist of packaging materials and ingredients. In particular, the cost of packaging materials accounts for a large proportion of the cost of raw materials for a company that operates in China's cosmetics industry. The ingredients for skincare products mainly include moisturizers, grease and active ingredients. The packaging materials include glass bottles, plastic, paper boxes, etc. According to the Frost & Sullivan Report, the cost of packaging materials kept steady in past five years. The following charts set forth the key packaging materials and ingredients prices.





Source: Frost & Sullivan Report

According to the Frost & Sullivan Report, from 2016 to 2021, the price per tonne of glycerinum increased from RMB3,795 to RMB8,321, with a CAGR of 17.0%. In 2021, the price per tonne of butanediol and neopentyl glycol reached RMB20,313 and RMB17,501, with a CAGR of 20.2% and 12.7%, respectively, from 2016 to 2021. Since 2016, the Chinese government has implemented a series of policies to enhance environmental protection by shutting down certain outdated production facilities in the chemical industry, which led to production suspension and supply shortage of raw materials, resulting in increased prices for glycerinum, butanediol and neopentyl glycol. Since late 2018, the operation of manufacturers of these raw materials has begun to recover after several years of structural adjustment in the chemical industry, driving down the price of raw materials. In 2021, the combination of factors such as the continuation of monetary easing policies in major global economies, supply and logistics disruptions due to overseas epidemic prevention and control, and domestic curbs on the production of highly polluting and energy-intensive industries, indirectly pushed up the prices of butanediol, glycerinum and other important basic chemicals.

IMPACT OF THE OUTBREAK ON COSMETICS INDUSTRY IN MAINLAND CHINA

The COVID-19 pandemic, which regionally broke out in China in the first and second quarters of 2022, its strict lockdown measures led to the temporary closure of a large number of manufacturing facilities, offline stores, and corporate offices in some severely affected areas, which had a certain impact on the overall economic and social activities in China and to some extent reduced consumers' willingness of discretionary consumption. Meanwhile, since the lockdown caused by this round of epidemic is limited to certain areas, and most economic and social activities are still operating normally, consumer demands for cosmetics continues to exist. As China's ability to prevent and control COVID-19 is fully enhanced, the Chinese government's handling of small domestic outbreaks is becoming more and more mature, and the buffer period of prevention and control is gradually shortening, the cosmetics industry is expected to be less affected by the COVID-19 and the consumer environment is expected to become increasingly stable. Taking into account the impact of COVID-19, the market size of the cosmetics industry in China is RMB946.8 billion in 2021, growing at a CAGR of 12.0% from 2015 to 2021 and is expected to grow at a CAGR of 9.4% from 2021 to 2026. The market size of domestic cosmetics industry in China is RMB446.7 billion in 2021, growing at a CAGR of 13.9% from 2015 to 2021 and is expected to grow at a CAGR of 10.7% from 2021 to 2026.

SOURCE OF INFORMATION

In connection with the [**REDACTED**], we engaged Frost & Sullivan, an independent market research consultant, to conduct an analysis of, and to prepare a report about, the global cosmetics industry and China's cosmetics industry. Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. It offers industry research and market strategies, and provides growth consulting and corporate training. In connection with the market research services provided, we have paid a fee of RMB1,070,000 to Frost & Sullivan, which we believe to be consistent with market rates.

In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan adopted the following assumptions: (i) the global social, economic and political environment is likely to remain stable in the five years from 2022 to 2026 (the "Forecast Year"), (ii) purchasing power is expected to continue to rise rapidly in emerging regions and to grow steadily in developed regions, (iii) the impact of the COVID-19 is phased and temporary, against the backdrop of accelerated vaccination, China's epidemic control shows an overall positive trend and the Chinese economy shows long-term positive fundamentals, and (iv) related industry drivers such as increasing health and hygiene awareness, growing purchasing power and other key drivers are likely to drive the household care industry in the Forecast Year.

Except as otherwise noted, all the data and forecasts contained in this section are derived from the Frost & Sullivan Report. Frost & Sullivan has prepared the Frost & Sullivan Report based on detailed primary research which involved discussing the status of the cosmetics industry with certain leading industry participants and secondary research which involved reviewing company reports, independent research reports and data based on its own research database. Our Directors confirm that, after taking reasonable care, there has been no material adverse change in the overall market information since the date of the Frost & Sullivan Report that would materially qualify, contradict or have an impact on such information.

OVERVIEW

We are a leading multi-brand cosmetics company in China and operate a number of household brands widely recognized by consumers.

In 2004, our Company, previously known as Shanghai Kaka Cosmetic Co., Ltd. (上海卡卡化妝品有限公司), was a limited liability company in Shanghai, the PRC established by Mr. Yao Zhenxiong (姚振雄) and Ms. Lyu Lichun (呂麗純). After a series of equity transfers, our Company is currently held by Mr. Lyu Yixiong as to 40.96% directly and 50.31% indirectly. See "History, Conversion and Corporate Structure – Subsequent Capital Increase and Equity Transfer" for the details of equity transfers and "Relationship with Controlling Shareholders" for the details of equity interests held by Mr. Lyu Yixiong. On June 8, 2015, our Company was renamed as Shanghai Chicmax Cosmetic Co., Ltd. (上海上美化妝品有限公司). On December 24, 2020, our Company was converted into a joint stock company with limited liability and was renamed as Shanghai Chicmax Cosmetic Co., Ltd. (上海上美化妝品股份有限公司).

Mr. Lyu Yixiong, the chief executive officer of our Company since June 2004, has rich experiences in the skincare, maternity and childcare, and personal care industry. Since our Company was founded, Mr. Lyu Yixiong has continually formulated visionary corporate roadmap and differentiated strategies, contributing his experience and expertise to building up, launching, and developing new brands and products, thereby diversifying the brands and product portfolios of our Company.

OUR BUSINESS MILESTONES

The following is a summary of our key business development milestones:

Time	Event
October 2002	Shanghai Lizi Cosmetics Co., Ltd. (上海黎姿化妝品有限公司) was founded and Mr. Lyu Yixiong started business in the cosmetics industry in Shanghai.
April 2003	Independent research and development was started.
June 2003	The cosmetic brand, *KANS*, was founded.
June 2004	Our Company, formerly known as Shanghai Kaka Cosmetic Co., Ltd. (上海卡卡化妝品有限公司), was established.
December 2005	The State-owned Land Use Certificate of Lizi Production Base (Phase 1) in China-Singapore Suzhou Industrial Park (中國-新加坡蘇州工業園區) of our Company was obtained. The construction of the first industrial park of the Group commenced.
October 2014	*One Leaf*, a brand focusing on botanical skincare products, was launched.

Time	Event
July 2015	Our Company established Nippon Hondo Co., Ltd. (日本紅道株式會社) and commenced its global strategies.
December 2015	*Baby Elephant*, a brand focusing on maternity and childcare products, was launched.
December 2015	Our brand, *KANS*, became the leading brand of domestic cosmetics products.
October 2016	Hondo Innovation Center Co., Ltd. (紅道科研中心株式會社), a research and development center was set up by our Company in Kobe, Japan, starting its investment in fundamental research and development.
December 2016	*One Leaf* became the top facial mask brand in China by market shares.
May 2018	Chicmax Science and Technology Park (Zhongyi Daily Chemical) (上美科技園(中翊日化)) started its operations.
January 2019	The plant in Okayama, Japan commenced operations.
December 2019	*Baby Elephant* became the top domestic maternity and childcare brand in China by market shares.
December 2020	Our Company was converted into a joint stock company with limited liability and was renamed as Shanghai Chicmax Cosmetic Co., Ltd. (上海上美化妝品股份有限公司).

CORPORATE DEVELOPMENT

The following sets forth the corporate history and shareholding changes of our Company.

Incorporation of our Company

Upon incorporation of our Company in June 2004, our Company had a registered capital of RMB0.5 million and was owned by Mr. Yao Zhenxiong (姚振雄), an Independent Third Party, and Ms. Lyu Lichun (呂麗純), a sibling of Mr. Lyu Yixiong, as to 60% and 40%, respectively.

Subsequent Capital Increase and Equity Transfer

After incorporation, our Company underwent several rounds of major shareholding changes: (i) transfer by Mr. Yao Zhenxiong (姚振雄) to Ms. Han Yanyan (韓艷艷) in January 2006; (ii) transfer by Ms. Lyu Lichun (呂麗純) to Mr. Lyu Yixiong and increase of registered capital in October 2014; (iii) transfer by Ms. Han Yanyan (韓艷艷) to Shanghai Kans and increase of registered capital in January 2015; (iv) investments by Hongyin Investment, Nanyin Investment and Series A Investors through cash subscriptions in April 2015; (v) transfer by Shanghai Kans to Mr. Lyu Yixiong and by White Sand (HK) to Shanghai Shengyan in May 2020; (vi) transfer by Shanghai Lianyi to Shanghai Shengyan in October 2020; (vii) transfer by Shanghai Shengyan to Series B Investors in October 2020; and (viii) increase of registered capital of our Company in January 2021.

Transfer by Mr. Yao Zhenxiong (姚振雄) to Ms. Han Yanyan (韓艷艷) in January 2006

On January 18, 2006, we completed the SAMR registration in respect of the acquisition of 60% of our equity interest by Ms. Han Yanyan (韓艷艷) from Mr. Yao Zhenxiong (姚振雄) at a total consideration of RMB0.3 million, equivalent to the amount of registered capital of our Company being transferred. Immediately after the transfer, our Company was owned by Ms. Han Yanyan (韓艷艷) and Ms. Lyu Lichun (呂麗純) as to 60% and 40%, respectively.

Transfer by Ms. Lyu Lichun (呂麗純) to Mr. Lyu Yixiong and increase of registered capital in October 2014

On October 17, 2014, we completed the SAMR registration in respect of the acquisition of 40% of our equity interest by Mr. Lyu Yixiong from Ms. Lyu Lichun (呂麗純) at a total consideration of RMB0.2 million, which was determined on the basis of the amount of registered capital of our Company being transferred, given the sibling relationships between Mr. Lyu Yixiong and Ms. Lyu Lichun (呂麗純).

On the same date, we completed the SAMR registration in respect of the increase in the registered capital of our Company from RMB0.5 million to RMB30 million by an increase of RMB29.5 million, of which RMB23.8 million was subscribed by Mr. Lyu Yixiong and RMB5.7 million was subscribed by Ms. Han Yanyan (韓艷艷).

Immediately after the transfer, our Company was owned by Mr. Lyu Yixiong and Ms. Han Yanyan (韓艷艷) as to 80% and 20%, respectively.

Transfer by Ms. Han Yanyan (韓艷艷) to Shanghai Kans and increase of registered capital in January 2015

On January 30, 2015, we completed the SAMR registration in respect of the acquisition of 20% of our equity interest, representing RMB6 million of the registered capital of our Company, by Shanghai Kans from Ms. Han Yanyan (韓艷艷) at a total consideration of RMB7.92 million, which was determined after negotiation between Mr. Lyu Yixiong (who held the entire equity interest of Shanghai Kans) and Ms. Han Yanyan (韓艷艷).

On the same date, we completed the SAMR registration in respect of the increase in the registered capital of our Company from RMB30 million to RMB79 million by an increase of registered capital of RMB49 million, which was solely subscribed by Mr. Lyu Yixiong.

Immediately after the transfer, our Company was owned by Mr. Lyu Yixiong and Shanghai Kans as to 92.41% and 7.59%, respectively.

Investments by Hongyin Investment, Nanyin Investment and the Series A Investors through cash subscriptions in April 2015

On April 21, 2015, we completed the SAMR registration in respect of the increase in the registered capital of our Company from RMB79 million to RMB180 million by an increase of registered capital of RMB101 million, of which Hongyin Investment subscribed for 30% of the equity interest of our Company for a cash consideration of RMB54 million, which is equivalent to the amount of registered capital of our Company being allotted; Nanyin Investment subscribed for 16.91% of the equity interest of our Company for a cash consideration of RMB30.44 million, which is equivalent to the amount of registered capital of our Company being allotted; White Sand (HK) subscribed for 4.66% of the equity interest of our Company (representing RMB8.388 million of the registered capital of our Company) for a cash consideration of USD25,000,030, which is equivalent to RMB152,922,683.51; Shanghai Lianyi subscribed for 2.42% of the equity interest of our Company (representing RMB4.356 million of the registered capital of our Company), for a cash consideration of RMB80 million; and Ximei Investment subscribed for 2.12% of the equity interest of our Company (representing RMB3.816 million of the registered capital of our Company) for a cash consideration of RMB70 million.

Set forth below is our shareholding structure immediately after the above investments by Hongyin Investment, Nanying Investment and the Series A Investors:

Shareholders	**Consideration paid by Hongyin Investment, Nanying Investment and the Series A Investors** *(RMB)*	**Approx. % of shareholding immediately before the investments by Hongyin Investment, Nanying Investment and the Series A Investors**	**Approx. % of shareholding immediately after the investments by Hongyin Investment, Nanying Investment and the Series A Investors**
Mr. Lyu Yixiong	–	92.41%	40.56%
Shanghai Kans	–	7.59%	3.33%
Hongyin Investment	54,000,000	–	30.00%
Nanyin Investment	30,440,000	–	16.91%
White Sand (HK)	USD25,000,030 (equivalent to RMB152,922,683.51)	–	4.66%
Shanghai Lianyi	80,000,000	–	2.42%
Ximei Investment	70,000,000	–	2.12%
Total	387,362,683.51	100%	100%

See "History, Conversion and Corporate Structure – Pre-[**REDACTED**] Investments" for further details on the investment by the Series A Investors.

Transfer by Shanghai Kans to Mr. Lyu Yixiong and by White Sand (HK) to Shanghai Shengyan in May 2020

On May 11, 2020, we completed the SAMR registration in respect of the acquisition of 0.4% of our equity interest, representing RMB0.72 million of the registered capital of our Company, by Mr. Lyu Yixiong from Shanghai Kans at a total consideration of RMB20.7 million, which was determined with reference to the total consideration of the transfer of our equity interest from Shanghai Lianyi, our Independent Third Party, to Shanghai Shengyan, pursuant to the agreement entered into between the same parties on February 27, 2020. See "History, Conversion and Corporate Structure – Transfer by Shanghai Lianyi to Shanghai Shengyan in October 2020" for further details on such equity transfer.

On the same date, 2020, we completed the SAMR registration in respect of the acquisition of 4.66% of our equity interest, representing RMB8.388 million of the registered capital of our Company, by Shanghai Shengyan from White Sand (HK) at a total consideration of USD39,156,068, which was determined on the basis of the initial investment amount of approximately USD25 million and the agreed annual return on investment.

Set forth below is our shareholding structure immediately after the above equity transfers:

Shareholders	**Approx. % of shareholding immediately after the equity transfers to Mr. Lyu Yixiong and Shanghai Shengyan**
Mr. Lyu Yixiong	40.96%
Shanghai Kans	2.93%
Hongyin Investment	30.00%
Nanyin Investment	16.91%
Shanghai Shengyan	4.66%
Shanghai Lianyi	2.42%
Ximei Investment	2.12%
Total	100%

Transfer by Shanghai Lianyi to Shanghai Shengyan in October 2020

On October 10, 2020, we completed the SAMR registration in respect of the acquisition of 2.42% of our equity interest, representing RMB4.356 million of the registered capital of our Company, by Shanghai Shengyan from Shanghai Lianyi at a total consideration of RMB125,225,365.94, which was determined on the basis of the initial investment amount of RMB80 million and the agreed annual return on investment.

Set forth below is our shareholding structure immediately after the above equity transfer:

Shareholders	**Approx. % of shareholding immediately after the equity transfer to Shanghai Shengyan**
Mr. Lyu Yixiong	40.96%
Shanghai Kans	2.93%
Hongyin Investment	30.00%
Nanyin Investment	16.91%
Shanghai Shengyan	7.08%
Ximei Investment	2.12%
Total	100%

Transfer by Shanghai Shengyan to Series B Investors in October 2020

On October 23, 2020, we completed the SAMR registration in respect of the acquisition of 2.31% of our equity interest, representing RMB4.15386 million of the registered capital of our Company, by Youngor Investment from Shanghai Shengyan at a total consideration of RMB150 million.

On the same date, we completed the SAMR registration in respect of the acquisition of 2.31% of our equity interest, representing RMB4.15386 million of the registered capital of our Company, by Mr. Zhang Huai'an from Shanghai Shengyan at a total consideration of RMB150 million.

On the same date, we completed the SAMR registration in respect of the acquisition of 1.54% of our equity interest, representing RMB2.7693 million of the registered capital of our Company, by Shanghai Yingfu from Shanghai Shengyan at a total consideration of RMB100 million.

On the same date, we completed the SAMR registration in respect of the acquisition of 0.46% of our equity interest, representing RMB0.8307 million of the registered capital of our Company, by Anxin Zhipu Investment from Shanghai Shengyan at a total consideration of RMB30 million.

Set forth below is our shareholding structure immediately after the above transfers of equity interests of our Company to the Series B Investors:

Shareholders	**Consideration paid by the Series B Investors** *(RMB)*	**Approx. % of shareholding immediately before the investments by the Series B Investors**	**Approx. % of shareholding immediately after the investments by the Series B Investors**
Mr. Lyu Yixiong	–	40.96%	40.96%
Shanghai Kans	–	2.93%	2.93%
Hongyin Investment	–	30.00%	30.00%
Nanyin Investment	–	16.91%	16.91%
Shanghai Shengyan	–	7.08%	0.46%
Ximei Investment	–	2.12%	2.12%
Youngor Investment	150,000,000	–	2.31%
Mr. Zhang Huai'an	150,000,000	–	2.31%
Shanghai Yingfu	100,000,000	–	1.54%
Anxin Zhipu Investment	30,000,000	–	0.46%
Total	430,000,000	100%	100%

See "History, Conversion and Corporate Structure – Pre-[**REDACTED**] Investments" for further details on the investment by Series B Investors.

Conversion

On December 24, 2020, we completed the SAMR registration in respect of the conversion of our Company into a joint stock company with limited liability and our Company was renamed as Shanghai Chicmax Cosmetic Co., Ltd. (上海上美化妝品股份有限公司) (the "**Conversion**").

Set forth below is our shareholding structure immediately after the Conversion:

Shareholders	**Number of shares held by the shareholders**	**Approx. % of shareholding immediately after the Conversion**
Mr. Lyu Yixiong	73,720,000	40.96%
Shanghai Kans	5,280,000	2.93%
Hongyin Investment	54,000,000	30.00%
Nanyin Investment	30,440,000	16.91%
Shanghai Shengyan	836,280	0.46%
Ximei Investment	3,816,000	2.12%
Youngor Investment	4,153,860	2.31%
Mr. Zhang Huai'an	4,153,860	2.31%
Shanghai Yingfu	2,769,300	1.54%
Anxin Zhipu Investment	830,700	0.46%
Total	180,000,000	100%

Increase of registered capital of our Company in January 2021

On January 25, 2021, we completed the SAMR registration in respect of the increase of our registered capital from RMB180 million to RMB360 million.

Set forth below is our shareholding structure immediately after the above increase of registered capital of our Company:

Shareholders	**Number of shares held by the shareholders**	**Approx. % of shareholding immediately after the increase of registered capital**
Mr. Lyu Yixiong	147,440,000	40.96%
Shanghai Kans	10,560,000	2.93%
Hongyin Investment	108,000,000	30.00%
Nanyin Investment	60,880,000	16.91%
Shanghai Shengyan	1,672,560	0.46%
Ximei Investment	7,632,000	2.12%
Youngor Investment	8,307,720	2.31%
Mr. Zhang Huai'an	8,307,720	2.31%
Shanghai Yingfu	5,538,600	1.54%
Anxin Zhipu Investment	1,661,400	0.46%
Total	360,000,000	100%

OUR KEY SUBSIDIARIES AND MAJOR SHAREHOLDING CHANGES

We conduct our business principally through the following subsidiaries which made a material contribution to our results of operations during the Track Record Period:

Name	**Principal business activities**	**Date of establishment**	**Place of establishment**	**Percentage of equity interest held by our Company**
Shanghai Shumei Cosmetic Co., Ltd. (上海束美化妝品有限公司)	Sales of cosmetics	September 8, 2009	PRC	100%
Shanghai Zhongyi Daily Chemical Co., Ltd. (上海中翊日化有限公司)	Production of cosmetics	August 5, 2010	PRC	100%
Shanghai Leading Investment Co., Ltd. (上海潮尚投資有限公司)	Investment holding; import and export trade	February 14, 2014	PRC	100%

Name	Principal business activities	Date of establishment	Place of establishment	Percentage of equity interest held by our Company
Shanghai One Leaf Cosmetic Co., Ltd. (上海一葉子化妝品有限公司)	Sales of cosmetics	September 9, 2014	PRC	100%
Shanghai Baby Elephant Cosmetic Co., Ltd. (上海紅色小象化妝品有限公司)	Sales of cosmetics	December 28, 2015	PRC	100%
Shanghai Kans Biotechnology Co., Ltd. (上海韓束生物科技有限公司)	Research and development of cosmetics	March 18, 2021	PRC	100%
Shanghai Kans Cosmetic Sales Service Co., Ltd. (上海韓束化妝品銷售服務有限公司)	Sales of cosmetics	June 29, 2016	PRC	100%
Nippon Shuichi Cosmetics Co., Ltd. (日本秀一化妝品株式會社)	Production of cosmetics	July 4, 2017	Japan	100%
Shanghai Baby Elephant Cosmetic Sales Service Co., Ltd. (上海紅色小象化妝品銷售服務有限公司)	Sales of cosmetics	June 12, 2018	PRC	100%

Shanghai Shumei Cosmetic Co., Ltd. (上海東美化妝品有限公司)

Shanghai Shumei was established in September 2009 and was then owned by Mr. Lyu Yixiong and an Independent Third Party as to 70% and 30%, respectively. After several rounds of equity transfers, we acquired 90% and 10% of the equity interest from Mr. Lyu Yixiong and Ms. Han Yanyan (韓艷艷), respectively, in January 2015, for a respective consideration of RMB810,000 and RMB90,000, both of which were equivalent to the respective amount of registered capital of Shanghai Shumei being transferred. Immediately after the transfer, Shanghai Shumei became a wholly owned subsidiary of our Company.

Shanghai Zhongyi Daily Chemical Co., Ltd. (上海中翊日化有限公司)

Shanghai Zhongyi was established in August 2010 and was then wholly owned by Mr. Lyu Yixiong. In January 2015, we acquired the entire equity interest of Shanghai Zhongyi from Mr. Lyu Yixiong at a total consideration of RMB49 million, which was determined on the basis of the appraised value of net assets of Shanghai Zhongyi valued at RMB49,302,931.96 on November 30, 2014 according to the valuation report issued by Shanghai Shenwei Assets Appraisal Co., Ltd. Immediately after the transfer, Shanghai Zhongyi became a wholly owned subsidiary of our Company.

Shanghai Leading Investment Co., Ltd. (上海潮尚投資有限公司)

Established in February 2014, Leading Investment was then owned by Mr. Lyu Yixiong and an Independent Third Party as to 51% and 49%, respectively. After several rounds of equity transfers, Leading Investment was owned by Mr. Lyu Yixiong and Mr. Lyu Yiwu (呂義武) (a cousin of Mr. Lyu Yixiong) as to 95% and 5%, respectively. In July 2016, our Company acquired 95% and 5% of the equity interest from by Mr. Lyu Yixiong and Mr. Lyu Yiwu, respectively, at respective considerations of RMB28.5 million and RMB1.5 million, representing the respective amount of registered capital of Leading Investment being transferred. Immediately after the transfer, Leading Investment became a wholly owned subsidiary of our Company.

Shanghai One Leaf Cosmetic Co., Ltd. (上海一葉子化妝品有限公司)

Shanghai One Leaf was incorporated in September 2014 and was owned by Mr. Lyu Yixiong, Ms. Han Yanyan (韓艷艷), and Shanghai Kans as to 80%, 10%, and 10%, respectively. In June 2015, Ms. Han Yanyan (韓艷艷) transferred her 10% equity interest in Shanghai One Leaf to Mr. Lyu Yixiong at a nominal consideration of RMB1, given that the then registered share capital of Shanghai One Leaf on the part of Ms. Han Yanyan (韓艷艷) had not been paid up. In November 2018, Mr. Lyu Yixiong and Shanghai Kans transferred their entire interest in Shanghai One Leaf to us, both at a nominal consideration of RMB1, given that both Shanghai Kans and our Company are commonly controlled by Mr. Lyu Yixiong. Immediately after the transfer, Shanghai One Leaf became a wholly owned subsidiary of our Company.

Shanghai Baby Elephant Cosmetic Co., Ltd. (上海紅色小象化妝品有限公司)

Established in December 2015, Baby Elephant Cosmetic was then wholly owned by Nanyin Investment. In March 2016, Nanyin Investment transferred its entire equity interest in Baby Elephant Cosmetic to our Company at a nominal consideration of RMB1 given that the relevant share capital of Baby Elephant Cosmetic remained unpaid at the time of the transfer. Immediately after the transfer, we made capital contribution in full with reference to the registered capital of Baby Elephant Cosmetic and it became a wholly owned subsidiary of our Company.

Shanghai Kans Biotechnology Co., Ltd. (上海韓束生物科技有限公司)

Shanghai Kans Biotechnology was incorporated as a wholly owned subsidiary of our Company in March 2021.

Shanghai Kans Cosmetic Sales Service Co., Ltd. (上海韓束化妝品銷售服務有限公司)

Established in June 2016, Shanghai Kans Cosmetic Sales was then wholly owned by our Company. In May 2021, we transferred the entire equity interest in Shanghai Kans Cosmetic Sales to Shanghai Kans Biotechnology, a wholly owned subsidiary of our Company, for a consideration of RMB5 million, representing the amount of registered capital of Shanghai Kans Cosmetic Sales being transferred. Immediately after the transfer, Shanghai Kans Cosmetic Sales became an indirect wholly owned subsidiary of our Company.

Nippon Shuichi Cosmetics Co., Ltd. (日本秀一化妝品株式會社)

Incorporated on July 4, 2017, Nippon Shuichi is a stock company incorporated under the laws of Japan and an indirect wholly owned subsidiary of our Company. As of the Latest Practicable Date, the share capital of Nippon Shuichi is JPY80,000,000 with a total of 135,708 issued shares, which is owned by Hongdao Japan Holdings Limited and Nippon Hondo Co., Ltd. as to 97.57% and 2.43%, respectively, both of which are in turn wholly owned subsidiaries of Hongdao Holdings Limited, a wholly owned subsidiary of Leading Investment.

Shanghai Baby Elephant Cosmetic Sales Service Co., Ltd. (上海紅色小象化妝品銷售服務有限公司)

Baby Elephant Cosmetic Sales Service was incorporated in June 2018 and was then owned by Shanghai Hongdao Cosmetic Co., Ltd. (上海紅道化妝品有限公司, "**Shanghai Hongdao**") and an Independent Third Party as to 60% and 40%, respectively. After several rounds of equity transfers, Shanghai Hongdao became the then sole owner of Baby Elephant Cosmetic Sales Service and in April 2021, it transferred its entire equity interest to Baby Elephant Cosmetic at a consideration of RMB10 million, equivalent to the amount of registered share capital of Baby Elephant Cosmetic Sales Service. Immediately after the transfer, Baby Elephant Cosmetic Sales Service became an indirect wholly owned subsidiary of our Company.

CONFIRMATION BY THE PRC LEGAL ADVISORS

As advised by our PRC Legal Advisors, (i) all the changes in the registered capital and shareholding of our Company, and any equity transfers in respect of our Company have been duly completed pursuant to the applicable PRC laws, regulations and rules and are legally valid under the applicable PRC laws, regulations and rules, and (ii) all necessary consents, approvals, authorizations and permissions required to be obtained for the Conversion, have been obtained, and all the Conversion steps have been duly completed pursuant to the applicable PRC laws, regulations and rules.

PRE-[REDACTED] INVESTMENTS

Principal terms of the Pre-[REDACTED] Investments

The table below summarizes the principal terms of the Pre-[**REDACTED**] Investments:

Investors	**Series A Investors**	**Series B Investors**
Date of investment agreement(s)	March 9, 2015[1]	October 17, 2020[1]
Amount of consideration paid	USD25,000,030 and RMB150,000,000[2]	RMB430,000,000
Basis of consideration	The consideration was determined after arm's length negotiations between the parties with reference to the business valuation of our Company, the timing of the investments and the prospect of our business.	
Date of which investment was settled	April 29, 2015	October 21, 2020
Approximate shareholding in our Company after completion of the Pre-[REDACTED] Investments and immediately before the [REDACTED]	2.12%[3]	6.62%[4]
Approximate investment cost per Share (RMB)	9.17[3]	18.06
[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Post-money valuation of our Company (RMB billion)[6]	3.30	6.5[7]
Special rights	It is agreed that all the special rights granted to Ximei Investment and the Series B Investors respectively, including customary redemption right, anti-dilution right, redemption rights and liquidation preferences, shall lapse or be terminated upon the submission of the application documents for the [**REDACTED**] to the China Securities Regulatory Commission. As of the Latest Practicable Date, all such special rights were terminated. In the event that the application for [**REDACTED**] is rejected, denied or refused or approval for [**REDACTED**] is not granted, Ximei Investment and the Series B Investors shall have their respective special rights to become effective immediately.	

Investors	**Series A Investors** **Series B Investors**
Lock-up period	Our Shares held by the Pre-[**REDACTED**] Investors are subject to a lock-up period of 12 months after the date of [**REDACTED**] on the Stock Exchange. See "Share Capital" of this document for details.
Use of proceeds	The proceeds have been utilized in full for the principal business of our Group, including, but not limited to, the growth and expansion of our Company's business and general working capital purposes.
Strategic benefits to our Company	At the time of the investments, our Directors were of the view that (i) the investments by these well-established investors demonstrated their confidence in our Company and served as an endorsement of our Company's performance and prospect, while broadening our shareholder base and leading us to meet with other financial investors; and (ii) our Company would benefit from the additional capital that would be provided by the investors.

Notes:

1. The investment agreement entered into between our Company and Ximei Investment was further supplemented by the first supplemental agreement dated October 17, 2020, the second supplemental agreement dated May 11, 2021 and the third supplemental agreement dated December 10, 2021, pursuant to which the special rights granted to Ximei Investment shall lapse or be terminated upon the submission of the application documents for the [**REDACTED**] to the China Securities Regulatory Commission.

   The respective investment agreements entered into between our Company and each of the Series B Investors were supplemented by the supplemental agreements entered into between the same parties dated December 10, 2021, pursuant to which the special rights granted to each of the Series B Investors shall lapse or be terminated upon the submission of the application documents for the [**REDACTED**] to the China Securities Regulatory Commission.

2. The consideration paid by White Sand (HK) was USD25,000,030, which was equivalent to approximately RMB152,922,683.51, and the aggregate consideration paid by Shanghai Lianyi and Ximei Investment were RMB150,000,000.

3. Each of White Sand (HK) and Shanghai Lianyi sold their equity interest in our Company and no longer held any interest in our Shares as of the Latest Practicable Date. See "History, Conversion and Corporate Structure – Corporate Development – Subsequent Capital Increase and Equity transfer" for further details of their transfers. As such, the shareholding in our Company refers to that held by Ximei Investment only and the discount to the [**REDACTED**] price is calculated with reference to that of Ximei Investment only.

   White Sand (HK) is a limited liability company incorporated under the laws of Hong Kong on April 1, 2014 and is wholly owned by Sunrise Technology Limited, a limited liability company incorporated under the laws of Hong Kong and was dissolved by deregistration on October 22, 2021. A Gazette Notice in relation to the deregistration of White Sand (HK) was published by the Registrar of Companies on October 8, 2021 and White Sand (HK) was dissolved by deregistration on February 4, 2022.

Shanghai Lianyi, now known as Shanghai Lianxin Phase III Venture Capital Center (Limited Partnership) (上海聯新三期創業投資中心(有限合夥)), is a limited partnership established in the PRC. The general partner of Shanghai Lianyi is Shanghai Lianxin Haolan Enterprise Management Center (Limited Partnership) (上海聯新浩嵐企業管理中心(有限合夥)), a limited partnership established in the PRC and ultimately controlled by Mr. Qu Liefeng (曲列鋒), an Independent Third Party. Shanghai Lianxin Xinchuan Enterprise Management Centre (Limited Partnership) (上海聯新昕川企業管理中心(有限合夥)), being one of the limited partners of Shanghai Lianyi and holding 37.59% partnership interest in Shanghai Lianyi, is also ultimately controlled by Mr. Qu Liefeng (曲列鋒). The remaining limited partners of Shanghai Lianyi are Independent Third Parties and none of them holds more than one-third of the partnership interest in Shanghai Lianyi.

4. See "History, Conversion and Corporate Structure – Our Shareholding Structure" for further details of the shares held by each of the Series B Investors.

5. Calculated on the basis of the [**REDACTED**] of HK$[**REDACTED**], the mid-point of the proposed range of the [**REDACTED**].

6. The consideration was determined after arm's length negotiations between the parties with reference to, among others, the performance and prospect of the Group.

7. Calculated on the basis of the [**REDACTED**] of HK$[**REDACTED**] (the mid-point of the indicative [**REDACTED**] range and assuming the [**REDACTED**] is not exercised), the valuation of the Company upon [**REDACTED**] will be approximately HK$[**REDACTED**] (the "**Proposed** [**REDACTED**] **Valuation**"). The increase in valuation from the investment by the Series B Investors to the Proposed [**REDACTED**] Valuation is mainly due to the following reasons: (i) the continuous progress of our business development and brand and product pipeline; and (ii) upon [**REDACTED**], the Company will have access to additional capital to fund its launches and expansions of brands and current research and development of the pipeline products.

Information about the Pre-[REDACTED] Investors

Ximei Investment (上海希美投資中心(有限合夥))

Ximei Investment is a limited partnership established in the PRC and is principally engaged in equity, venture capital and project investments. Shanghai Premium Bright Asset Management Partnership (Limited Partnership) (上海銘耀資產管理合夥企業(有限合夥), "**Premium Bright Asset Management**"), being the limited partner of Ximei Investment, and Shanghai Premium Bright Global Capital Co., Ltd. (上海銘耀股權投資管理有限公司, "**Premium Bright Global Capital**"), being the general partner of Ximei Investment, each holds 99% and 1% partnership interest in Ximei Investment.

Premium Bright Asset Management is a limited partnership established in the PRC, the partnership interest of which is held by Shanghai Boxin Enterprise Management Co., Ltd. (上海鉑信企業管理有限公司, "**Shanghai Boxin**") and Mr. Zhang Huai'an as to 30% and 18.33%, respectively. Shanghai Boxin is ultimately held by Shanghai Shimao Co., Ltd (上海世茂股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600823) and an Independent Third Party. The general partner of Premium Bright Asset Management is Premium Bright Global Capital, which holds approximately 1.67% partnership interest in Premium Bright Asset Management. The remaining limited partners of Premium Bright Asset Management are Independent Third Parties and none of them holds more than one-third of the partnership interest in Premium Bright Asset Management.

Youngor Investment (雅戈爾投資有限公司)

Youngor Investment is principally engaged in industrial investment, investment management and consulting, manufacturing of garments, apparels, and leathers and designing and sales of textiles and is a limited liability company incorporated under the laws of PRC. Ms. Li Hanqiong (李寒窮), our non-executive Director, is the director and chief executive officer of Youngor Investment. See "Directors, Supervisors and Senior Management" of this document for details.

Youngor Investment is an indirect wholly owned subsidiary of Youngor Group Co., Ltd (雅戈爾集團股份有限公司, "**Youngor Group**"), a company listed on the Shanghai Stock Exchange (stock code: 600177), which is owned by Ningbo Youngor Holdings Co., Ltd. (寧波雅戈爾控股有限公司, "**Ningbo Youngor**") as to 34.11%, and none of the remaining shareholders of Youngor Group holds more than one-third of the equity interest in it. Ningbo Youngor is wholly owned by Ningbo Shengda Development Co., Ltd. (寧波盛達發展有限公司), which in turn is held by Mr. Li Rucheng (李如成) (the father of Ms. Li Hanqiong (李寒窮)) and Ms. Li Hanqiong (李寒窮), our non-executive Director, as to 51% and 49%, respectively.

Shanghai Yingfu (上海盈輔企業管理合夥企業(有限合夥))

Shanghai Yingfu is a limited partnership established in the PRC and is principally engaged in providing business management consulting services. The limited partnership interest of Shanghai Yingfu is held by Ms. Yang Ping (楊萍), an Independent Third Party, as to approximately 62.74%. The general partner of Shanghai Yingfu is Shanghai Baiyin Investment Co., Ltd. (上海百銀投資有限公司), which holds approximately 0.01% partnership interest in Shanghai Yingfu and is ultimately controlled by Ms. Zhang Fenfei (張紛飛), an Independent Third Party. The remaining limited partners of Shanghai Yingfu are Independent Third Parties and none of them holds more than one-third of the partnership interest in Shanghai Yingfu.

Anxin Zhipu Investment (深圳安信智普投資諮詢合夥企業(有限合夥))

Anxin Zhipu Investment is a limited partnership established in the PRC and is principally engaged in providing equity investment, management, and consulting services. The partnership interest of Anxin Zhipu Investment is held by Mr. Zhao Bo (趙博), an Independent Third Party, and Beijing Xuri Zijin Investment Management Co., Ltd. (北京旭日紫金投資管理有限公司), which is the general partner of Anxin Zhipu Investment and is ultimately controlled by Mr. Zhao Bo, an Independent Third Party.

Mr. Zhang Huai'an (張懷安)

Mr. Zhang Huai'an holds approximately 18.33% partnership interest in Premium Bright Asset Management, which in turns holds 99% partnership interest in Ximei Investment. Mr. Zhang Huai'an also holds approximately 8% equity interest in Premium Bright Global Capital, the general partner of Ximei Investment. Mr. Zhang Huai'an was introduced to our Company by Ximei Investment, and is not a director or senior management of the Company.

Compliance with Interim Guidance

On the basis that (i) the consideration for the Pre-[**REDACTED**] Investments was settled more than 28 clear days before the date of our first submission of the [**REDACTED**] to the Stock Exchange in relation to the [**REDACTED**], (ii) the consideration for the investment by Series B Investors was settled no less than 120 clear days before the [**REDACTED**], and (iii) all special rights granted to the Pre-[**REDACTED**] Investors have been terminated or will cease to be effective prior to the [**REDACTED**], the Joint Sponsors have confirmed that the Pre-[**REDACTED**] Investments are in compliance with the Interim Guidance on Pre-[**REDACTED**] Investments issued by the Stock Exchange on October 13, 2010, as updated in March 2017, the Guidance Letter HKEX-GL43-12 issued by the Stock Exchange in October 2012, as updated in July 2013 and March 2017, and the Guidance Letter HKEX-GL44-12 issued by the Stock Exchange in October 2012, as updated in March 2017.

EMPLOYEE SHARE OWNERSHIP PLAN

We have established an employee share ownership plan ("**ESOP**") since 2016 to attract and retain the talents, to provide incentives that align the interests of the Company and employees, and to facilitate the long-term development of the Company. The terms of the ESOP are not subject to the provisions of Chapter 17 of the Listing Rules. Hongyin Investment, Nanyin Investment and Shanghai Chengyin are our employee share ownership platforms. As of the Latest Practicable Date, Hongyin Investment and Nanyin Investment are holding 30.00% and 16.91% equity interest in the Company, respectively, and Shanghai Chengyin is holding 5% equity interest in Nanyin Investment. Certain grantees under the ESOP are subject to a lock-up period of four (4) years from January 1, 2021. For further details of the lock-up or other terms of the ESOP, see "Appendix VII – Statutory and General Information – 5. Employee Share Ownership Plan".

GUIDANCE RECEIVED FOR POTENTIAL [REDACTED]

On February 22, 2021, our Company entered into a guidance agreement for the [**REDACTED**] in the A-share market (the "**Guidance Agreement**") for the purposes of exploring the opportunity of establishing a capital market platform and receiving guidance from a qualified sponsor of A-share listing. Along with the development of our business, and considering that the Stock Exchange is an internationally recognized and reputable stock exchange and will therefore provide a good platform for us to raise capital from international investors, we decided to explore opportunities in overseas markets, and therefore we terminated the Guidance Agreement on December 22, 2021.

Since the execution of the Guidance Agreement and up to the Latest Practicable Date, the Company had not submitted any A-share listing application to the CSRC and had not received any comments or inquiries by the CSRC (including its local offices) in connection with the Guidance Agreement, and we were not aware of any material adverse finding about the Group by the sponsor providing the guidance.

To the best of our Directors' knowledge and belief, our Directors are not aware of any other matters relating to the guidance mentioned above that might potentially affect the suitability of the Group to be [**REDACTED**] on the Hong Kong Stock Exchange. Based on the due diligence works conducted by the Joint Sponsors, the Joint Sponsors were not aware of material adverse findings on the Group in relation to the previous attempt for A-share Listing.

PUBLIC FLOAT

Upon completion of the [**REDACTED**], the H Shares directly held by Mr. Lyu Yixiong, Shanghai Kans, Shanghai Shengyan, Hongyin Investment, and Nanyin Investment will not count towards the public float. Except as stated above, all the H Shares directly held by other Shareholders will be counted towards the public float for the purpose of Rule 8.08 of the Listing Rules. See "Waivers from Compliance with the Listing Rules – Waiver in respect of public float requirement" and "– Corporate Structure – Corporate structure immediately following completion of the [**REDACTED**]" for further details.

Immediately upon completion of the [**REDACTED**], assuming that (i) [**REDACTED**] H Shares are issued and sold in the [**REDACTED**]; (ii) the [**REDACTED**] is not exercised; and (iii) [**REDACTED**] Shares are issued and outstanding upon completion of the [**REDACTED**], based on an [**REDACTED**] of HK$[**REDACTED**] per Share (being the low-end of the indicative [**REDACTED**] range), the Company will have a market capitalization of at least HK$[**REDACTED**].

LOCK-UP

Each of our existing Shareholders has undertaken not to transfer our Shares he/it held at the time of [**REDACTED**] within one year since the [**REDACTED**]. See "Share Capital – Lock-up Periods" for details.

OUR SHAREHOLDING STRUCTURE

The table below summarizes the shareholding structure of our Company as of the Latest Practicable Date and immediately prior to the completion of the [**REDACTED**] (assuming the [**REDACTED**] is not exercised) and immediately following the completion of the [**REDACTED**] (assuming the [**REDACTED**] is not exercised):

	As of the Latest Practicable Date		Immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised)
Shareholder	**Number of Shares held**	**Approximate percentage of shareholding in the relevant Class of Shares**	**Approximate percentage of shareholding in total issued Share capital of our Company**
Mr. Lyu Yixiong	147,440,000	40.96%	[**REDACTED**]
Hongyin Investment	108,000,000	30.00%	[**REDACTED**]
Nanyin Investment	60,880,000	16.91%	[**REDACTED**]
Shanghai Kans	10,560,000	2.93%	[**REDACTED**]
Mr. Zhang Huai'an	8,307,720	2.31%	[**REDACTED**]
Youngor Investment	8,307,720	2.31%	[**REDACTED**]
Ximei Investment	7,632,000	2.12%	[**REDACTED**]
Shanghai Yingfu	5,538,600	1.54%	[**REDACTED**]
Shanghai Shengyan	1,672,560	0.46%	[**REDACTED**]
Anxin Zhipu Investment	1,661,400	0.46%	[**REDACTED**]
Total	360,000,000	100%	[**REDACTED**]

Remarks:

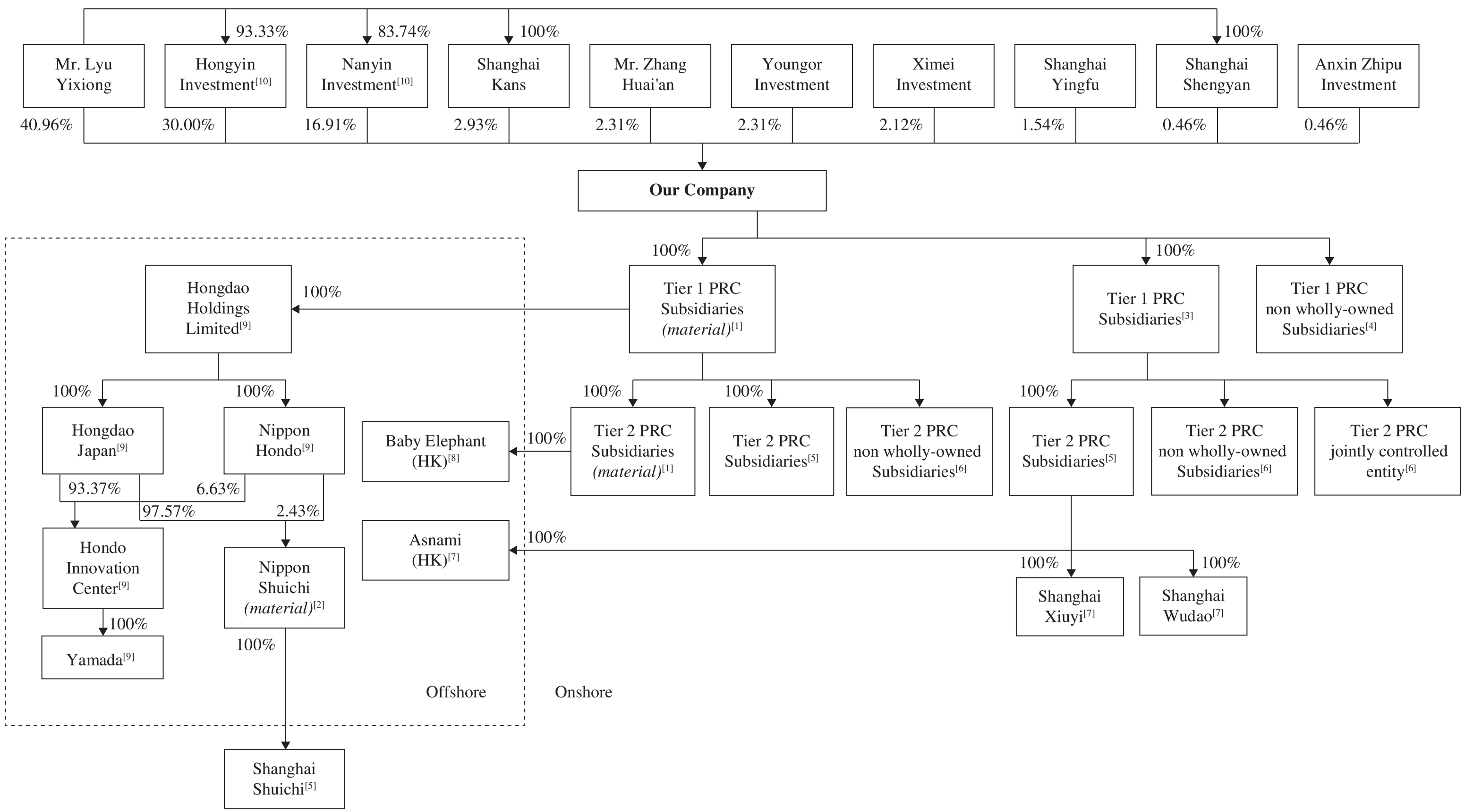
(A) As of the Latest Practicable Date, the Shares held by these Shareholders are Domestic Shares.

(B) Immediately after completion of the [**REDACTED**] (assuming that the [**REDACTED**] is not exercised) and conversion of Domestic Shares into H shares, the number of total issued Domestic Shares will be [**REDACTED**], accounting for approximately [**REDACTED**]% of the enlarged issued share capital after the [**REDACTED**].

CORPORATE STRUCTURE

Corporate structure immediately before completion of the [REDACTED]

The following chart sets forth our shareholding structure as of the Latest Practicable Date and immediately before completion of the [**REDACTED**]:



Notes:

1. There are six Tier 1 PRC subsidiaries directly wholly owned by our Company, namely: (1) Shanghai Shumei, (2) Shanghai Zhongyi, (3) Leading Investment, (4) Shanghai One Leaf, (5) Baby Elephant Cosmetic, and (6) Shanghai Kans Biotechnology, and three Tier 2 PRC subsidiaries indirectly wholly owned by our Company, namely: (1) Shanghai Kans Cosmetic Sales, which is wholly owned by Shanghai Kans Biotechnology, (2) Baby Elephant Cosmetic Sales Service, which is wholly owned by Baby Elephant Cosmetic, and (3) Shanghai One Leaf Network Technology Co., Ltd. (上海一葉子網絡科技有限公司) ("**Shanghai One Leaf Network**"), which is wholly owned by Shanghai One Leaf. These subsidiaries made a material contribution to our results of operations during the Track Record Period, details of which are set out in "– Our Key Subsidiaries and Major Shareholding Changes" in this section.

2. Nippon Shuichi is an overseas wholly owned subsidiary incorporated in Japan, which made a material contribution to our results of operations during the Track Record Period, details of which are set out in "– Our Key Subsidiaries and Major Shareholding Changes" in this section.

3. Other than the six Tier 1 PRC subsidiaries mentioned in Note 1 above, there are fourteen (14) Tier 1 PRC subsidiaries directly wholly owned by our Company, namely:

    (1) Shanghai Hongdao;

    (2) Shanghai Xingdao Culture Communications Co., Ltd. (上海星道文化傳播有限公司);

    (3) Shanghai Aoye Cosmetic Co., Ltd. (上海澳葉化妝品有限公司) ("**Shanghai Aoye**");

    (4) Shanghai Naughty Pa Cosmetic Co., Ltd. (上海皮皮翁化妝品有限公司);

    (5) Suzhou Industrial Park Lizi Cosmetic Co., Ltd. (蘇州工業園區黎姿化妝品有限公司);

    (6) Shanghai Leading Cosmetic Co., Ltd. (上海朝尚化妝品有限公司);

    (7) Shanghai Bio-G E-Commerce Co., Ltd. (上海白澳肌電子商務有限公司);

    (8) Shanghai Jifang Cosmetics Co., Ltd. (上海極方化妝品有限公司);

    (9) Shanghai Santian Cosmetic Co., Ltd. (上海三田化妝品有限公司);

    (10) Shanghai Yimei Cosmetic Co., Ltd. (上海翊美化妝品有限公司);

    (11) Shanghai Jinmei Biotechnology Co., Ltd. (上海錦美生物科技有限公司);

    (12) Shanghai Qingdao Enterprise Management Co., Ltd. (上海青道企業管理有限公司) ("**Shanghai Qingdao**");

    (13) Shanghai Kelanlu Daily Chemical Co., Ltd. (上海科蘭露日化有限公司); and

    (14) Shanghai Jinmao Biotechnology Co., Ltd. (上海金瑁生物科技有限公司) ("**Shanghai Jinmao**").

4. There are two Tier 1 PRC non-wholly subsidiaries which are owned by our Company and other shareholders, details of which are set out in the table below. To the best information and knowledge of our Company, all the minority shareholders are Independent Third Parties:

Name of the Tier 1 PRC subsidiary	Approximate shareholding percentage held by our Company		Approximate shareholding percentage held by other shareholders	
Shanghai KPC Biotechnology Co., Ltd. (上海昆藥生物科技有限公司) ("**Shanghai KPC**")	Our Company	51%	KPC Pharmaceuticals, Inc. (昆藥集團股份有限公司)	49%
Shanghai Yuzi Technology Co., Ltd. (上海魚子科技有限公司)	Our Company	60%	Gao Yu (高宇)	40%

5. Other than the two Tier 2 PRC subsidiaries mentioned in Note 1 above, there are eighteen (18) PRC subsidiaries indirectly wholly owned by our Company, namely:

   (1) Shanghai Kans Cosmetic Management Co., Ltd. (上海韓束化妝品經營有限公司), held through Shanghai Kans Biotechnology, which holds 100% equity interest in the company;

   (2) Shanghai Dizun Cosmetic Co., Ltd. (上海帝尊化妝品有限公司), held through Shanghai Shumei, which holds 100% equity interest in the company;

   (3) Shanghai Xiao Niangao Trade Co., Ltd. (上海小年糕貿易有限公司), held through Shanghai Shumei, which holds 100% equity interest in the company;

   (4) Shanghai Chengdao Trade Co., Ltd. (上海橙道貿易有限公司), held through Shanghai Shumei, which holds 100% equity interest in the company;

   (5) Shanghai Shangye Trade Co., Ltd. (上海尚葉貿易有限公司), held through Shanghai Shumei, which holds 100% equity interest in the company;

   (6) Shanghai Hongmei Cosmetic Co., Ltd. (上海虹美化妝品有限公司), held through Shanghai Shumei, which holds 100% equity interest in the company;

   (7) Shanghai Yifeng Culture Communications Co., Ltd. (上海揖峰文化傳播有限公司), held through Baby Elephant Cosmetic, which holds 100% equity interest in the company;

   (8) Shanghai Chubai Trade Co., Ltd. (上海初白貿易有限公司), held through Baby Elephant Cosmetic, which holds 100% equity interest in the company;

   (9) Shanghai Hua Weimian Trade Co., Ltd. (上海花未眠貿易有限公司), held through Baby Elephant Cosmetic, which holds 100% equity interest in the company;

   (10) Shanghai Duo Duo Ling Trade Co., Ltd. (上海哆哆靈貿易有限公司), held through Baby Elephant Cosmetic, which holds 100% equity interest in the company;

   (11) Shanghai Maiya Tang Trade Co., Ltd. (上海麥芽棠貿易有限公司), held through Baby Elephant Cosmetic, which holds 100% equity interest in the company;

   (12) Shanghai Maiba Network Technology Co., Ltd. (上海麥叭網絡科技有限公司), held through Shanghai Hongdao, which holds 100% equity interest in the company;

   (13) Shanghai Cosmetea Cosmetic Co., Ltd. (上海珂思美媞化妝品有限公司), held through Shanghai Hongdao, which holds 100% equity interest in the company;

   (14) Shanghai HiFace Cosmetic Co., Ltd. (上海赫妃拉化妝品有限公司), held through Shanghai One Leaf Network, which holds 100% equity interest in the company;

   (15) Shanghai Huami Supply Chain Management Co., Ltd. (上海花迷供應鏈管理有限公司), held through Shanghai One Leaf Network, which holds 100% equity interest in the company;

   (16) Shanghai Shuichi Bio-Technology Co., Ltd. (上海秀一生物科技有限公司) ("**Shanghai Shuichi**"), held through Nippon Shuichi, which holds 100% equity interest in the company;

   (17) Shanghai Asnami, held through Shanghai Hongdao, which holds 100% equity interest in the company; and

   (18) Shanghai Yuemei Advertising Planning Co., Ltd. (上海越美廣告策劃有限公司), held through Shanghai Aoye, which holds 100% equity interest in the company.

6. There are three (3) Tier 2 PRC non-wholly subsidiaries and one (1) jointly controlled entity which are owned or controlled by the wholly owned subsidiaries of our Company and other shareholders, details of which are set out in the table below. To the best information and knowledge of our Company, all the other shareholders are Independent Third Parties:

Name of the Tier 2 PRC subsidiary	**Approximate shareholding percentage held by our Group**		**Approximate shareholding percentage held by other shareholders**	
Shanghai Xiao Jinmao Trade Co., Ltd. (上海小金帽貿易有限公司)	Shanghai One Leaf	51%	Shen Weiwei (沈偉偉)	49%
Shanghai Teaz Cosmetic Co., Ltd. (上海茶媞化妝品有限公司)	Shanghai Hongdao	60%	Hangzhou Weicha Network Technology Co., Ltd. (杭州微茶網絡科技有限公司)	40%
Shanghai Yiye Biotechnology Co., Ltd. (上海怡頁生物科技有限公司) "**Shanghai Yiye**"	Shanghai Qingdao	51%	Gongqingcheng Dajiao Investment Partnership (Limited Partnership) (共青城大腳投資合夥企業(有限合夥))	30%
	Shanghai Hongdao	5%	Liu Ming (劉明) Liu Jianhong (劉建紅)	11% 3%
Name of the Tier 2 PRC jointly controlled entity				
Shanghai Paike Cosmetic Co., Ltd. (上海湃珂化妝品有限公司)	Shanghai Qingdao	50%	Youquhui (Shanghai) Supply Chain Management Co., Ltd. (優趣匯(上海)供應鏈管理有限公司)	50%

7. Shanghai Asnami, a company indirectly wholly owned by our Company (see Note 5 above), holds the entire equity interest in the following three subsidiaries: (1) Shanghai Xiuyi Cosmetic Co., Ltd. (上海秀翊化妝品有限公司) ("**Shanghai Xiuyi**"), (2) Shanghai Wudao Culture Communications Co., Ltd. (上海物道文化傳媒有限公司) ("**Shanghai Wudao**"), both of which were incorporated in the PRC, and (3) Asnami (Hong Kong) Trading Co., Limited (安彌兒(香港)貿易有限公司) ("**Asnami (HK)**"), a company incorporated in Hong Kong on March 24, 2020.

8. Baby Elephant (Hong Kong) Trading Co., Limited (紅色小象(香港)貿易有限公司) ("**Baby Elephant (HK)**"), a company incorporated in Hong Kong on April 6, 2020, is indirectly wholly owned by our Company through Baby Elephant Cosmetic Sales Service (see Note 1 above), which is in turn directly wholly owned by Baby Elephant Cosmetic (see Note 1 above).

9. Hongdao Holdings Limited, a company incorporated in the BVI on May 20, 2015, is indirectly wholly owned by our Company through Leading Investment. Hongdao Holdings Limited in turn holds the entire equity interest in Hongdao Japan Holdings Limited ("**Hongdao Japan**"), a company incorporated in the BVI on August 22, 2017, and Nippon Hondo Co., Ltd. (日本紅道株式會社) ("**Nippon Hondo**"), a company incorporated in Japan on July 30, 2015. Hongdao Japan and Nippon Hondo together hold the entire equity interest in Nippon Shuichi (see Note 2 above) and Hondo Innovation Center Co., Ltd. (紅道科研中心株式會社) ("**Hondo Innovation Center**"), both of which were incorporated in Japan on July 4, 2017 and October 11, 2016, respectively. Hondo Innovation Center further holds the entire equity interest in Yamada Labo Co., Ltd. (山田實驗室株式會社) ("**Yamada**"), a company incorporated in Japan on January 13, 2021.

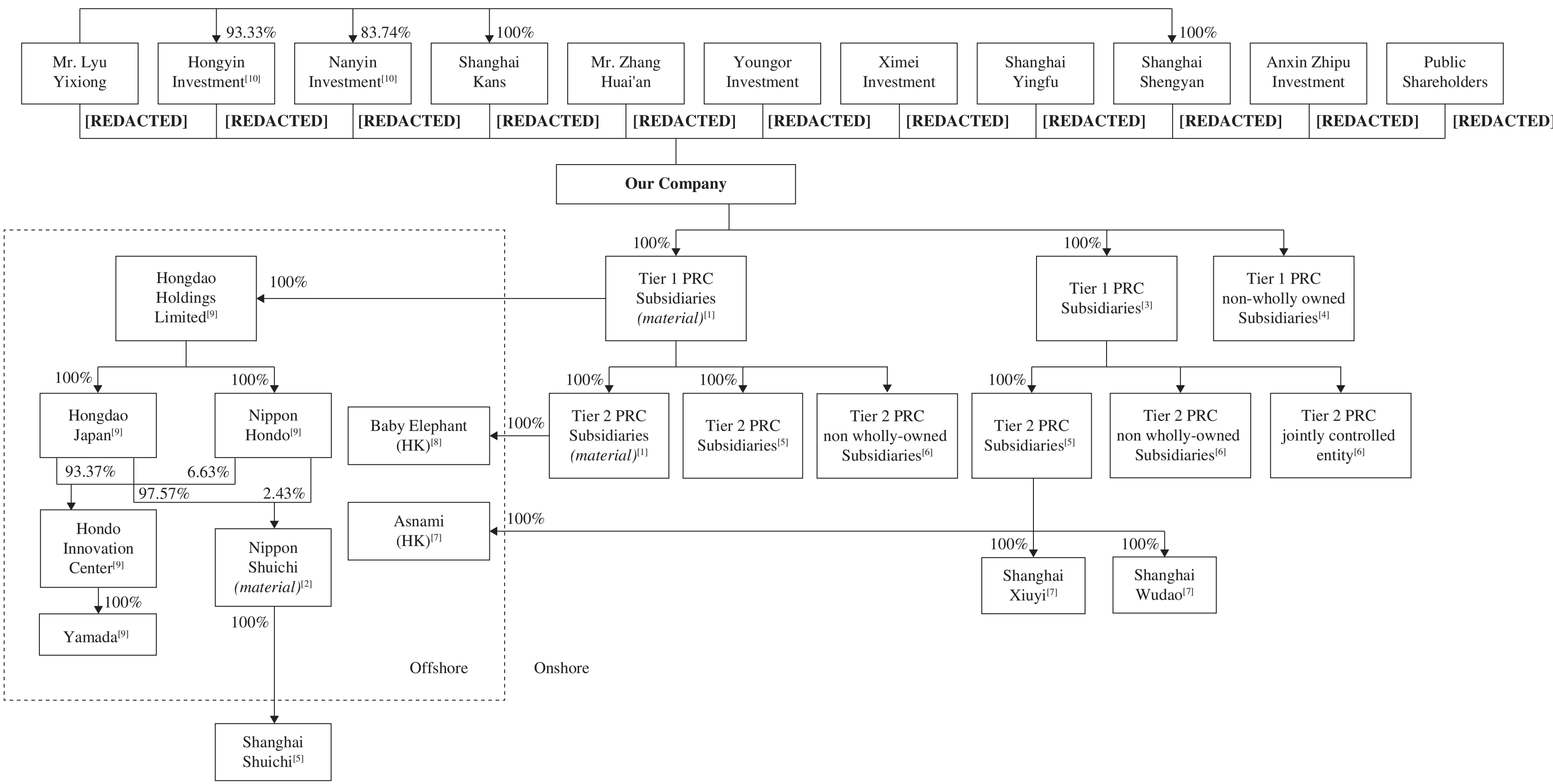
10. Hongyin Investment, Nanyin Investment and Shanghai Chengyin (a 5%-shareholder of Nanyin Investment) are the employee share ownership platforms of the Group. For further details, see "Appendix VII – Statutory and General Information – 5. Employee Share Ownership Plan".

Remarks:

(A) The Shares held by these Shareholders are Domestic Shares.

Corporate structure immediately following completion of the [REDACTED]

The following chart sets forth our shareholding structure immediately following completion of the [**REDACTED**] (assuming the [**REDACTED**] is not exercised and no changes in the following shareholdings since the Latest Practicable Date):



Notes: See notes 1-10 in the paragraphs headed "History, Conversion and Corporate Structure – corporate structure immediately before completion of the [**REDACTED**]".

11. Upon completion of the [**REDACTED**], the H Shares directly held by Mr. Zhang Huai'an [**REDACTED**], Youngor Investment [**REDACTED**], Ximei Investment [**REDACTED**], Shanghai Yingfu [**REDACTED**] and Anxin Zhipu Investment [**REDACTED**] will be count towards the public float.

Remarks:

(B) The [**REDACTED**] Shares held by these entities and individuals will be converted into H shares.

Following the completion of the [**REDACTED**], there will be [**REDACTED**] Domestic Shares comprising (i) [**REDACTED**] Domestic Shares held by Mr. Lyu Yixiong, (ii) [**REDACTED**] Domestic Shares held by Hongyin Investment, (iii) [**REDACTED**] Domestic Shares held by Nanyin Investment, (iv) [**REDACTED**] Domestic Shares held by Shanghai Kans, (v) [**REDACTED**] Domestic Shares held by Mr. Zhang Huai'an, (vi) [**REDACTED**] Domestic Shares held by Youngor Investment, (vii) [**REDACTED**] Domestic Shares held by Shanghai Yingfu, (viii) [**REDACTED**] Domestic Shares held by Shanghai Shengyan.

PRC

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

REGULATIONS RELATING TO COSMETICS

Production and Sales of Cosmetics

According to Regulation on the Supervision and Administration of Cosmetics (《化妝品監督管理條例》) (Order No. 727 of the State Council of PRC), which became effective on January 1, 2021, and the Measures for the Supervision and Administration of Production and Operation of Cosmetics (《化妝品生產經營監督管理辦法》) which was issued on August 6, 2021 and became effective on January 1, 2022, whoever engages in the production of cosmetics within the territory of the PRC shall file an application for a cosmetics production license with the drug supervision and administration department of the people's government of the province, autonomous region, or municipality directly under the Central Government at the place where it is located. Cosmetic registrants and recordation entities may produce cosmetics by themselves or by entrusting other enterprises. In the case of entrusted production of cosmetics, a cosmetic registrant or recordation entity shall entrust an enterprise that has obtained the corresponding cosmetics production license, and supervise the production activities of the entrusted enterprise to ensure that it produces cosmetics according to statutory requirements. We have obtained cosmetics production licenses for cosmetics production activities, and checked the corresponding business qualifications of the entrusted enterprises during our entrusted processing. Cosmetic manufacturers and distributors shall store and transport cosmetics in accordance with the provisions of relevant laws and regulations and the requirements indicated on cosmetic labels, and inspect on a regular basis and handle in a timely manner the deteriorated or expired cosmetics. The cosmetic distributors on the E-commerce platform shall disclose the information on the cosmetics they distribute in a comprehensive, truthful, accurate and timely manner. The content of cosmetics advertisements shall be authentic and legal. No cosmetic advertisement may expressly or impliedly indicate that the product has any medical effect, contain any false or misleading information, or deceive or mislead consumers. Where any cosmetics registrant or recordation entity finds any quality defect or other problem in the cosmetics that may endanger the human health, it shall immediately stop the production, recall the cosmetics that have been sold on the market, notify the relevant cosmetics operators and consumers to stop the operation and use, and record the situations of recall and notification. The cosmetics registrants or recordation entities shall take remedial measures, harmless disposal or destruction measures for the recalled cosmetics, and report the information of recall and disposal to the drug supervision and administration department of the people's government of the province, autonomous region, or municipality directly under the central government at the place where it is located. In addition, new cosmetic ingredients mean the natural or artificial ingredients that are used in cosmetics for the first time in the PRC. New cosmetic ingredients that have the functions of preventing corrosion, sunscreen, coloring, hair coloring, and freckle removal and whitening shall be registered with the competent drug regulatory authorities prior to use by the registrant of new cosmetic ingredients rather than the registrant of cosmetics.

According to the Safety and Technical Standards for Cosmetics (Version 2015) (《化妝品安全技術規範(2015年版)》), which became effective on the December 1, 2016, the production of cosmetics shall comply with the requirements of the specifications for the production of cosmetics, and the production process of cosmetics shall be scientific and reasonable to ensure product safety.

According to the Measures for the Administration of Cosmetic Labels (《化妝品標籤管理辦法》) which was issued on May 31, 2021 and became effective on May 1, 2022, the smallest sales unit of cosmetics shall be labeled. The labels shall comply with the requirements of the relevant laws, administrative regulations, departmental rules, compulsory national standards and technical specifications. The contents of the labels shall be lawful, authentic, complete and accurate and consistent with the relevant contents registered or filed for record.

On August 16, 2022, the NMPA released the Measures for the Supervision and Administration of the Online Operation of Cosmetic (Draft for Comments) (《化妝品網絡經營監督管理辦法(徵求意見稿)》). If it is adopted in its current form, it will require the cosmetic operators operating through other online services to establish and execute a record-checking system for goods. The operators are also expected to fulfill their obligation to reveal the information about their cosmetics, and they should also cooperate with the e-commerce platform operator of cosmetics for the administration of quality and product safety. Once the operators spot any cosmetic with quality defects or could cause damage to the human body, they should stop the sale immediately and inform the relevant entity who made the registration or the filling. In addition, the operators should, in accordance with the relevant laws and regulations, label and store their cosmetics, regularly check upon the cosmetics, and dispose of the ones that are deteriorated or have passed the expiry date.

Registration and Recordation of Cosmetics

According to Regulation on the Supervision and Administration of Cosmetics (《化妝品監督管理條例》), within the territory of the PRC, the medical products administration conducts registration administration of special cosmetics and new cosmetic raw materials with a high degree of risks, and conducts recordation administration of general cosmetics and other new cosmetic raw materials. According to the Measures for the Administration of the Registration and Recordation of Cosmetics (《化妝品註冊備案管理辦法》) (Order No. 35 of the State Administration for Market Regulation, or the SAMR), which became effective on May 1, 2021, a registrant or recordation entity of cosmetics and new cosmetic raw materials shall, when applying for registration or undergoing recordation formalities, comply with the requirements of applicable laws, administrative regulations, compulsory national standards and technical specifications, and be responsible for the veracity and scientificity of the materials submitted, including but not limited to the Administrative Provisions of Cosmetics Registration and Filing Documents (《化妝品註冊備案資料管理規定》), the Administrative Provisions on Materials for Registration and Record Filing of New Cosmetic Ingredients (《化妝品新原料註冊備案資料管理規定》), the Classification Rules and Catalogue of Cosmetics (《化妝品分類規則和分類目錄》), the Technical Guideline for Safety Assessment of Cosmetics (Version 2021) (《化妝品安全評估技術導則(2021年版)》), the Standards for Cosmetic Efficacy Claim Evaluation (《化妝品功效宣稱評價規範》), all of which became effective on May 1, 2021, the Supervision and the Administration measures of Children's Cosmetics (《兒童化妝品監督管理規定》) which became effective on January 1, 2022, the Specifications for the Implementation of Cosmetics Registration and Filing Inspection (《化妝品註冊和備案檢驗工作規範》) which was released on September 3, 2019. The registrants and recordation entity of cosmetics and new cosmetic ingredients shall perform the obligations of product registration or recordation formalities in accordance with the laws and be responsible for the quality and safety of cosmetics and new cosmetic ingredients.

According to Notice of the State Food and Drug Administration on Issuing the Provisions on the Acceptance of Cosmetic Administrative Licensing Application (《國家食品藥品監督管理局關於印發<化妝品行政許可申報受理規定>的通知》) (No. 856 [2009] of the State Food and Drug Administration,),which became effective on April 1, 2010, and Notice of the State Food and Drug Administration on Strengthening the Administration of the Recordation of Domestic Non-special Use Cosmetics (《國家食品藥品監督管理局關於加強國產非特殊用途化妝品備案管理工作的通知》) (No. 118 [2009] of the State Food and Drug Administration), which became effective on April 3, 2009, domestic special-use cosmetics are subject to administrative licensing management, and domestic non-special-use cosmetics are subject to recordation administration.

Animal testing

According to the Provisions on the Administration of Materials for the Registration and Record Filing of Cosmetics(《化妝品註冊備案資料管理規定》), which became effective on May 1, 2021, if an ordinary cosmetics products manufacturer has obtained the relevant qualification certificate of product quality management system issued by the competent governmental authority of the country/region where the manufacturer is located, and its product safety risk assessment result can fully prove the safety of its products, such ordinary cosmetics products manufacturer may be exempted from submitting the toxicological test report, except that: (i) the relevant product is for infants and children; (ii) the product uses new cosmetic ingredients that are still under safety monitoring; or (iii) according to the quantitative rating results, the filing party, the domestic liable person and the manufacturing enterprise of such product are listed as key regulatory targets. Companies shall submit the toxicological test reports for ordinary cosmetics products that fall within the aforementioned scenarios and special cosmetics products as required by relevant PRC laws and regulations, while a company could be exempted from submitting such reports for other cosmetics products as long as it meets the abovementioned requirements.

REGULATIONS RELATING TO ADVERTISING

The Advertising Law of the PRC (《中華人民共和國廣告法》), which was promulgated by the Standing Committee of the National People's Congress, or the SCNPC, on October 27, 1994 with effect on February 1, 1995, latest amended with immediate effect from April 29, 2021, regulates commercial advertising activities in the PRC and sets out the obligations of advertisers, advertising operators, advertising publishers, and advertisement endorser. Advertisers shall be responsible for the veracity of their advertisement content. The goods or services come with a gift in an advertisement shall specify, the type, specification, quantity, period and method of such gift. Any advertiser in violation of the foregoing requirements will be ordered to stop publishing of advertisement, and a fine of not more than RMB100,000 may be imposed. Except for medical, pharmaceutical and medical machinery advertisements, no other advertisements shall involve illness treatment function, use medical jargon or jargon which misleads readers to confuse the promoted product with medicine or medical machinery. Any advertiser in violation of such requirements will be ordered to cease publishing such advertisements and imposed a heavy fine, the business license of the offender may be revoked in severe circumstances, and the relevant authorities may revoke the approval document for examination and refuse to accept applications submitted by such advertiser for one year.

The Interim Measures for the Administration of Internet Advertising (《互聯網廣告管理暫行辦法》), which was promulgated by the State Administration for Industry and Commerce, or the SAIC, on July 4, 2016 with effect from September 1, 2016, regulates that in internet advertising activities, internet advertisers are responsible for the authenticity of the content of advertisements and all online advertisements must be marked "Advertisement" so that viewers can easily identify them as such.

On November 5, 2020, the SAMR promulgated the Guiding Opinions of the State Administration for Market Regulation on Strengthening the Regulation of Online Live-streaming Marketing Activities (《市場監管總局關於加強網絡直播營銷活動監管的指導意見》). According to the Guiding Opinions, commodity operators selling commodities or providing services through online live-streaming shall abide by the relevant laws and regulations, and establish and implement system for inspection and acceptance of Purchased Goods. It is not allowed to use online live-streaming to sell goods or services whose production or sale is prohibited by laws and regulations; it is not allowed to use online live-streaming to release commercial advertisements whose publication in mass media is prohibited by laws and regulations; and it is not allowed to use online live-streaming to sell goods or services whose trading is prohibited on the Internet. On March 25, 2022, the Cyberspace Administration of China, or the CAC, the State Administration of Taxation, or the SAT and the SAMR jointly issued the Circular on Opinions on Further Regulating the Profit-making Behavior of Online Live Streaming to Promote the Healthy Development of the Industry (國家互聯網信息辦公

室、國家稅務總局、國家市場監督管理總局印發《關於進一步規範網絡直播營利行為促進行業健康發展的意見》的通知). The aforementioned Opinions put forward some detailed requirements for market entities related to online live-streaming services to further regulate the relevant behaviors and maintain the market order, which shows a strengthening regulatory trend on online live streaming and e-commerce platforms.

Production and Repackaging of Disinfection Products

Pursuant to The Provisions on Sanitation Licensing of Disinfection Product Manufactures (《消毒產品生產企業衛生許可規定》), which was promulgated on November 16, 2009 and amended on February 12, 2010, and May 9, 2017, any entity or individual that undertakes the production and repackaging of disinfection products in China shall apply for and obtain a Hygiene License for Disinfection Product Manufacturers as required. One production site is entitled to one license for one disinfection product manufacturer, and a group or company owning several production sites shall apply for hygiene licenses respectively.

REGULATIONS RELATING TO FOREIGN INVESTMENT

The Company Law of the People's Republic of China (《中華人民共和國公司法》), or the PRC Company Law, was passed by the SCNPC on December 29, 1993 and came into effect on July 1, 1994. It was revised for several times afterwards, and the latest version was implemented on October 26, 2018. According to the PRC Company Law, companies may adopt 2 forms: limited liability company or joint stock company. The PRC Company Law is also applicable to the limited liability companies and joint stock companies invested by foreigners, unless otherwise specified in the relevant laws and regulations. On December 24, 2021, the draft amendment to the PRC Company Law was published for public comments by the Standing Committee of the 13th National People's Congress. The amendment made systematic changes to the existing PRC company law. Uncertainties exist regarding the final form of these regulations as well as the interpretation and implementation thereof after promulgation.

The Administrative Regulations of the PRC on Market Entities Registration (《中華人民共和國市場主體登記管理條例》), which was promulgated on July 27, 2021 and came into effect on March 1, 2022, requires that unregistered entities shall not engage in business activities in the name of market entities. Exceptions shall be applied to those for which registration is not required pursuant to the provisions of laws and administrative regulations. The Implementing Rules for the Administrative Regulations of the PRC on Market Entities Registration (《中華人民共和國市場主體登記管理條例實施細則》), which was promulgated on March 1, 2022 and took effect on the same day, provides that the SAMR shall be in charge of unified registration and administration of market entities nationwide, formulate systems and measures for registration and administration of market entities, promote whole-process electronic registration, standardize registration activities, and guide local registration authorities to carry out registration and administration in accordance with the law in an orderly manner.

The Foreign Investment Law of the PRC (《中華人民共和國外商投資法》), or the Foreign Investment Law, was formally adopted by the National People's Congress on March 15, 2019 and became effective on January 1, 2020. The Foreign Investment Law is formulated to further expand opening-up, vigorously promote foreign investment and protect the legitimate rights and interests of foreign investors. Foreign investments are entitled to pre-entry national treatment and are subject to negative list management system. The pre-entry national treatment means that the treatment given to foreign investors and their investments at the stage of investment access is not lower than that of domestic investors and their investments. The negative list management system means that the State implements special administrative procedures for access to foreign investment in specific fields. Foreign investors shall not invest in any forbidden fields stipulated in the negative list and shall meet the conditions stipulated in the negative list before investing in any restricted fields.

On December 26, 2019, the State Council promulgated the Implementation Regulations on the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》), which came into effect on January 1, 2020, and it further requires that foreign-invested enterprises and domestic enterprises be treated equally with respect to policy making and implementation. On December 19, 2020, the National Development and Reform Commission, or the NDRC, and the Ministry of Commerce of the People's Republic of China, or the MOFCOM, jointly promulgated the Measures on the Security Review of Foreign Investment (《外商投資安全審查辦法》), effective on January 18, 2021, setting forth provisions concerning the security review mechanism on foreign investment, including the types of investments subject to review, review scopes and procedures, among others.

Foreign Investment Industrial Policy

Investment activities in China by foreign investors are principally governed by the Catalog of Industries for Encouraging Foreign Investment (《鼓勵外商投資產業目錄》), or the Encouraging Catalog, and the Special Administrative Measures for Access of Foreign Investments (《外商投資准入特別管理措施》), or the Negative List, which were promulgated and are amended from time to time by the Ministry of Commerce and the NDRC, and together with the Foreign Investment Law and their respective implementation rules and ancillary regulations. The Encouraging Catalog and the Negative List lay out the basic framework for foreign investment in China, classifying businesses into three categories with regard to foreign investment: "encouraged," "restricted," and "prohibited." Industries not listed in the Encouraging Catalog are generally deemed as falling into a fourth category "permitted" unless specifically restricted by other PRC laws.

On October 26, 2022, the Ministry of Commerce and the NDRC released the Catalog of Industries for Encouraging Foreign Investment (2022 Version), which will become effective on January 1, 2023, to replace the previous Encouraging Catalog. On December 27, 2021, the Ministry of Commerce and the NDRC released the Special Administrative Measures for Access of Foreign Investments (2021 Version), which became effective on January 1, 2022, to replace the previous Negative List.

REGULATIONS RELATING TO PRODUCT LIABILITY AND CONSUMER PROTECTION

Pursuant to the PRC Product Quality Law (《中華人民共和國產品質量法》), which was promulgated on February 22, 1993 and amended on July 8, 2000, August 27, 2009, and December 29, 2018, a manufacturer is prohibited from producing or selling products that do not meet applicable standards and requirements for safeguarding human health and ensuring human and property safety. Products must be free from unreasonable dangers threatening human and property safety. Where a defective product causes personal injury or property damage, the aggrieved party may make a claim for compensation from the manufacturer or the seller of the product. Manufacturers and sellers of non-compliant products may be ordered to cease the production or sale of the products and could be subject to confiscation of the products and fines. Earnings from sales in violation of such standards or requirements may also be confiscated, and in severe cases, an offender's business license may be revoked.

On May 28, 2020, the National People's Congress promulgated the Civil Code of the People's Republic of China (《中華人民共和國民法典》), or the PRC Civil Code, which took effect on January 1, 2021 and replaced the Tort Law of the People's Republic of China (《中華人民共和國侵權責任法》), the Contract Law of the People's Republic of China (《中華人民共和國合同法》), and several other basic civil laws in the PRC. Under the PRC Civil Code, if a product is found to be defective and to compromise the personal and property security of others, the victim may require compensation to be made by the manufacturer or the seller of the product. Where any manufacturer or seller knowingly produces or sells defective products or fails to take effective remedial measures in accordance with the PRC Civil Code and thus causes death or serious damage to the health of another person, such person shall be entitled to claim punitive damages. If the transporter or storekeeper is responsible for the matter, the manufacturer or seller shall have the right to demand compensation for its losses.

On October 31, 1993, the Consumer Protection Law of the People's Republic of China (《中華人民共和國消費者權益保護法》) was promulgated by the SCNPC, which was amended on October 25, 2013, to protect consumers' rights when they purchase or use goods and accept services. All business operators must comply with this law when they manufacture or sell goods and/or provide services to customers. According to the amendment, all business operators shall pay high attention to protect the customers' privacy which they obtain during the business operation.

Pursuant to the E-Commerce Law of the People's Republic of China (《中華人民共和國電子商務法》) which was promulgated by SCNPC on August 31, 2018 and came into effect on January 1, 2019, e-commerce operators refer to natural persons, legal persons and unincorporated organizations that engage in business activities of selling commodities or offering services through the internet and other information networks, including e-commerce platform operators, intra-platform business operators and other e-commerce operators that sell commodities or offer services through a self-built website or other network services. An e-commerce operator shall, in business operation, abide by the principles of voluntariness, equality, fairness and good faith, observe the law and business ethics, fairly participate in market competition, perform obligations in aspects including protection of consumer rights and interests, environment, intellectual property rights, cyber security and individual information, assume responsibility for quality of products or services and accept the supervision by the government and the public. On March 1, 2022, the Supreme People's Court released the Provisions of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Cases of Disputes over Online Consumption (I)(《最高人民法院關於審理網絡消費糾紛案件適用法律若干問題的規定(一)》), effective on March 15, 2022, which stipulated, among other things, the validity of relevant standard clauses of online consumption contracts, recognition of responsible parties and civil liabilities in live-streaming marketing.

Production Safety

Pursuant to the Production Safety Law of the PRC (《中華人民共和國安全生產法》) amended by the SCNPC on June 10, 2021, and taking into effect on September 1, 2021, an enterprise shall provide production safety conditions as stipulated in this law and other relevant laws, administrative regulations, national and industry standards, establish the responsibility system and rules and regulations for production safety, and develop production safety standards to ensure production safety. Any entity that fails to provide required production safety conditions is prohibited from engaging in production activities.

Funds for input essential to meeting the conditions for work safety in production and business units shall be guaranteed by the decision-making bodies and major persons-in-charge of production and business units or by private investors, and they shall bear the responsibility for the consequences of insufficient input of funds essential to work safety in the units. Relevant production and business operation entities shall, as stipulated, withdraw and use work safety expenses to specially improve work safety conditions. Work safety expenses shall be truthfully incorporated into the cost. Production and business operation entities shall offer work safety education and training programs to their employees so as to ensure that the employees have the necessary work safety knowledge, are familiar with the relevant work safety rules and regulations and safe operating procedures, have mastered the safety operating skills for their own posts, understand the emergency handling measures for accidents, and aware of their own rights and obligations regarding production safety. Those employees who have not received training in production safety are not allowed to go on duty.

REGULATIONS RELATING TO ANTI-UNFAIR COMPETITION

According to the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》), or the Anti-Unfair Competition Law, which was passed by the SCNPC on September 2, 1993, became effective on December 1, 1993 and was most recently amended on April 23, 2019, unfair competition refers to that the operator disrupts the market competition order and damages the legitimate rights and interests of other operators or consumers in violation of the provisions of the Anti-unfair Competition Law in the production and operating activities. Pursuant to the Anti-unfair Competition Law, operators shall abide by the principle of voluntariness, equality, impartiality, integrity, and adhere to laws and business ethics during market transactions. Operators in violation of the Anti-unfair Competition Law shall bear corresponding civil, administrative or criminal liabilities depending on the specific circumstances.

According to the Interim Provisions on the Prohibition of Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》), or the Prohibition Commercial Bribery Provisions, which was promulgated by SAIC on November 15, 1996, commercial bribery refers to an act of offering money or property or using other means by an operator to the other entity or individual for the purposes of selling or buying goods, among which "other means" refer to the means used to provide any types of benefits other than money or property, such as offering overseas or domestic travel. According to the Anti-Unfair Competition Law and the Prohibition Commercial Bribery Provisions, regulatory authorities may impose fines depending on the seriousness of the cases and if there is any illegal income, such income shall be confiscated.

The Recent Regulatory Developments Relating to Anti-unfair Competition

The CAC, the MITT, the Ministry of Public Security and the SAMR jointly released the Administrative Provisions on the Recommendation of Algorithms for Internet-based Information Services (《互聯網信息服務算法推薦管理規定》), effective on March 1, 2022, which stipulates that algorithmic recommendation service providers shall not carry out monopoly or unfair competition by imposing unreasonable restrictions on other Internet information service providers by using algorithms, or by hindering or disrupting the normal operation of the Internet information services legally provided by such providers.

The SAMR released the Provisions on the Clear Marking of Prices and the Prohibition of Price Frauds (《明碼標價和禁止價格欺詐規定》) on April 14, 2022, effective on July 1, 2022, which specifies that the online trading platform operators shall not, by taking advantage of technical means or otherwise, force the business operators to use the platforms to make false or misleading price labels.

REGULATIONS RELATING TO LEASING

Pursuant to the Law on Administration of Urban Real Estate of the People's Republic of China (《中華人民共和國城市房地產管理法》) promulgated by the SCNPC on July 5, 1994 and amended on August 30, 2007, August 27, 2009 and took effect on August 27, 2009 (which was further amended on August 26, 2019 and became effective on January 1, 2020), when leasing premises, the lessor and lessee are required to enter into a written lease contract, containing such provisions as the leasing term, use of the premises, rental and repair liabilities, and other rights and obligations of both parties. Both lessor and lessee are also required to register the lease with the real estate administration department. Where an owner of a house leases the house built on the State-owned land for profit, the land-use right for which has been obtained by means of allocation, he shall turn over to the State the proceeds derived from the land and contained in the rent.

Also, pursuant to the Interim Regulations of the People's Republic of China on the Assignment and Transfer of the Right to the Use of State-owned Land in Urban Areas (revise in 2020) (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例(2020修訂)》) which was promulgated by the State Council on May 19, 1990 and amended on November 29, 2020, where the relevant conditions are met, the allocated land use right and the ownership of the above-ground buildings and other attached installations may be transferred, leased or mortgaged upon the approval of the land administration department and the real estate administration department of the municipal or county people's governments. In addition, municipal or county people's governments may, on the basis of the needs of urban construction and development and the requirements of urban planning, withdraw the allocated land-use right without compensation and may assign it in accordance with the provisions of these Regulations.

According to the PRC Civil Code, the lessee may sublease the leased premises to a third party, subject to the consent of the lessor. Where a lessee subleases the premises, the lease contract between the lessee and the lessor remains valid. The lessor is entitled to terminate the lease if the lessee subleases the premises without the consent of the lessor. In addition, if the lessor transfers the premises, the lease contract between the lessee and the lessor will still remain valid.

On December 1, 2010, the Ministry of Housing and Urban-Rural Development promulgated the Administrative Measures for Leasing of Commodity Housing (《商品房屋租賃管理辦法》), which became effective on February 1, 2011. According to such measures, landlords and tenants are required to enter into lease contracts which should generally contain specified provisions, and lease contracts should be registered with the relevant construction or property authorities at municipal or county level within 30 days after its conclusion. If the landlords and tenants fail to go through the registration procedures, both landlords and tenants may be subject to fines. If the lease contract is extended or terminated or if there is any change to the registered items, the landlord and the tenant are required to effect alteration registration, extension of registration or deregistration with the relevant construction or property authorities within 30 days after the occurrence of such extension, termination or alteration. Also, according to such measures, a house shall not be leased under any of the following circumstances: (i) being an illegal building; (ii) failing to meet the compulsory standards for engineering construction in terms of safety, disaster prevention, etc.; (iii) changing the use nature of the house in violation of relevant provisions; or (iv) other circumstances under which the house is prohibited to be leased as prescribed by laws and regulations. Where the provisions of these Measures are violated, the competent construction (real estate) departments of the people's governments of the municipalities directly under the Central Government, cities and counties shall order the violators to make corrections within a specified time limit. Where there is no illegal income, a fine of not more than RMB5,000 may be imposed; where there is illegal income, a fine of not less than one time but not more than three times the illegal income, but not more than RMB30,000, may be imposed.

REGULATIONS RELATING TO IMPORT AND EXPORT OF GOODS

Pursuant to the Regulations of the PRC on the Administration of Import and Export of Goods (《中華人民共和國貨物進出口管理條例》) promulgated by the State Council on December 10, 2001 which came into effect on January 1, 2002, the Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) promulgated by the Standing Committee of National People's Congress, or the SCNPC, on May 12, 1994 which came into effect on July 1, 1994 and amended on April 6, 2004 and November 7, 2016, the Customs Law of the PRC (《中華人民共和國海關法》) promulgated by the SCNPC, on January 22, 1987 which came into effect on July 1, 1987 and last amended on April 29, 2021, the Measures for Record Filing and Registration by Foreign Trade Dealer (《對外貿易經營者備案登記辦法》) promulgated by MOFCOM on June 25, 2004, which came into effect on July 1, 2004 and last amended on May 10, 2021 and the Administrative Provisions of the PRC on the Filing of Customs Declaration Entities (《中華人民共和國海關報關單位備案管理規定》) promulgated by the General Administration of Customs of the PRC on November 19, 2021 which came into effect on January 1, 2022, foreign trade business operators engaging in the import or export of goods or technology must go through the record filing and registration formalities with the MOFCOM or the agency entrusted by the MOFCOM. Unless otherwise provided by laws and regulations, the PRC government allows free export and import of goods and technologies, and protects the intellectual property rights associated with international trade. Unless otherwise provided for, the declaration of import or export goods and the payment of duties may be made by the consignees or consignors themselves, or by entrusted customs brokers that have been registered with the customs. Consignees and consignors of import and export goods and customs declaration enterprises that apply for record-filing shall obtain the qualification as market players; among them, consignees and consignors of import and export goods that apply for such aforementioned record-filing shall also obtain record-filing as foreign trade dealers.

REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION AND WORK SAFETY

Environmental Protection

Pursuant to the PRC Environmental Protection Law (《中華人民共和國環境保護法》) promulgated by the SCNPC on December 26, 1989, amended on April 24, 2014, and effective on January 1, 2015, any entity which discharges or will discharge pollutants during the course of operations or other activities must implement effective environmental protection safeguards and procedures to control and properly treat waste gas, waste water, waste residue, dust, malodorous gases, radioactive substances, noise, vibrations, electromagnetic radiation, and other hazards produced during such activities.

Environmental protection authorities impose various administrative penalties on persons or enterprises in violation of the Environmental Protection Law. Such penalties include warnings, fines, orders to rectify within a prescribed period, orders to cease construction, orders to restrict or suspend production, orders to make recovery, orders to disclose relevant information or make an announcement, imposition of administrative action against relevant responsible persons, and orders to shut down enterprises. Any person or entity that pollutes the environment resulting in damage could also be held liable under the PRC Civil Code. In addition, environmental organizations may also bring lawsuits against any entity that discharges pollutants detrimental to the public welfare.

Environmental Impact Assessment

According to the Regulations on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》) promulgated by the State Council on November 29, 1998 and amended on July 16, 2017 and taking effect on October 1, 2017, the construction entity shall submit an environmental impact report or an environmental impact statement, or fill in a registration form depending on the degree of impact the construction project has on environment. For a construction project for which an environmental impact report or environmental impact statement shall be prepared, the construction entity shall submit the environmental impact report and environmental impact statement to the competent administrative department of the environmental protection for approval before starting construction. If the Environmental Impact Assessment Documents of a construction project have not been reviewed by the approving authority in accordance with the law or have not been granted approval after the review, the construction unit shall be prohibited from commencing construction works.

According to the Law of the People's Republic of China on Environmental Impact Assessment (《中華人民共和國環境影響評價法》) promulgated by the SCNPC on October 28, 2002 and amended on July 2, 2016 and December 29, 2018, for construction projects that have an impact on the environment, entities shall prepare an environmental impact report, report form or registration form in accordance with the severity of the impact that the project may have on the environment.

Completion and Acceptance

The Interim Measures for Acceptance of Environmental Protection upon Completion of Construction Projects (《建設項目竣工環境保護驗收暫行辦法》) was promulgated and implemented by the former Ministry of Environmental Protection (now the Ministry of Ecology and Environment) on November 20, 2017. The Measures regulates the procedures and standards for environmental protection acceptance by construction units upon the completion of construction projects.

REGULATIONS RELATING TO POLLUTION PERMIT

Pursuant to the Regulations on the Administration of Pollutant Discharge Permits (《排污許可管理條例》) (Order No. 736 of the State Council), which became effective on March 1, 2021, business operators that are subject to pollutant discharge permit administration in accordance with laws shall apply to the competent department of ecology and environment under the local people's government at or above the level of city divided into districts where its production and business premises are located for a pollutant discharge permit. The entities that fail to obtain a pollutant discharge permit shall not discharge any pollutants. Enterprises, public institutions and other production and operation entities that produce and discharge little amount of pollutants with little impact on the environment shall fill in the pollutant discharge registration form, and are not required to apply for a pollutant discharge permit.

Pursuant to the Administrative Measures for Pollutant Discharge Licensing (《排污許可管理辦法(試行)》) (Order No. 48 of the Ministry of Environmental Protection), which became effective on January 10, 2018 and was amended on August 22, 2019, pollutant discharging entities that are included in the category-based administration catalogue of pollutant discharge licensing for stationary pollution sources shall apply for and obtain a pollutant discharge license within the prescribed time limit; pollutant discharging entities not included in the said catalogue are not required to apply for a pollutant discharge license temporarily.

Pursuant to the Classification Management List for Fixed Source Pollution Permits (2019 Edition) (《固定污染源排污許可分類管理名錄(2019年版)》) (Order No. 11 of the Ministry of Ecology and Environment),which became effective on December 20, 2019, the state implements focused management, simplified management and registration management of emission permits based on the pollutant-discharging enterprises and other manufacturing businesses' ("pollutant discharging entities") amount of pollutants, emissions and the extent of environmental damage. Pollutant discharging entities that implements registration management does not need to apply for a pollutant discharge permit. It should fill in a pollutant discharge registration form on the National Pollutant Discharge Permit Management Information Platform to register basic information, pollutant discharge destinations, implemented pollutant discharge standards, pollution prevention measures taken and other information. According to the Classification Management List for Fixed Source Pollution Permits (2019 Edition), the cosmetics manufacturing category we belong to implements registration management. We have completed the registration of fixed pollution sources on the National Pollutant Discharge Permit Management Information Platform.

Pursuant to the Regulations on Urban Drainage and Sewage Treatment (《城鎮排水與污水處理條例》) (Order No. 641 of the State Council of PRC), which became effective on January 1, 2014, drainers covered by urban drainage facilities shall discharge sewage into the urban drainage facilities in accordance with the relevant provisions of the State. Drainers that discharge sewage into urban drainage facilities shall apply for a drainage license in accordance with the provisions of the regulation. Where any drainer discharges sewage into urban drainage facilities without obtaining a drainage license, the competent departments for urban drainage shall order it to stop the illegal act, take treatment measures within a prescribed time limit and re-apply for a drainage license, and may impose a fine of not more than RMB500,000 on it. Where losses are caused, compensation liabilities shall be assumed in accordance with the law; where a crime is constituted, criminal liabilities shall be investigated in accordance with the law.

Fire Control

Pursuant to the PRC Fire Safety Law (《中華人民共和國消防法》), which was promulgated by the SCNPC on April 29, 1998, and most recently amended on April 29, 2021, and the Interim Provisions on Administration of Fire Control Design Review and Acceptance of Construction Project (《建設工程消防設計審查驗收管理暫行規定》) promulgated by the Ministry of Housing and Urban-Rural Development on April 1, 2020, which became effective on June 1, 2020, the construction entity of a large-scale crowded venue (including the construction of a manufacturing plant whose size is over 2,500 square meters) and other special construction projects must apply for fire prevention design review with fire control authorities, and complete fire assessment inspection and acceptance procedures after the construction project is completed. The construction entity of other construction projects must complete the filing for fire prevention design and the fire safety completion inspection and acceptance procedures within five business days after passing the construction completion inspection and acceptance. If the construction entity fails to pass the fire safety inspection before such venue is put into use or fails to conform to the fire safety requirements after such inspection, it will be subject to (i) orders to suspend the construction of projects, use of such projects, or operation of relevant business, and (ii) a fine between RMB30,000 and RMB300,000.

REGULATIONS RELATING TO CYBER SECURITY AND PRIVACY

The PRC Constitution states that the PRC laws protect the freedom and privacy of communications of citizens and prohibit infringement of such rights. PRC government authorities have enacted laws and regulations with respect to internet information security and protection of personal information from any abuse or unauthorized disclosure, and which includes the Decision of the Standing Committee of the National People's Congress on Internet Security Protection (《全國人民代表大會常務委員會關於維護互聯網安全的決定》) enacted and amended by the SCNPC on December 28, 2000 and August 27, 2009, respectively, the Provisions on the Technical Measures for Internet Security Protection (《互聯網安全保護技術措施規定》) issued by the Ministry of Public Security on December 13, 2005 and took effect on March 1, 2006, the Decision of the Standing Committee of the National People's Congress on Strengthening Network Information Protection (《全國人民代表大會常務委員會關於加強網絡信息保護的決定》) promulgated by the SCNPC on December 28, 2012, the Several Provisions on Regulating the Market Order of Internet Information Services (《規範互聯網信息服務市場秩序若干規定》) promulgated by the Ministry of Industry and Information Technology, or the MIIT on December 29, 2011, and the Provisions on Protection of Personal Information of Telecommunication and Internet Users (《電信和互聯網用戶個人信息保護規定》) released by the MIIT on July 16, 2013. Internet information in China is regulated and restricted from a national security standpoint.

The Provisions on Protection of Personal Information of Telecommunication and Internet Users regulate the collection and use of users' personal information in the provision of telecommunications services and Internet information services in the PRC. Telecommunication business operators and Internet service providers are required to institute and disclose their own rules for the collecting and use of users' information. Telecommunication business operators and Internet service providers must specify the purposes, manners and scopes of information collection and uses, obtain consent of the relevant citizens, and keep the collected personal information confidential. Telecommunication business operators and Internet service providers are prohibited from disclosing, tampering with, damaging, selling or illegally providing others with, collected personal information. Telecommunication business operators and Internet service providers are required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss. Once users terminate the use of telecommunications services or Internet information services, telecommunications business operators and Internet information service providers shall stop the collection and use of the personal information of users and provide the users with services for deregistering their account numbers.

The Provisions on Protection of Personal Information of Telecommunication and Internet Users further define the personal information of user to include user name, birth date, identification number, address, phone number, account number, passcode, and other information that may be used to identify the user independently or in combination with other information and the timing, places, etc. of the use of services by the users. Furthermore, according to the Interpretations on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Citizens' Personal Information (《關於辦理侵犯公民個人信息刑事案件適用法律若干問題的解釋》), or the Interpretations, issued by the Supreme People's Court and the Supreme People's Procuratorate on May 8, 2017 and took effect on June 1, 2017, personal information means various information recorded electronically or through other manners, which may be used to identify individuals or activities of individuals, including but not limited to the name, identification number, contact information, address, user account number and passcode, property ownership and whereabouts.

On November 1, 2015, the Ninth Amendment to the Criminal Law of the People's Republic of China (《中華人民共和國刑法修正案(九)》) issued by the SCNPC became effective, pursuant to which, any internet service provider that fails to comply with obligations related to internet information security administration as required by applicable laws and refuses to rectify upon order is subject to criminal penalty for (i) any large-scale dissemination of illegal information; (ii) any severe consequences due to the leakage of the user information; (iii) any serious loss of criminal evidence; or (iv) other severe circumstances. Furthermore, any individual or entity that (i) sells or distributes personal information in a manner which violates relevant regulations, or (ii) steals or illegally obtain any personal information is subject to criminal penalty in severe circumstances.

On June 1, 2017, the Cyber Security Law of the People's Republic of China (《中華人民共和國網絡安全法》), or the Cyber Security Law, promulgated by SCNPC took effect, which is formulated to maintain the network security, safeguard the cyberspace sovereignty, national security and public interests, protect the lawful rights and interests of citizens, legal persons and other organizations, and requires that a network operator, which includes, among others, internet information services providers, take technical measures and other necessary measures to safeguard the safe and stable operation of the networks, effectively respond to the network security incidents, prevent illegal and criminal activities, and maintain the integrity, confidentiality and availability of network data. The Cyber Security Law reaffirms the basic principles and requirements set forth in other existing laws and regulations on personal information protections and strengthens the obligations and requirements of internet service providers, which include but are not limited to: (i) keeping all user information collected strictly confidential and setting up a comprehensive user information protection system; (ii) abiding by the principles of legality, rationality and necessity in the collection and use of user information and disclosure of the rules, purposes, methods and scopes of collection and use of user information; and (iii) protecting users' personal information from being leaked, tampered with, destroyed or provided to third parties. Any violation of the provisions and requirements under the Cyber Security Law and other related regulations and rules may result in administrative liabilities such as warnings, fines, confiscation of illegal gains, revocation of licenses, suspension of business, and shutting down of websites, or, in severe cases, criminal liabilities. On September 12, 2022, the draft amendment to the Cyber Security Law was published for public comments by the CAC. The amendment made changes to the existing Cyber Security Law. Uncertainties exist regarding the final form of such law as well as the interpretation and implementation thereof after promulgation. After the release of the Cyber Security Law, on May 2, 2017, the CAC issued the Measures for Security Reviews of Network Products and Services (Trial) (《網絡產品和服務安全審查辦法(試行)》), or the Review Measures, which became effective on June 1, 2017 and was replaced by the Cybersecurity Review Measures (2020) (《網絡安全審查辦法(2020)》). The Review Measures establish the basic framework and principle for national security reviews of network products and services. On December 28, 2021, the CAC, together with other relevant administrative departments, jointly promulgated the Cybersecurity Review Measures (2021) (《網絡安全審查辦法(2021)》) which became effective from February 15, 2022. According to the Cybersecurity Review Measures (2021), an Internet platform operator who possesses personal information of more than 1 million users shall apply for cybersecurity review before listing of the Internet platform operator's securities in a foreign country, and the relevant governmental authorities may initiate cybersecurity review if such governmental authorities consider relevant network products or services and data processing affect or may affect national security. As there is no explicit explanation by the relevant authorities for Hong Kong to be included in the scope of "foreign country" (國外) under the aforementioned stipulation, according to the understanding on PRC laws and regulations by our PRC Legal Advisors, Hong Kong does not fall within the scope of "foreign country" (國外), therefore, we are not required to apply for a cybersecurity review for the listing according to the Cybersecurity Review Measures (2021).

The recommended national standard, Information Security Technology Personal Information Security Specification(《信息安全技術個人信息安全規範》), puts forward specific refinement requirements on the collection, preservation, use and commission processing, sharing, transfer, public disclosure, etc. Although it is not mandatory, in the absence of clear implementation rules and standards for the law on cyber security and other personal information protection, it will be used as the basis for judging and making determinations.

The Personal Data Protection Law of China (《中華人民共和國個人信息保護法》) was released by the SCNPC in August 20, 2021,which become effective on November 1, 2021. It stipulates the scope of personal information and the ways of processing personal information, establishes rules for processing personal information and for transfer offshore, and clarifies the individual's rights and the processor's obligations in the processing of personal information.

On June 10, 2021, the SCNPC promulgated the Data Security Law of People's Republic of China (《中華人民共和國數據安全法》), which become effective on September 1, 2021. It is formulated so as to regulate the handling of data, ensure data security, promote the development and exploitation of data, protect the legitimate rights and interests of citizens and organizations, and preserve state sovereignty, security, and development interests. The law stipulates that the carrying out of data handling activities shall obey laws and regulations, respect social mores and ethics, comply with commercial ethics and professional ethics, be honest and trustworthy, perform obligations to protect data security, and undertake social responsibility; it must not endanger national security, the public interest, or individuals' and organizations' lawful rights and interests. Furthermore, the Opinions on Strictly Cracking Down on Illegal Securities Activities in Accordance with the Law (《關於依法從嚴打擊證券違法活動的意見》), or the Opinions on Strictly Cracking Down on Illegal Securities Activities, which were issued by the General Office of the State Council and another authority on July 6, 2021, require the speedup of the revision of the provisions on strengthening the confidentiality and archives coordination between regulators related to overseas issuance and listing of securities, and improvement to the laws and regulations related to data security, cross-border data flow, and management of confidential information.

On November 14, 2021, the CAC released the Regulations on the Administration of Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) (the "Draft Data Security Regulations"). It stipulates that a data processor who processes more than one million users' personal information aiming to list in a foreign country or a data processor who seeks to complete a listing in Hong Kong which affects or may affect national security is required to apply for cybersecurity review under relevant rules and regulations. However, the Draft Data Security Regulations do not provide the standard to determine the circumstances that would be determined to "affect or may affect national security." As of the Latest Practicable Date, the Draft Data Security Regulations have not been formally adopted and is subject to further guidance. Furthermore, the Cybersecurity Review Measures (2021) do not provide the requirement of the Draft Data Security Regulations that "data processors seeking to be listed in Hong Kong that influences or may influence national security" shall be subject to a cybersecurity review. As the Draft Data Security Regulations are still at the stage of consultation for public comments, the Cybersecurity Review Measures (2021), being the latest promulgated regulations, shall be more applicable and instructive. After consulting with our PRC Legal Advisers, since we had notified the local branch of the CAC and obtained verbal confirmation that we are not required to apply for cybersecurity review about the proposed [**REDACTED**] in Hong Kong, we are of the view that while we cannot preclude the possibility that it may apply to us, the risk of giving rise to national security issues by our business operation is remote.

If the Draft Data Security Regulations become effective in the current form and are applicable to us, based on the foregoing analysis of provisions of the Cybersecurity Regulations by our PRC Legal Advisers, the Directors and our PRC Legal Advisers do not foresee any material impediments for us to comply with the Cybersecurity Regulations in all material aspects, given that (i) as of the Latest Practicable Date, we had not been subject to any administrative penalties, mandatory rectifications, or other sanctions by any competent regulatory authorities in relation to cybersecurity and data protection, nor had there been material cybersecurity and data protection incidents or infringement upon any third parties, or other legal proceedings, administrative or governmental proceedings, in relation to cybersecurity and data protection pending or, to the best of our knowledge, threatened against or relating to us; (ii) we have implemented a comprehensive set of internal policies, procedures, and measures to ensure our compliance practice; (iii) we will closely monitor the legislative and regulatory development in connection with cybersecurity and data protection, including the interpretation or implementation rules of laws and regulations of cybersecurity and data protection; (iv) we will proactively maintain communications with the CAC's local branches; and (v) we will take immediate steps to ensure compliance with new regulatory requirements within a reasonable period of time and engage external professional consultants to advise us on cybersecurity and data protection requirements, if needed.

Article 2 of the Protection Regulations on the Critical Information Infrastructure (《關鍵信息基礎設施安全保護條例》) stipulates that critical information infrastructure (the "CII") refers to important industries and fields and other information systems that may jeopardize national security, national economy, people's livelihood and public interests if they are damaged, lose their functions or have data leakage. We do not operate any critical information infrastructure or information systems that may endanger national security, economic development and public interest. As to the risks that "affect or may affect national security", Article 10 of the Cybersecurity Review Measures (2021) outlines the security risks which should be taken into consideration when the cybersecurity review assesses the potential national security risks, which mainly include the following seven factors: (i) the risk that the use of products and services could bring about the illegal control of, interference with, or destruction of CII; (ii) the harm to CII business continuity of product and service supply disruptions; (iii) the security, openness, transparency, and diversity of sources of products and services, the reliability of supply channels, as well as the risk of supply disruptions due to political, diplomatic, and trade factors; (iv) product and service providers' compliance with Chinese laws, regulations, and department rules; (v) the risk that core data, important data or large amount of personal information being stolen, leaked, damaged, illegally used or illegally exported; (vi) the risk of CII, core data, important data, or large amount of personal information being affected, controlled, or maliciously used by foreign governments, as well as the risk of network information security, if a company goes public; and (vii) other factors that could harm CII security, cybersecurity and data security. Scenarios (i)-(iv) mainly focus on security risks associated with Critical Information Infrastructure Operators (the "CIIOs"), purchasing specific network products and services. As advised by our PRC Legal Advisers, according to the Protection Regulations on the Critical Information Infrastructure, protection work departments (保護工作部門) are responsible for organizing the identification of CII within their industries and sectors and notifying operators about the identification results. As of the Latest Practicable Date, we have not received any notification from relevant regulatory authorities regarding our identification as CIIO. Therefore, we, as advised by our PRC Legal Advisors, are of the view that scenarios (i)-(iv) do not apply to us. In terms of scenario (v), during the Track Record Period and as of the Latest Practicable Date, we have not experienced any material cybersecurity and data privacy incident including without limitation, data or personal information theft, leakage, damage, tampering, loss and illegal use, or any claim from any infringement upon any third parties' right to data privacy. We have taken the appropriate backup, encryption, access control and other necessary technical and organizational measures and set up overall cybersecurity and data protection policies to protect data from unauthorized access, disclosure, theft, tampering, destruction, loss, illegal use, or other serious incidents and breaches. Based on the above and as advised by our PRC Legal Advisors, we are of the view that it is not likely to trigger scenario (v). We will keep abreast and conform to the legislative and regulatory requirements to prevent the related risks that may trigger scenario (v). Scenario (vi) applies to the risks when a company goes public. As advised by our PRC Legal Advisors, we are of the view that we are not likely to trigger scenario (vi) with respect to the proposed [**REDACTED**] in Hong Kong, on the basis that: (i) as of the Latest Practicable Date, we have not received any notification from the critical information infrastructure protection authorities about being identified as CIIOs; (ii) during the Track Record Period and up to the Latest

Practicable Date, we were not subject to or involved in any official inquiry, examination, investigation, notice, warning and sanction on cybersecurity, data security and personal information protection by relevant regulatory authorities, we have complied with and required the relevant intermediaries to perform the confidentiality obligations in accordance with the Provisions on Strengthening the Relevant Confidentiality and Archives Management Work Relating to the Overseas Issuance of Securities and Listing (《關於加強在境外發行證券與上市相關保密和檔案管理工作的規定》); (iii) as of the Latest Practicable Date, we have not received any request for review of the overseas listing of the Company or any determination from any governmental authority that the overseas listing constitutes a threat to or endangers national security; (iv) we will continue to pay close attention to the legislations and regulatory developments in data security and comply with the latest regulatory requirements with the assistance of our onshore and offshore counsel teams and will continually make great effort to prevent the related risks that may trigger scenario (vi). However, as advised by our PRC legal adviser, the interpretation and applicability of "network information security" remains uncertain and subject to further clarification by the CAC or relevant regulatory authorities, we cannot preclude the possibility that this scenario may apply. As to scenario (vii), our PRC Legal Advisers are of the view that the interpretation and applicability of it may be subject to uncertainty and further elaboration by the CAC or relevant regulatory authorities. We cannot preclude the possibility that this scenario may apply. Due to the lack of further clarifications or detailed rules and regulations, there are uncertainties on how to determine whether a proposed listing by a company like us in Hong Kong affects or may affect national security or not, the PRC government authorities may have wide discretion in the interpretation and enforcement of these measures and regulations. After consulting our PRC Legal Advisers, we are of the view that the Cybersecurity Regulations, assuming they are implemented in their current form, are not expected to have any material adverse impact on our business operations. Subject to the above uncertainties, if we need to apply for the cybersecurity review according to applicable regulations, we will apply for the cybersecurity review in due course.

On July 7, 2022, the CAC promulgated the Measures on Security Assessment of Cross-border Data Transfer (《數據出境安全評估辦法》) which came into effect on September 1, 2022. According to which, a data processor shall declare security assessment for its outbound data transfer to the CAC through the local cyberspace administration at the provincial level to provide data abroad under any of the following circumstances: (i) where a data processor provides important data outside the territory of the PRC; (ii) where a critical information infrastructure operator or a data processor processing the personal information of more than one million individuals provides personal information outside the territory of the PRC; (iii) where a data processor has provided personal information of 100,000 individuals or sensitive personal information of 10,000 individuals in total outside the territory of the PRC since January 1 of the previous year; and (iv) other circumstances prescribed by the CAC for which declaration for security assessment for cross-border data transfers is required.

REGULATIONS RELATING TO INTELLECTUAL PROPERTY

China has adopted comprehensive legislation governing intellectual property rights, including copyrights, trademarks, patents and domain names. China is a signatory to the primary international conventions on intellectual property rights and has been a member of the Agreement on Trade Related Aspects of Intellectual Property Rights since its accession to the World Trade Organization in December 2001.

Copyright

On September 7, 1990, the SCNPC promulgated the Copyright Law of the People's Republic of China (《中華人民共和國著作權法》), or the Copyright Law, effective on June 1, 1991 and amended on October 27, 2001, February 26, 2010 and November 11, 2020, and the latest amendment took effect on June 1, 2021.The amended Copyright Law extends copyright protection to internet activities, products disseminated over the internet and software products. In addition, there is a voluntary registration system administered by the Copyright Protection Centre of China. According to the Copyright Law, Chinese citizens, legal persons, or other organizations shall, whether published or not, own copyright in their copyrightable works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. Copyright owners enjoy certain legal rights, including right of publication, right of authorship and right of reproduction. An infringer of the copyrights shall be subject to various civil liabilities, which include ceasing infringement activities, apologizing to the copyright owners and compensating the loss of copyright owner. Infringers of copyright may also subject to fines and/or administrative or criminal liabilities in severe situations.

In order to further implement the Regulations on Computer Software Protection (《計算機軟件保護條例》), promulgated by the State Council on December 20, 2001 and amended on January 8, 2011 and January 30, 2013, respectively, the National Copyright Administration issued the Measures for the Registration of Computer Software Copyright (《計算機軟件著作權登記辦法》) on February 20, 2002, which specify detailed procedures and requirements with respect to the registration of software copyrights.

Under the Order of the State Council on the Issuance of the Regulations on the Protection of Layout-Designs of Integrated Circuits (《集成電路布圖設計保護條例》), promulgated on April 2, 2001 and coming into force on October 1, 2001, any layout-design created by a Chinese natural person, legal person or other organization shall be eligible for the exclusive right of layout-design in accordance with these Regulations. Any layout-design which is to be protected shall be original in the sense that the layout-design is the result of the creator's own intellectual effort, and it is not commonplace among creators of layout-designs and manufacturers of integrated circuits at the time of its creation. The intellectual property administration department of the State Council is responsible for the relevant administrative work concerning the exclusive right of layout-design in accordance with these regulations.

Trademark

According to the Trademark Law of the People's Republic of China (《中華人民共和國商標法》) promulgated by the SCNPC on August 23, 1982, and amended on February 22, 1993, October 27, 2001, August 30, 2013 and April 23, 2019 respectively, the Trademark Office of the SAIC, under the State Council is responsible for the registration and administration of trademarks in China. The SAIC under the State Council has established a Trademark Review and Adjudication Board for resolving trademark disputes. Registered trademarks are valid for ten years from the date the registration is approved. A registrant may apply to renew a registration within twelve months before the expiration date of the registration. If the registrant fails to apply in a timely manner, a grace period of six additional months may be granted. If the registrant fails to apply before the grace period expires, the registered trademark shall be deregistered. Renewed registrations are valid for ten years. On April 29, 2014, the State Council issued the revised Implementing Regulations of the Trademark Law of the People's Republic of China (《中華人民共和國商標法實施條例》), which specifies the requirements of applying for trademark registration and renewal.

Patent

According to the Patent Law of the People's Republic of China (《中華人民共和國專利法》), or the Patent Law, promulgated by the SCNPC on March 12, 1984 and amended on September 4, 1992, August 25, 2000, December 27, 2008, and October 17, 2020, the latest amendment took effect on June 1,2021, respectively, and the Implementation Rules of the Patent Law of the People's Republic of China (《中華人民共和國專利法實施細則》), or the Implementation Rules of the Patent Law, promulgated by the State Council on June 15, 2001 and revised on December 28, 2002 and January 9, 2010, respectively, the patent administrative department under the State Council is responsible for the administration of patent-related work nationwide and the patent administration departments of provincial or autonomous regions or municipal governments are responsible for administering patents within the irrespective administrative areas. The Patent Law and Implementation Rules of the Patent Law provide for three types of patents, namely "inventions", "utility models" and "designs". Invention patents are valid for twenty years, while utility model patents are valid for ten years, and design patents are valid for fifteen years, in each case from the date of application. The Chinese patent system adopts a "first come, first file" principle, which means that where more than one person files a patent application for the same invention, a patent will be granted to the person who files the application first. An invention or a utility model must possess novelty, inventiveness and practical applicability to be patentable. Third Parties must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the unauthorized use constitutes an infringement on the patent rights.

Domain Names

On August 24, 2017, the MIIT promulgated the Administrative Measures for Internet Domain Names (《互聯網域名管理辦法》), or the Domain Name Measures, which became effective on November 1, 2017. The Domain Name Measures regulate the registration of domain names, such as China's national top-level domain name ".CN." The China Internet Network Information Center, or the CNNIC, issued the Administrative Regulations for Country Code Top-Level Domain Name Registration (《國家頂級域名註冊實施細則》) and Country Code Top-Level Dispute Resolutions Rules (《國家頂級域名爭議解決辦法》) on June 18, 2019, pursuant to which the CNNIC can authorize a domain name dispute resolution institution to decide domain name related disputes.

REGULATIONS RELATING TO FOREIGN EXCHANGE

The principal regulations governing foreign currency exchange in China are the Administrative Regulations on Foreign Exchange of the People's Republic of China (《中華人民共和國外匯管理條例》), or the Foreign Exchange Administrative Regulation, which were promulgated by the State Council on January 29, 1996, became effective on April 1, 1996 and was subsequently amended on January 14, 1997 and August 1, 2008 (which became effective on August 5, 2008), respectively, and the Administrative Regulations on Foreign Exchange Settlement, Sales and Payment (《結匯、售匯及付匯管理規定》), which was promulgated by the People's Bank of China, on June 20, 1996 and became effective on July 1, 1996. Under these regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. By contrast, approval from or registration with appropriate governmental authorities or the designated banks is required where RMB is to be converted into foreign currency and remitted outside of China to pay capital account items such as the repayment of foreign currency-denominated loans, direct investment overseas and investments in securities or derivative products outside of the PRC. Foreign investment enterprises, or the FIEs are permitted to convert their after-tax dividends into foreign exchange and to remit such foreign exchange out of their foreign exchange bank accounts in the PRC.

On March 30, 2015, SAFE promulgated the Notice on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》), or the SAFE Circular 19, which took effect on June 1, 2015 and further revised in 2019. According to the SAFE Circular 19, the foreign currency capital contribution to an FIE in its capital account may be converted into RMB on a discretional basis.

On June 9, 2016, SAFE promulgated the Circular on Reforming and Regulating Policies on the Management of the Settlement of Foreign Exchange of Capital Accounts (《關於改革和規範資本項目結匯管理政策的通知》), or the SAFE Circular 16. The SAFE Circular 16 unifies the discretional foreign exchange settlement for all the domestic institutions. The Discretional Foreign Exchange Settlement refers to the foreign exchange capital in the capital account which has been confirmed by the relevant policies subject to the discretional foreign exchange settlement (including foreign exchange capital, foreign loans and funds remitted from the proceeds from the overseas listing) can be settled at the banks based on the actual operational needs of the domestic institutions. The proportion of Discretional Foreign

Exchange Settlement of the foreign exchange capital is temporarily determined as 100%. Violations of SAFE Circular 19 or SAFE Circular 16 could result in administrative penalties in accordance with the Foreign Exchange Administrative Regulation and relevant provisions.

Furthermore, SAFE Circular 16 stipulates that the use of foreign exchange incomes of capital accounts by FIEs shall follow the principles of authenticity and self-use within the business scope of the enterprises. The foreign exchange incomes of capital accounts and capital in RMB obtained by the FIE from foreign exchange settlement shall not be used for the following purposes: (i) directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations; (ii) directly or indirectly used for investment in securities or financial schemes other than bank guaranteed products unless otherwise provided by relevant laws and regulations; (iii) used for granting loans to non-affiliated enterprises, unless otherwise permitted by its business scope; and (iv) used for the construction or purchase of real estate that is not for self-use (except for real estate enterprises).

On October 23, 2019, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Further Promoting the Convenience of Cross-border Trade and Investment (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》), or the SAFE Circular 28. The SAFE Circular 28 stipulates that non-investment FIEs may use capital to carry out domestic equity investment in accordance with the law under the premise of not violating the Negative List and the projects invested are true and in compliance with laws and regulations.

On April 10, 2020, SAFE issued the Notice of the SAFE on Optimizing Foreign Exchange Administration to Support the Development of Foreign-related Business (《國家外匯管理局關於優化外匯管理支持涉外業務發展的通知》), or the SAFE Circular 8. The SAFE Circular 8 provides that under the condition that the use of funds is genuine and compliant with current administrative provisions on use of income relating to capital account, enterprises are allowed to use income under capital account such as capital funds, foreign debts and overseas listings for domestic payment, without submission to the bank prior to each transaction of materials evidencing the veracity of such payment.

REGULATIONS RELATING TO DIVIDEND DISTRIBUTIONS

The principal regulations governing distribution of dividends of wholly foreign-owned enterprise, or WFOE, include the PRC Company Law. Under these regulations, WFOEs in China may pay dividends only out of their accumulated profits, if any, determined in accordance with the PRC accounting standards and regulations. In addition, foreign investment enterprises in the PRC are required to allocate at least 10% of their accumulated profits each year, if any, to fund certain reserve funds unless these reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends.

REGULATIONS RELATING TO FOREIGN DEBTS

A loan made by a foreign entity to a Chinese entity is considered to be foreign debt in the PRC and is regulated by various laws and regulations, including the Foreign Exchange Administrative Regulation (《外匯管理條例》), the Interim Provisions on the Management of Foreign Debts (《外債管理暫行辦法》) promulgated by SAFE, the NDRC and the Ministry of Finance, or the MOF, and was amended by the NDRC on July 26, 2022, which became effective on September 1, 2022 and the Administrative Measures for Registration of Foreign Debts (《外債登記管理辦法》) promulgated by SAFE on April 28, 2013 and amended by the Notice of the SAFE on Abolishing and Amending the Normative Documents Related to the Reform of the Registered Capital Registration System (《國家外匯管理局關於廢止和修改涉及註冊資本登記制度改革相關規範性文件的通知》) on May 4, 2015, the Circular of the People's Bank of China on Matters relating to the Macro-prudential Management of Full-covered Cross-border Financing (《中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知》) which was released on January 12, 2017 and the Notice of the State Administration of Foreign Exchange on Further Promoting the Convenience of Cross-border Trade and Investment (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》). Under these rules, the foreign debts must be registered with and recorded by SAFE or its local branches or local banks as required. The SAFE Circular 28 provides that a non-financial enterprise in the pilot areas may register a permitted amount of foreign debts, which is as twice of the non-financial enterprise's net assets, at the local foreign exchange bureau. Such non-financial enterprise may borrow foreign debts within the permitted amount and directly handle the relevant procedures in banks without registration of each foreign debt. However, the non-financial enterprise shall report its international income and expenditure regularly. In addition, a foreign debt with a term of or longer than one year must be filed with the NDRC before the debt issuance, and the issuer shall submit the foreign debt information to the NDRC within 10 business days from completion of each debt issuance according to the Circular on Promoting the Reform of Filing and Registration Administrative Regime for the Foreign Debt Issuance (《國家發展改革委關於推進企業發行外債備案登記制管理改革的通知》) promulgated by the NDRC on September 14, 2015.

REGULATIONS RELATING TO STOCK INCENTIVE PLANS

According to the Notice of the State Administration of Foreign Exchange on Issues Relating to the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Listed Company (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》), or the Share Incentive Rules, which was issued on February 15, 2012 and other regulations, directors, supervisors, senior management and other employees participating in any share incentive plan of an overseas publicly-listed company who are PRC citizens or non-PRC citizens residing in China for a continuous period of not less than one year, subject to certain exceptions, are required to register with SAFE. All such participants need to authorize a qualified PRC agent, such as a PRC subsidiary of the overseas publicly-listed company to register with SAFE and handle foreign exchange matters such as opening accounts, and transfer and settlement of the relevant proceeds. The Share Incentive Rules further require an offshore agent to be designated to handle matters in connection with the exercise of share options and sales of proceeds for the participants of the share incentive plans. Failure to complete the said SAFE registrations may subject the participating directors, supervisors, senior management and other employees to fines and other legal sanctions.

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

REGULATIONS RELATING TO OUTBOUND DIRECT INVESTMENT

On December 26, 2017, the NDRC promulgated the Administrative Measures for the Outbound Investment of Enterprises (《企業境外投資管理辦法》), or NDRC Order No. 11, which took effect on March 1, 2018. According to NDRC Order No. 11, non-sensitive overseas investment projects are required to make record filings with the NDRC or its local branches. On September 6, 2014, MOFCOM promulgated the Administrative Measures on Overseas Investments (《境外投資管理辦法》), which took effect on October 6, 2014. According to such regulations, overseas investments of PRC enterprises that involve non-sensitive countries and regions and non-sensitive industries must make record filings with the MOFCOM or its local branches. The Notice of the State Administration of Foreign Exchange on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment

(《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》)was issued by SAFE on November 19, 2012 and amended on May 4, 2015, October 10, 2018 and December 30, 2019 respectively, under which PRC enterprises must register for overseas direct investment with local banks. The shareholders or beneficial owners who are PRC entities are required to be in compliance with the related overseas investment regulations. If they fail to complete the filings or registrations required by overseas direct investment regulations, the relevant authority may order them to suspend or cease the implementation of such investment and make corrections within a specified time, as well as issuing a warning to such investor and the relevant responsible persons; where a crime is constituted, criminal liability shall be investigated in accordance with the law.

REGULATIONS RELATING TO TAXATION

Income tax

According to the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》), or the EIT Law, which was promulgated on March 16, 2007, became effective from January 1, 2008 and amended on February 24, 2017 and December 29, 2018, respectively, an enterprise established outside the PRC with de facto management bodies within the PRC is considered a resident enterprise for PRC enterprise income tax purposes and is generally subject to a uniform 25% enterprise income tax rate on its worldwide income. The Implementing Rules of the Enterprise Income Law of the People's Republic of China (《中華人民共和國企業所得稅法實施條例》), or the Implementing Rules of the EIT Law defines a de facto management body as a managing body that in practice exercises "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. Non-PRC resident enterprises without any branches in the PRC pay an enterprise income tax in connection with their income originating from the PRC at the tax rate of 10%.

On February 3, 2015, the SAT issued the Announcement on Several Issues Concerning the Enterprise Income Tax on Indirect Transfer of Assets by Non-Resident Enterprises (《國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告》), or the SAT Circular 7, which was amended in 2017. The SAT Circular 7 repeals certain provisions in the Notice of the State Administration of Taxation on Strengthening the Administration of Enterprise Income Tax on Income from Equity Transfer by Non-Resident Enterprises (《國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知》), or the SAT Circular 698, issued by SAT on December 10, 2009 and the Announcement on Several Issues Relating to the Administration of Income Tax on Non-resident Enterprises (《關於非居民企業所得稅管理若干問題的公告》) issued by SAT on March 28, 2011 and clarifies certain provisions in the SAT Circular 698. The SAT Circular 7 provides comprehensive guidelines relating to, and heightening the Chinese tax authorities' scrutiny on, indirect transfers by a non-resident enterprise of assets (including assets of organizations and premises in the PRC, immovable property in the PRC, equity investments in PRC resident enterprises), or the PRC Taxable Assets. For instance, when a non-resident enterprise transfers equity interests in an overseas holding company that directly or indirectly holds certain PRC Taxable Assets and if the transfer is believed by the Chinese tax authorities to have no reasonable commercial purpose other than to evade enterprise income tax, the SAT Circular 7 allows Chinese tax authorities to reclassify the indirect transfer of PRC Taxable Assets into a direct transfer and therefore impose a 10% rate of PRC enterprise income tax on the non-resident enterprise. The SAT Circular 7 lists several factors to be taken into consideration by tax authorities in determining if an indirect transfer has a reasonable commercial purpose. However, regardless of these factors, the overall arrangements in relation to an indirect transfer satisfying all the following criteria will be deemed to lack a reasonable commercial purpose: (i) 75% or more of the equity value of the intermediary enterprise being transferred is derived directly or indirectly from PRC Taxable Assets; (ii) at any time during the one year period before the indirect transfer, 90% or more of the asset value of the intermediary enterprise (excluding cash) is comprised directly or indirectly of investments in the PRC, or during the one year period before the indirect transfer, 90% or more of its income is derived directly or indirectly from the PRC; (iii) the functions performed and risks assumed by the intermediary enterprise and any of its subsidiaries and branches that directly or indirectly hold the PRC Taxable Assets are limited and are insufficient to prove their economic substance; and (iv) the foreign tax payable on the gain derived from the indirect transfer of the PRC Taxable Assets is lower than the potential PRC tax on the direct transfer of those assets. On the other hand, indirect transfers falling into the scope of the safe harbors under the SAT Circular 7 may not be subject to PRC tax under the SAT Circular 7. The safe harbors include qualified group restructurings, public market trades and exemptions under tax treaties or arrangements.

On October 17, 2017, SAT issued the Announcement on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises (《關於非居民企業所得稅源泉扣繳有關問題的公告》), or the SAT Circular 37, which took effect on December 1, 2017. Certain provisions of the SAT Circular 37 were repealed by the Announcement of the State Administration of Taxation on Revising Certain Taxation Normative Documents (《國家稅務總局關於修訂部分稅收規範性文件的公告》). According to the SAT Circular 37, the balance after deducting the equity net value from the equity transfer income shall be the taxable income amount for equity transfer income. Equity transfer income shall mean the consideration collected by the equity transferor from the equity transfer, including various income in monetary form and non-monetary form. Equity net value shall mean the tax computation basis for obtaining the said equity. The tax computation basis for equity shall be: (i) the capital contribution costs actually paid by the equity transferor to a Chinese resident enterprise at the time of investment and equity participation, or (ii) the equity transfer costs actually paid at the time of acquisition of such equity to the original transferor of the said equity. Where there is reduction or appreciation of value during the equity holding period, and the gains or losses may be confirmed pursuant to the rules of the finance and tax authorities of the State Council, the equity net value shall be adjusted accordingly. When an enterprise computes equity transfer income, it shall not deduct the amount in the shareholders' retained earnings, such as undistributed profits, of the investee enterprise, which may be distributed in accordance with the said equity. In the event of partial transfer of equity under multiple investments or acquisitions, the enterprise shall determine the costs corresponding to the transferred equity in accordance with the transfer ratio, out of all costs of the equity.

Under the SAT Circular 7 and the Law of the People's Republic of China on the Administration of Tax Collection (《中華人民共和國稅收徵收管理法》) promulgated by the SCNPC on September 4, 1992 and newly amended on April 24, 2015, in the case of an indirect transfer, entities or individuals obligated to pay the transfer price to the transferor shall act as withholding agents. Where the withholding agent does not make the withholding, and the transferor of the equity does not pay the tax payable amount, the tax authority may impose late payment interest on the transferor. In addition, the tax authority may also hold the withholding agents liable and impose a penalty of ranging from 50% to 300% of the unpaid tax on them. The penalty imposed on the withholding agents may be reduced or waived if the withholding agents have submitted the relevant materials in connection with the indirect transfer to the PRC tax authorities in accordance with the SAT Circular 7.

According to the Announcement on Issues Related to the Implementation of Preferential Income Tax Policies for High-Tech Enterprises (《關於實施高新技術企業所得稅優惠政策有關問題的公告》) promulgated by SAT on June 19, 2017, and Administrative Measures for the Certification of High-tech Enterprises (《高新技術企業認定管理辦法》) amended by Ministry of Science and Technology, MOF and SAT on January 29, 2016 and came into effect since January 1, 2016, upon the accreditation of the qualification of High-tech enterprises, such enterprises may apply for the entitlement of the preferential enterprise income tax treatment since the current year beginning from the valid period approved by the accreditation. Enterprises with "High-Tech Enterprise Certificate" along with its copies and relevant information may apply to competent tax authorities for tax reduction or exemption. Upon the fulfillment of those procedures, the high and new technology enterprise can make advance enterprise income tax declaration at a tax rate of 15% or enjoy a transitional preferential tax treatment.

Withholding tax on dividend distribution

The EIT Law prescribes a standard withholding tax rate of 20% on dividends and other China-sourced income of non-PRC resident enterprises which have no establishment or place of business in the PRC, or if established, the relevant dividends or other China-sourced income are in fact not associated with such establishment or place of business in the PRC. However, the Implementing Rules of the EIT Law reduced the rate from 20% to 10%, effective from January 1, 2008. However, a lower withholding tax rate might be applied if there is a tax treaty between China and the jurisdiction of the foreign holding company, for example, pursuant to the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), or the Double Tax Avoidance Arrangement, and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under the Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends that the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% upon receiving approval from the tax authority in charge.

Based on the Notice on Relevant Issues Relating to the Enforcement of Dividend Provisions in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) issued on February 20, 2009 by the SAT, if the relevant PRC tax authorities determine, at their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. The Announcement of the State Administration of Taxation on Issues concerning "Beneficial Owners" in Tax Treaties (《國家稅務總局關於稅收協定中「受益所有人」有關問題的公告》), promulgated by the SAT on February 3, 2018 and took effect on April 1, 2018, further clarifies the analysis standard when determining one's qualification for beneficial owner status.

Furthermore, the Administrative Measures for Convention Treatment for Non-resident Taxpayers (《非居民納稅人享受協定待遇管理辦法》), which became effective on January 1, 2020, require that non-resident taxpayers claiming treaty benefits shall be handled in accordance with the principles of "self-assessment, claiming for the enjoyment of treaty benefits, and retention of the relevant materials for future inspection." Where a non-resident taxpayer self-assesses and concludes that it satisfies the criteria for claiming treaty benefits, it may enjoy treaty benefits at the time of tax declaration or at the time of withholding through a withholding agent, simultaneously gather and retain the relevant materials pursuant to the provisions of these Measures for future inspection, and subject to subsequent administration by relevant competent tax authorities.

Value-Added Tax

Pursuant to the Interim Regulations on Value-Added Tax of the People's Republic of China (《中華人民共和國增值稅暫行條例》), which was promulgated by the State Council on December 13, 1993 and amended on November 5, 2008, February 6, 2016 and November 19, 2017, respectively, and the Implementation Rules for the Interim Regulations on Value-Added Tax of the People's Republic of China (《中華人民共和國增值稅暫行條例實施細則》), which was promulgated by the MOF and SAT on December 15, 2008 and became effective on January 1, 2009 and as amended on October 28, 2011, entities or individuals engaging in sale of goods, provision of processing services, repairs and replacement services or importation of goods within the territory of the PRC shall pay value-added tax, or VAT. Unless provided otherwise, the rate of VAT is 17% on sales and 6% on the services. On April 4, 2018, MOF and SAT jointly promulgated the Circular of the Ministry of Finance and the State Administration of Taxation on Adjustment of Value-Added Tax Rates (《財政部國家稅務總局關於調整增值稅稅率的通知》), or the Circular 32, according to which (i) for VAT taxable sales acts or import of goods originally subject to VAT rates of 17% and 11% respectively, such tax rates shall be adjusted to 16% and 10%, respectively; (ii) for purchase of agricultural products originally subject to tax rate of 11%, such tax rate shall be adjusted to 10%; (iii) for purchase of agricultural products for the purpose of production and sales or consigned processing of goods subject to tax rate of 16%, such tax shall be calculated at the tax rate of 12%; (iv) for exported goods originally subject to tax rate of 17% and export tax refund rate of 17%, the export tax refund rate shall be adjusted to 16%; and (v) for exported goods and cross-border taxable acts originally subject to tax rate of 11% and export tax refund rate of 11%, the export tax refund rate shall be adjusted to 10%. Circular 32 became effective on May 1, 2018 and shall supersede existing provisions which are inconsistent with Circular 32.

Since November 16, 2011, the MOF and the SAT have implemented the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax (《營業稅改徵增值稅試點方案》), or the VAT Pilot Plan, which imposes VAT in lieu of business tax for certain "modern service industries" in certain regions and eventually expanded to nation-wide application in 2013. According to the Implementation Rules for the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax (《營業稅改徵增值稅試點實施辦法》) released by the MOF and the SAT on the VAT Pilot Program, the "modern service industries" include research, development and technology services, information technology services, cultural innovation services, logistics support, lease of corporeal properties, attestation and consulting services. The Notice on Comprehensively promoting the Pilot Plan of the Conversion of Business Tax to Value-Added Tax (《關於全面推開營業稅改徵增值稅試點的通知》), which was promulgated on March 23, 2016, became effective on May 1, 2016 and amended on July 11, 2017, and March 20, 2019, respectively, sets out that VAT in lieu of business tax be collected in all regions and industries.

On March 20, 2019, MOF, SAT and the General Administration of Customs jointly promulgated the Announcement on Relevant Policies for Deepening Value-Added Tax Reform (《關於深化增值稅改革有關政策的公告》), which became effective on April 1, 2019, repeal certain provisions of the Implementation Rules for the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax, and provides that (i) with respect to VAT taxable sales acts or import of goods originally subject to VAT rates of 16% and 10% respectively, such tax rates shall be adjusted to 13% and 9%, respectively; (ii) with respect to purchase of agricultural products originally subject to tax rate of 10%, such tax rate shall be adjusted to 9%; (iii) with respect to purchase of agricultural products for the purpose of production or consigned processing of goods subject to tax rate of 13%, such tax shall be calculated at the tax rate of 10%; (iv) with respect to export of goods and services originally subject to tax rate of 16% and export tax refund rate of 16%, the export tax refund rate shall be adjusted to 13%; and (v) with respect to export of goods and cross-border taxable acts originally subject to tax rate of 10% and export tax refund rate of 10%, the export tax refund rate shall be adjusted to 9%.

REGULATIONS RELATING TO EMPLOYMENT AND SOCIAL WELFARE

According to the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), or the Labor Contract Law, promulgated by the SCNPC on June 29, 2007 and amended on December 28, 2012, and the Implementation Rules of the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法實施條例》), or the Implementation Rules of the Labor Contract Law, promulgated by the State Council on September 18, 2008, a written employment contract shall be concluded in the establishment of an employment relationship. If an employer fails to enter into a written employment contract with an employee within one year from the date on which the employment relationship is established, the employer must rectify the situation by entering into a written employment contract with the employee and pay the employee twice the employee's salary for the period from the day following the lapse of one month from the date of establishment of the employment relationship to the day prior to the execution of the written employment contract. The Labor Contract Law and its implementation rules also require compensation to be paid upon certain terminations. In addition, if an employer intends to enforce a non-compete provision in an employment contract or non-competition agreement with an employee, it has to compensate the employee on a monthly basis during the term of the restriction period after the termination or expiry of the labor contract. Employers in most cases are also required to provide severance payment to their employees after their employment relationships are terminated.

Pursuant to the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》), which was promulgated by the SCNPC on October 28, 2010, effective on July 1, 2011 and last amended on December 29, 2018, the Interim Regulations on the Collection of Social Insurance Fees (《社會保險費徵繳暫行條例》), issued by the State Council on January 22, 1999 and last amended on March 24, 2019, and the Regulations on the Administration of Housing Provident Funds (《住房公積金管理條例》), issued by the State Council on April 3, 1999 and last amended on March 24, 2019, enterprises in China are required to participate in certain employee benefit plans, including social insurance funds and housing provident funds, and contribute to the funds in amounts equal to certain percentages of salaries, including bonuses and allowances, of the employees as specified by the local government from time to time at locations where they operate their businesses or where they are located.

Pursuant to the Social Insurance Law of the People's Republic of China, enterprises in China shall present their business license, registration certificate or organization seal to complete social security registration with the local social security agency within 30 days from the date of incorporation, and enterprises in China shall complete social security registration with the social security agency for their employees within 30 days from the date of recruitment. If the employer fails to go through the formalities for social insurance registration, the administrative department of social insurance shall order it to rectify within a prescribed time limit; where it fails to rectify within the prescribed time limit, the employer shall be subject to a fine of not less than one time but not more than three times the amount of the payable social insurance premiums, and the person directly in charge and other persons directly liable shall be subject to a fine of not less than RMB500 but not more than RMB3,000. Also, enterprises in China shall declare on their own and pay social insurance premiums in full and on time, and shall not postpone, reduce or exempt the payment of social insurance premiums not due to force majeure and other statutory causes. Where an employer fails to pay social insurance premiums in full and on time, the social insurance premiums collecting agency shall order it to pay or supplement the premiums within a time limit, and shall, as of the date of default, impose an overdue fine at the rate of 0.05% per day; where the employer fails to make the payment within the time limit, the relevant administrative department shall impose a fine of not less than one time but not more than three times the amount of the arrears.

Pursuant to the Regulations on the Administration of Housing Provident Funds, a newly established entity shall, within 30 days from the date of its establishment, undertake registration of payment and deposit of housing provident fund with a housing provident fund management center, and within 20 days from the date of the registration, go through the formalities of opening housing provident fund accounts on behalf of its staff and workers. Otherwise, it will be subject to a fine of not less than RMB10,000 but not more than RMB50,000. Also, entities shall pay housing provident funds on time and in full, and shall not be overdue in the payment and deposit or underpay. If an entity fails to pay housing fund contributions within a time limit or underpays housing fund contributions, it shall be ordered by the housing fund management center to pay the outstanding housing fund contributions within a time limit; if it fails to pay the outstanding housing fund contributions within the time limit, the housing fund management center may apply to the people's court for enforcement. The Interim Provisions on Labor Dispatch (《勞務派遣暫行規定》) was issued by the Ministry of Human Resources and Social Security on January 24, 2014, which came into force on March 1, 2014. Under the provisions, the employers can only use dispatched workers in temporary, auxiliary, or alternative jobs, and the number of dispatched workers employed shall not exceed 10% of its total employment. According to the Labor Contract Law, if a labor dispatch unit or an employer violates the relevant provisions, the labor administrative department shall order it to make corrections within a time limit; if it fails to make corrections within the time limit, where failure to do so at the expiration of the time limit shall result in a fine of not less than RMB5,000 nor more than RMB10,000 per person being imposed. If the employer causes damage to the dispatched worker, the labor dispatch unit and the employing unit shall be jointly and severally liable for compensation.

REGULATIONS RELATING TO OVERSEAS SECURITIES OFFERING AND LISTING

On December 24, 2021, the State Council's Administrative Regulations on Overseas Issuance and Listing of Securities by Domestic Enterprises (Draft for Public Comments) (《國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)》) and the Administrative Measures on Filing of Overseas Issuance and Listing of Securities by Domestic Enterprises (Draft for Public Comments) (《境內企業境外發行證券和上市備案管理辦法》(徵求意見稿)) was released for public comments by the CSRC. Pursuant to these regulations, a domestic enterprise that applying for listing abroad shall, among others, complete record-filing procedures and report relevant information to the securities regulatory authority as required. As of the Latest Practicable Date, the Draft Regulations on Listing have not been formally adopted. The provisions and anticipated effective date of the Draft Regulations on Listing are subject to changes and interpretation, and its implementation remains uncertain. The Directors, as advised by our PRC Legal Advisors, are of the view that the Draft Regulations on Listing will not have a material adverse impact on our [**REDACTED**] for the following reasons: (i) the responsible person of the CSRC stated in a press conference that the purpose of the Draft Regulations on Listing is to "improve the supervisory and regulatory institution for the overseas listing of enterprises, not to tighten the regulatory policies for overseas listing" and "to support enterprises to use overseas capital markets for financing and development in accordance with laws and regulations." (ii) as of the Latest Practicable Date, the Draft Regulations on Listing have not come into effect, we do not need to perform the relevant filing or information reporting procedures for the [**REDACTED**] of our Company in accordance with the Draft Regulations on Listing; (iii) we have obtained the approval letter from the CSRC with respect to our [**REDACTED**].

Assuming that the Draft Regulations on Listing subsequently come into effect in accordance with the current version, as advised by our PRC Legal Advisers, we can comply with the Draft Regulations on Listing in all material aspects for the following reasons: (i) our Company does not fall within any of the circumstances specified in Article 7 of the Administrative Provisions in which overseas issuance and [**REDACTED**] are prohibited; (ii) our Company has taken comprehensive measures to ensure its compliance with the relevant laws and regulations and will continue to pay close attention to the legislative and regulatory developments in respect of the overseas listing of domestic enterprises, comply with the specific regulatory requirements and perform the filing procedures or information reporting procedures in accordance with the requirements of the Draft Regulations on Listing where applicable to our Company, with the assistance of our onshore and offshore counsel teams.

Japan

The following sets forth a summary of the most significant rules and regulations that affect our business activities in Japan.

Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices (Act No. 145 of 1960, as amended)

Any person who wishes to engage in the business of marketing pharmaceuticals, quasi-pharmaceutical products or cosmetics is required to obtain a license from the Minister of Health, Labour and Welfare for such marketing business.

Labor Laws

There are various labor related laws enacted in Japan, including the Labor Standards Act (Act No. 49 of 1947, as amended), the Industrial Safety and Health Act (Act No. 57 of 1972, as amended), the Labor Contract Act (Act No. 128 of 2007, as amended) and the Act for Securing the Proper Operation of Worker Dispatching Undertakings and Improved Working Conditions for Dispatched Workers ("Dispatched Workers Act", Act No. 88 of 1985, as amended). The Labor Standards Act regulates, inter alia, minimum standards for working conditions such as working hours, periods of leave, and days off. The Industrial Safety and Health Act requires, *inter alia*, the implementation of measures to secure the safety of workers and protect the health of workers in the workplace. The Labor Contract Act regulates, *inter alia*, the change of terms to an employment contract and working rules, dismissal and disciplinary action. The Dispatched Workers Acts stipulates, *inter alia*, the duties of the dispatching agency and the company to where an employee is dispatched. All companies shall comply with the labor related regulations and any company that accepts dispatched workers must also comply with dispatching related regulations.

Water Pollution Prevention Act (Act No. 138 of 1970, as amended)

Any person who discharges water from factories or workplaces into areas of public water bodies is required to, when installing a Specified Facility (facilities which discharge polluted water or wastewater that may negatively affect public health), submit a report to the corresponding Prefectural governors. Therefore, any company engaged in such discharging of water shall comply with such regulations.

General Consumer protection and product safety regulations

Any company engaged in manufacturing and selling products to consumers shall comply with the general consumer protection regulations, such as the Consumer Contract Act (Act No. 61 of 2000, as amended), the Act against Unjustifiable Premiums and Misleading Representations (Act No. 134 of 1962, as amended), and product safety regulations, such as the Product Liability Act (Act No. 85 of 1994).

OVERVIEW

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

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

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

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

	Brand Positioning	**Launch Year**
KANS 韩束	A technology-empowered anti-aging brand focusing on resolving skin issues for Asian women	2003
One leaf 一叶子®	A clean beauty skincare brand for skin barrier repairing, exploring the beauty of natural plants	2014
Baby elephant 红色小象	A professional maternity and childcare brand for Chinese babies and children	2015

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

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

We operate a full-cycle and comprehensive supply chain management system covering our whole production process, ensuring steady output of quality products and flexible production. Our two production bases, located in China and Japan, enable us to produce almost all of our products during the Track Record Period instead of outsourcing to third parties. We achieved rapid growth of online sales in the increasingly prominent e-commerce environment. Our online sales channels include both reputable e-commerce platforms as well as emerging media platforms. We maintain an extensive offline sales and distribution network, as we believe offline channels remain important to retain stable performance and penetrate into potential markets. While the internet and media industry landscape have transformed significantly, we manage to remain nimble to the marketing channels and formats of latest popularity.

We endeavor to capture more opportunities in the fast-growing cosmetics market in China. According to the Frost & Sullivan Report, in terms of retail sales, the market size of China's cosmetics market reached RMB946.8 billion in 2021; it is expected to reach RMB1,482.2 billion in 2026 at a CAGR of 9.4% from 2021 to 2026, significantly higher than the global market's CAGR of 3.8% during the same period. The improvement of living standards in China continues to drive the increase in demand for high-quality products and evolution of needs for functional products, making China the fastest-growing cosmetics market among the major economies. In addition, the tailwinds of favorable governmental policies as well as the increasing popularity of Chinese domestic cosmetics brands among young consumers will benefit our development in the long run.

In 2019, 2020 and 2021, our results of operations achieved stable growth. Our revenue decreased by 31.1% from RMB1,831.7 million in the six months ended June 30, 2021 to RMB1,262.4 million in the same period of 2022 as a result of the impact of COVID-19 on our production and delivery in Shanghai. Our revenue increased by 17.6% from RMB2,874.3 million in 2019 to RMB3,381.6 million in 2020, and further increased by 7.0% to RMB3,618.9 million in 2021. During the same period, our gross profit increased by 25.0% from RMB1,749.4 million in 2019 to RMB2,186.6 million in 2020, and further increased by 8.0% to RMB2,360.6 million in 2021.

OUR STRENGTHS

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

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

We have successfully launched and developed a number of brands, among which *KANS*, *One Leaf* and *Baby Elephant* are widely recognized among consumers. According to the Frost & Sullivan Report, in 2021, we were the only Chinese domestic cosmetics company with two skincare brands achieving annual retail sales of more than RMB1.5 billion. According to the same source, in terms of retail sales in 2021, we ranked third for Chinese domestic branded skincare products, first in Chinese domestic branded facial mask products and first in Chinese domestic branded maternity and childcare products in China.

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

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

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

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

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

- We launched *asnami* in 2019, which is positioned as a professional functional maternity skincare brand targeting the resolution of sensitive skin issues. It aims to be a reliable companion of pregnant women to address skin issues during pregnancy.

- We launched *KYOCA* in 2021 and primarily design, manufacture and market our shampoo and haircare products under this brand, which is positioned as a toiletries brand specializing in hair strengthening.

- We launched *newpage* in May 2022, which is a functional skincare brand focusing on sensitive skins of babies and children.

- We launched *ARMIYO* in June 2022, which is a professional skincare brand targeting sensitive skin issues in cooperation with the artemisinin research team.

- As of the Latest Practicable Date, we have also built a compelling new brand pipeline in line with our development plan of expanding into certain market segments with strong growth potential, such as *TAZU*, a high-end anti-aging skincare brand in cooperation with the scientist, Kosaku Yamada.

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

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

Our global R&D team is led by Dr. Li Wei, who is responsible for the overall management of all critical R&D activities of our Sino-Japan dual R&D centers and formulating R&D strategies. We have also formed a core R&D team of seven internationally reputed scientists, namely Dr. Hiroshi Huang Oh, Dr. Hu Xincheng, Dr. Fu Zihua, Uchikawa Keiichi, Kosaku Yamada, Toshiya Taniguchi and Itaya Kosei, with an average R&D experience of over 30 years in cosmetics-related areas. All members of our core R&D team are global leading researchers with proven R&D track records, demonstrated by the large number of patents and papers published in global leading journals. They all have performed senior R&D roles in international cosmetics conglomerates, and have led the R&D work of many renowned cosmetics brands or products. We also strive to attract and cultivate young talented R&D staff to build a multi-tier talent system. Thanks to the mentorship scheme adopted on R&D projects, we have built a team of excellent young research graduates from top-tier universities in China and overseas. As of June 30, 2022, we had an R&D team of 204 staff members, among whom 81 members have a master's degree or above, representing approximately 39.7% of our R&D team.

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

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

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

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

We have successfully increased the online exposure of our brands and products in the increasingly prominent e-commerce market. Apart from the major e-commerce platforms, such as *Tmall* and *JD.com,* with which we have cooperated for a long time, we also proactively exploit new growth potential on emerging media platforms which are popular among young consumers. With the rise of content live streaming platforms, we have formulated and upgraded branding and marketing strategies and have established a dedicated live streaming team to capture the opportunities arising from top platforms such as *Douyin* and *Kuaishou*. We have achieved strong growth on emerging media platforms. During 2021, our monthly GMV on *Douyin* grew from approximately RMB5.0 million to RMB160.0 million, with *KANS* topping its daily sales chart multiple times. Our strong performance on online sales channels became a key driver for our steady growth during the Track Record Period. The revenue derived from online sales increased by 69.0% from RMB1,504.8 million in 2019 to RMB2,542.6 million in 2020 and further increased by 6.1% to RMB2,697.9 million in 2021. We ranked among the top three Chinese domestic cosmetics brand companies in terms of online retail sales in 2021.

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

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

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

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

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

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

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

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

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

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

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

OUR STRATEGIES

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

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

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

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

- ***One Leaf***: With increasing awareness among young consumers of clean beauty skincare, we aim to build and upgrade *One Leaf* into a leading clean beauty skincare product brand in China enabled by botanical science, catering to the younger generation's awareness and preference for organic skincare and ecology. We plan to conduct further R&D activities on plant extraction technologies and skin barrier repairing as the core technologies for *One Leaf*.

- ***Baby Elephant***: We seek to maintain the leading position of our *Baby Elephant* brand in the maternity and childcare segment in China. We intend to continue to offer skincare products suitable for the skin type of Chinese babies and children to adapt to the rising demand for high-quality maternity and childcare products. We aim to conduct R&D activities for additives-free, safe, organic, and simple products. We will devote resources to the standardization and advancement of the maternity and childcare industry.

Develop new brands to enrich our brand matrix and product portfolios

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

We intend to focus on development of the new brands:

- ***Skincare***: We will further grow our business in response to the growing market of functional skincare products. We will continue to collaborate with a professional artemisinin research team on R&D projects with respect to upgrade of formulas of *ARMIYO* products. We plan to consolidate the market position of *BIO-G* in the mass market for functional skincare products. As anti-aging products become increasingly popular among younger consumers, we will continue to collaborate with our skincare principal scientist at Japan Hondo R&D Center, Kosaku Yamada, to launch a high-end anti-aging skincare brand, *TAZU*.

- ***Maternity and childcare***: To capture the opportunities embedded within the trend of consumption upgrade in the maternity and childcare market, we plan to expand our product categories under this segment at different price ranges. In addition, we intend to expand product mix and prolong the product life cycle, expand the sales network, and conduct marketing activities for our rapidly growing brand *asnami*, a professional maternity skincare brand. To meet the demands of consumers for quality baby and child skincare products, we also plan to launch new products for *newpage*, our functional skincare brand for babies and children.

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

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

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

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

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

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

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

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

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

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

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

Reinforce roots in China and expand our international reach

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

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

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

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

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

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

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

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

OUR BRANDS AND PRODUCTS

Overview

We are a leading multi-brand cosmetics company in China and operate a number of well-recognized household brands, targeting various groups of consumers with different needs. We currently offer a wide range of cosmetics products under various brands, primarily including *KANS*, *One Leaf* and *Baby Elephant*. During the Track Record Period, we primarily generated revenue from these three brands, which in aggregate contributed 86.6%, 91.8%, 92.2% and 93.0% of our total revenue, respectively.

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

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

Note:

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

To cater to the different needs of the changing market, we consistently incubate and develop new brands, targeting different groups of consumers. In recent years, we continued to refresh our product portfolio through introducing new products under new brands. To address the heightened demands of consumers for high-quality functional products, we launched *BIO-G*, *asnami* and *KYOCA*, expanding our offerings for sensitive skincare, middle and high-end maternity skincare and hair product categories. As of the Latest Practicable Date, our new brands and brand pipeline included *newpage*, *ARMIYO* and *TAZU*. During the Track Record Period, our products were mainly focused on the mass market. We currently manufacture and offer skin care products, maternity and childcare products and toiletries products, with some other categories as a supplement:

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

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.

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

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

Notes:

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

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

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

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

Notes:

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

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

KANS

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

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

Anti-aging & Firming

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

Luxury Lifting Collection

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

Black Gold Collection

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

Double Serum

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

Gold Honeycomb Active Mask

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

Anti-aging & Moisturizing

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

The Red Capsule Collection

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

The Hydra-replumping Toner

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

Anti-aging & Brightening

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

Silver Capsule Collection

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

Luminous White Essential Serum

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

ONE LEAF

With the experience we gained from operating *KANS* and our insights into the facial mask market in China, we launched *One Leaf* in 2014. *One Leaf* is a leading brand of botanical skincare products focusing on natural elements and combining active ingredients from plants with our patented technology. *One Leaf* is positioned as a clean beauty skincare brand for skin barrier repairing, exploring the beauty of natural plants. After continuous efforts in formula upgrade, product mix expansion as well as brand operation, we establish *One Leaf* as an environmental skincare brand for young consumers enabled by botanical science. Targeting young consumers aged from 18 to 35, *One Leaf* blends ingredients from nature using techniques, creating effective performance and natural skincare products. It is also dedicated to exploring the vitality and wisdom of nature so as to rejuvenate the skin through the use of natural ingredients in cosmetic products. *One Leaf* was recognized among the Consumers' Top Ten Preferred Brands – Skin Care Products by Kantar for two consecutive years in 2019 and 2020.

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

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

Avocado Collection

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

Tremella Collection

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

White Truffle Collection

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

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

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

Fresh Tender Moisturizing Lightening Mask Set

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

Silver Birch Soothing Mask

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

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

Repair and Embellish Moisturizing Mask

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

Repair and Embellish Cream

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

Repair and Embellish Essence

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

BABY ELEPHANT

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

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

Baby & Child Toiletries Product Line

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

Baby & Child Skincare Product Line

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

Expectant and Breastfeeding Mother Product Line

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

General Product Line

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

the cleaning products

the oral products

the summer products

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

Ultra Protection Cream

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

Two-in-One Shampoo & Shower Gel

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

Other Brands

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

BIO-G

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

So Gentle collection

asnami

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

SO Moisture collection

KYOCA

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

Adenosine Amino Acid Wash Set

Our New Brands and Brand Pipeline

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

newpage

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

ARMIYO

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

TAZU

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

Product Lifecycle

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

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

- We have established a team to analyse market data regularly and proactively monitor market demand of different market segments in the cosmetics industry and assess the necessities of developing a product.

- After a new product is launched at the introduction period, we normally take a period of time to closely monitor its market feedbacks and collect relevant sales data.

- By analysing the sales data, we would normally (i) increase the production if the product becomes popular and is deemed as entered into the growth stage, or (ii) continue to sell the product and maintain its production at a stable level while exploring new generations of such product on a case by case basis, if it becomes mature, or (iii) introduce new generations or stop the production of such product if the sales is declining or below expectation.

RESEARCH AND DEVELOPMENT

Our strong independent R&D capabilities are critical to our success and will drive our sustainable development and innovation activities in the future. We started independent R&D activities in 2003 and have insisted on product self-development. Our approximately 20 years' accumulation of experience and expertise are underscored by our Sino-Japan dual R&D center system, which enables us to stay close to the latest technological developments in the global cosmetics industry. Our dual R&D centers are dedicated to building power platforms for advanced fundamental research and product development work. Staying close to consumers' needs, we focus on product development and new technology applications in response to the changing market. We strive to attract and cultivate talents and have formed a strong team with rich R&D experience.

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

Our Fundamental Research

We attach significant importance to fundamental research, which we deem critical to the operation of our multi-brand strategy. Fundamental research provides us with the essential knowledge on and deep insights in frontier technologies and theories in cosmetics as well as characteristics and effectiveness of innovative ingredients and formulas. These could be applied to improvement of our existing products and development of new products, giving us unique advantages over our competitors which cannot be replicated. With the establishment of our Japan Hondo R&D Center in Kobe in 2016, we started our journey of fundamental research. According to the Frost & Sullivan Report, we are the first Chinese domestic cosmetics company to have a self-built overseas R&D center. Our Japan Hondo R&D Center help us acquire a number of international leading scientists, who have brought us advanced fundamental research experience. We commit to build an open work environment for fundamental research and encourage our research personnels to publish scientific articles on high-profile journals, such as the *Journal of Investigative Dermatology,* the *Journal of the Pharmaceutical Society of Japan* and the *Annals of Dermatological Research.* We have been a member of the International Federation of Societies of Cosmetic Chemists Member since 2019.

Our Core Research and Development Team

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

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

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

Dr. Hiroshi Huang Oh

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

Dr. Hu Xincheng

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

Dr. Fu Zihua

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

Uchikawa Keiichi

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

Kosaku Yamada

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

Toshiya Tanguchi

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

Itaya Kosei

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

Research and Development Infrastructure

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

Research and Development Achievements

TIRACLE – Dual Strain Fermentation

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

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

AGSE – Activated Grape Seed Extract

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

We have innovatively adopted liposome/cyclodextrin encapsulation technology and resolved the problems of low stability, low bioavailability and poor solubility of active ingredients. As the research results shows, AGSE encapsulation is more effective in enhancing PP2A activity than AGSE. At the same time, in-vitro tests prove that AGSE encapsulation has significant effects in promoting the expression of Collagen I and Elastin and the expression of Collagen III gene, which can significantly reduce the level of melanin. According to the clinical tests, products containing AGSE are significantly more effective in increasing the individual typology angle (ITA) values of our skins, reducing the rate of Transepidermal Water Loss (TEWL), hydrating our skins, reducing wrinkles and increasing skin tolerance value from the lactate sting testing.

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

Artemisia Naphtha Plus - AN+

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

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

Research and Development Process

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

- we usually start our research and development process based on our insights into consumers' demand. We identify potential business opportunities by conducting market trends analysis and interactions with our consumers, including qualitative and quantitative research. We then determine our product design based on the analysis and brand positioning;

- we adopt innovative strategies to resolve key technical issues. Our R&D centers have extensive experience and resources to solve existing technical issues. For new technical challenges, we will build research platforms and conduct long-term fundamental research to provide solutions; and

- our marketing department is responsible for establishing the projects for new products, while our R&D centers are responsible for addressing technical issues. In addition, we cooperate with the procurement department and marketing department for production preparation.

OUR SALES CHANNELS

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

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	(RMB in millions, except percentages)									
							(Unaudited)			
Online channels	1,504.8	52.4	2,542.6	75.2	2,697.9	74.6	1,344.9	73.4	931.2	73.8
Online direct sales	890.8	31.0	1,578.1	46.7	1,532.6	42.4	750.7	41.0	485.7	38.5
Sales to online retailers	50.0	1.8	176.0	5.2	514.0	14.2	271.9	14.8	252.2	20.0
Sales to online distributors	564.0	19.6	788.5	23.3	651.3	18.0	322.3	17.6	193.3	15.3
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."

Online Channels

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

Online direct sales

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

Sales to online retailers

During the Track Record Period, we gradually expanded our sales to online retailers. Under this model, we sell products to online retailers, which will in turn sell products to end-customers. While our online retailer customers include major e-commerce platforms, such as *Tmall Supermarket*, *JD.com* and *VIP.com*, and other third-party online stores, most of our sales under sales to online retailer model were made to e-commerce platforms. As of December 31, 2019, 2020, 2021 and June 30, 2022, we had 89, 136, 108 and 59 online retailers, respectively. In 2019, 2020, 2021 and the six months ended June 30, 2022, revenue generated from sales to online retailers amounted to RMB50.0 million, RMB176.0 million, RMB514.0 million and RMB252.2 million, respectively, accounting for approximately 1.8%, 5.2%, 14.2% and 20.0%, respectively, of our total revenue in the same periods. We experienced a strong growth in revenue derived from sales to online retailers in 2019, 2020 and 2021, primarily due to our enhancement of collaboration with online retailers to provide products that better address consumers' demands.

We typically enter into standard agreements, under either sales and purchase arrangements or consignment arrangements, with online retailers. Under sales and purchase arrangements, we have a buyer-seller relationship with online retailers and we recognize revenue when they accept our products upon delivery, while under consignment arrangements, we recognize revenue when end-consumers confirm acceptance on the relevant e-commerce platforms. As of December 31, 2019, 2020, 2021 and June 30, 2022, we had six, three, four and two online retailers under consignment arrangements, respectively. During the Track Record Period, the revenue generated from online retailers under consignment arrangements amounted to RMB12.3 million, RMB67.7 million, RMB171.5 million and RMB125.6 million, respectively, representing 24.6%, 38.5%, 33.4% and 49.8% of our sales to online retailers.

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

- *Duration.* The duration of the agreements is typically one year.

- *Minimum purchase requirements.* We generally do not set any minimum purchase requirements.

- *Sales and performance targets.* We generally do not set sales targets for e-commerce platforms. We provide e-commerce platforms that purchase over the agreed amount with marketing reimbursement to incentivize the marketing and display of products.

- *Pricing policy*. We sell our products through e-commerce platforms at price levels that have been mutually agreed by us and the e-commerce platforms.

- *Payment and credit terms.* We deliver our products to our e-commerce platforms before our e-commerce platforms make payments to us. Depending on the specific arrangements with the e-commerce platforms, we generally grant a credit period to online retailers of 45 to 90 days for sales and purchase arrangements. For consignment arrangements, e-commerce platforms typically make their payment for procured products within five working days upon receipt of the settlement statements or invoices from us.

- *Logistics.* We are responsible for delivering our products to locations agreed between e-commerce platforms and us.

- *Transfer of risks.* For sales and purchase arrangements, the risks transfer to e-commerce platforms after they complete the inspection and confirm the receipt of our products. For consignment arrangements, the title to products and legal risks do not transfer to end-consumers until the products are sold and delivered to end-consumers and end-consumers confirm receipt of products.

- *Wholesale restriction.* Our online retailers are not allowed to engage in any wholesale activities unless otherwise specifically confirmed by us.

- *Return arrangements.* For sales and purchase arrangements, e-commerce platforms are entitled to return products to us. For consignment arrangements, e-commerce platforms are required to accept returned goods according to relevant laws and regulations, as well as the related protocols under the online platform. The goods will be put on the shelf for the second time if they satisfy certain on-shelf standards. We accept all returned goods from e-commerce platforms if they fail to satisfy the above standard.

- *Termination.* Either party has the right to terminate the contract with the other party, if the other party breaches the agreement and fails to rectify such breach within a reasonable period of time.

Sales to online distributors

Under the model of sales to online distributors, we normally sell our products to distributors, who operate through online platforms and further sell the products to e-commerce platforms or other online stores. In 2019, 2020, 2021 and the six months ended June 30, 2022, revenue generated from sales to online distributors model amounted to RMB564.0 million, RMB788.5 million, RMB651.3 million and RMB193.3 million, respectively, accounting for approximately 19.6%, 23.3%, 18.0% and 15.3%, respectively, of our total revenue in the same periods.

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

- *Duration.* The duration of the distribution agreements is typically one year.

- *Designated distribution platform.* The online distributors are generally not allowed to sell our products outside of their designated third-party e-commerce platforms, or the specific online stores at such third-party e-commerce distribution platforms.

- *Minimum purchase requirements.* We generally do not have minimum purchase requirements for online distributors.

- *Performance targets.* We set monthly, quarterly and annual performance targets in terms of advance payment for online distributors. Our online distributors are required to report their performance to us. We have the right to terminate such distribution agreements if the online distributors fail to meet such performance targets.

- *Pricing policy.* We sell to our online distributors at a discount to the recommended retail price. We also provide recommended retail prices to our online distributors.

- *Payment and credit terms.* We generally require our online distributors to make payment before the delivery of products. We provide credit terms to certain online distributors on a case-by-case basis, among which most are online distributors selling products to large online retailers.

- *Logistics.* We assign independent third-party logistics companies to deliver our products to online distributors by train or road. Our online distributors may specify other modes of transportation and shall bear the logistics costs if they so specify.

- *Transfer of risks.* The risks transfer to online distributors once we deliver the products to the independent third-party logistics companies.

- *Return arrangements.* Our online distributors are entitled to inspect the quality of our products upon delivery and may raise requests for product returns if the volume, product types, packaging, specifications or quality of the products delivered do not match those on the sales order within three days after the delivery. After the receipt of the products, we generally only accept product returns due to product defects.

- *Sub-distribution.* In general, our online distributors are not allowed to engage sub-distributors, or assign their rights or obligations to any third party, without our written consent.

- *Termination.* We have the right to terminate the agreement with online distributors who breach the distribution agreement. Conditions that may result in breach of contract are listed in the distribution agreements, including occasions where online distributors sell our products outside their designated distribution platforms, or fail to obtain the required qualifications, or fail to reach performance targets in terms of advance payment in accordance with the agreement for three months.

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

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

Notes:

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

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

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

Offline Channels

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

Sales to offline retailers

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

We sell our products to offline retailers either under sales and purchase arrangements or consignment arrangements. Commercial arrangements of such two arrangements are largely similar, except that, under sales and purchase arrangements, we have a buyer-seller relationship with offline retailers and we recognize revenue when they accept our products upon delivery, while under consignment arrangements, we recognize revenue when end-consumers complete purchasing products from offline retailers. As of December 31, 2019, 2020, 2021 and June 30, 2022, we had 90, 64, 57 and 29 offline retailers, respectively. In 2019, 2020, 2021 and the six months ended June 30, 2022, revenue generated from sales to offline retailers amounted to RMB662.9 million, RMB386.5 million, RMB471.4 million and RMB179.5 million, respectively, accounting for approximately 23.1%, 11.4%, 13.0% and 14.2%, respectively, of our total revenue in the same periods. As of December 31, 2019, 2020, 2021 and June 30, 2022, we had 16, 13, two and one offline retailers under consignment arrangements, respectively. During the same period, the revenue generated from offline retailers under consignment arrangements amounted to RMB533.2 million, RMB373.7 million, RMB420.3 million and RMB175.2 million, respectively, representing 80.4%, 96.7%, 89.1% and 97.6% of our sales to offline retailers.

Internal Controls on Consignment Arrangements

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

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

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

- ***Ordering***: taking into consideration factors such as the retailer's sales experience, business track records, order amount, current inventory level and major sales and promotion activities such as Singles Day, we prepare sales forecasts regularly to understand our customers' demand in order to avoid order surpluses;

- ***Inventory management***: our retailers under the consignment arrangement normally have a real-time inventory management system, where we can login our accounts to monitor the inventory level of our product and track the amount of products delivered to the warehouse controlled by the online retailers under the consignment arrangements;

- ***Payment***: the retailers are responsible for making a payment within an agreed period following receipt of the invoice issued by us; and

- ***Unsold goods management***: for unsold goods, we have corresponding policies to facilitate the resale of unsold products. The products should be returned to us from the retailers within a certain time frame, prior to the expiration of the shelf life of products and so to avoid a backlog. In addition, we may also from time to time request our retailers to return unsold goods to be replaced with new products when products of new generations are introduced to the market. Such returned unsold good would normally be distributed to other sales channels if they are under resalable condition. Under consignment arrangements, we recognize revenue when end-consumers complete purchasing products from retailers. Therefore, these unsold goods returned to us will not be recognized as revenue. During the Track Record Period, the value of unsold goods returned from online retailers under consignment arrangements amounted to RMB4.1 million, RMB11.6 million, RMB10.9 million and RMB1.3 million, respectively, representing approximately 21.1%, 8.4%, 10.3%, and 3.3% respectively, of value of our goods shipped to online consignment retailers for the same periods. The returned unsold goods primarily came from *Tmall Supermarket*. During the Track Record Period, the value of unsold goods returned from offline retailers under consignment sales amounted to RMB80.8 million, RMB60.6 million, RMB25.9 million and RMB11.5 million, respectively, representing approximately 12.3%, 13.6%, 5.4% and 6.4%, respectively, of value of our goods shipped to offline consignment retailers for the same periods. The returned unsold goods primarily came from *Watsons*. The relatively high return rates for offline retailers under consignment arrangements in 2019 and 2020 were primarily due to the increasing amount of old products for *KANS* and *One Leaf* being replaced by new versions.

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

- *Duration.* The duration of the offline retailer agreements is typically one year.

- *Minimum purchase requirements.* We generally do not set any minimum purchase requirements.

- *Sales and performance targets.* We generally do not set sales targets for offline retailers.

- *Pricing policy.* We sell our products to or through offline retailers at price levels that have been mutually agreed by us and the offline retailers. For consignment arrangements, provide recommended retail price to our offline retailers, which may adjust the recommended retail price upon agreement between us and such offline retailers.

- *Payment and credit terms.* We deliver our products to our offline retailers before our offline retailers make payments to us. Depending on the specific arrangements with the offline retailers, we generally grant a credit period to offline retailers of 45 to 90 days.

- *Logistics.* We are responsible for delivering our products to locations designated by our offline retailers.

- *Transfer of risks.* For sales and purchase arrangements, the risks transfer to offline retailers after they complete the inspection and confirm the receipt of our products. For consignment arrangements, the title to products and legal risks do not transfer to consignees until the products are sold and delivered to end-consumers and end-consumers confirm receipt of products.

- *Wholesale restriction.* Our offline retailers are not allowed to engage in any wholesale activities unless otherwise specifically confirmed by us.

- *Return arrangements.* We typically do not allow offline retailers to return products to us except for limited reasons, including product quality issues, products with shelf life of less than the agreed standard and unmarketable goods. During the Track Record Period, we allowed product returns for certain reputable supermarkets other than goods that cannot be returned or exchanged, such as goods that are not in a resalable condition. For sales and purchase arrangements, we are responsible for picking up the returned products upon the receipt of the return notice.

- *Termination.* If the other party breaches the distribution agreement and fails to rectify such breach within a reasonable period of time, either party has the right to terminate the agreement with the other party.

Sales to offline distributors

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

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

- *Duration.* The duration of the distribution agreements is typically one year.

- *Designated distribution area.* The offline distributors are not allowed to sell our products outside of their designated distribution areas.

- *Minimum purchase requirements.* We generally do not have minimum purchase requirements for offline distributors.

- *Performance targets.* We set monthly, quarterly and annual performance targets in terms of advance payment for offline distributors. Our offline distributors are required to report their performance to us. We have the right to terminate such distribution agreements if the offline distributors fail to meet such performance targets.

- *Pricing policy.* We sell to our offline distributors at a discount to the recommended retail price. We also provide recommended retail prices to our offline distributors.

- *Payment and credit terms.* We require our offline distributors to make payment before the delivery of products. We provide short-term credit terms to certain offline distributors on a case-by-case basis, among which most are offline distributors selling products to regional offline retailers.

- *Logistics.* We assign independent third-party logistics companies to deliver our products to offline distributors by train or road. Our offline distributors may specify other modes of transportation and shall bear the logistics costs if they so specify.

- *Transfer of risks.* The risks transfer to offline distributors once we deliver the products to the independent third-party logistics companies.

- *Return arrangements.* Our offline distributors are entitled to inspect the quality of our products upon delivery, and may raise requests for product returns if the volume, product types, packaging, specifications or quality of the products delivered do not match those on the sales order within three days after the delivery. After the receipt of the products, we generally only accept product returns due to product defects.

- *Sub-distribution.* We generally do not allow our offline distributors to set up or sell products to sub-distributors.

- *Termination.* We have the right to terminate the agreement with offline distributors who breach the distribution agreement. We list several conditions that may result in breach of contract in the distribution agreements, including occasions where offline distributors sell our products outside their designated distribution area, or fail to obtain the required qualifications, or fail to reach performance targets in terms of advance payment in accordance with the agreement for three months.

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

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

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

Notes:

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

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

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

Selection and Management of Distributors

Selection of distributors

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

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

Management of distributors

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

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

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

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

Measures to prevent cannibalization:

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

(i) We grant specific geographical regions or specific e-commerce platforms to our offline distributors or online distributors in order to reduce the degree of competition among them. The distribution agreements we sign with distributors generally specify the designated geographic areas or e-commerce platforms. Our distribution agreements generally prohibit the distributors from selling our products outside the respective designated geographical regions or online channels without our prior written consent;

(ii) We coordinate our different sales channels by providing, to a certain extent, products in different types or specifications. For example, we assign differentiated products for different e-commerce platforms;

(iii) Similar to other cosmetics companies, we use multiple e-commerce platforms to display and sell their products so as to achieve the highest exposure through different online channels. As a result, for major e-commerce platforms like *Tmall* and *JD.com*, on one hand, we sell products to *Tmall Supermarket* and *JD.com* respectively as our online retailer customers, on the other hand, we operate self-own stores on those platforms. To avoid potential competition between our online retailers, online distributors and our self-operated online stores, we (a) have implemented an uniform pricing mechanism for the same products or sets sold on different platforms or online stores; (b) we have a designated team which has been constantly monitoring the prices of our products on different channels and would impose penalties for those who do not comply with our pricing policies, (c) we have differentiated the brands or product sets on different e-commerce platforms, catering to different consumers' needs. For example, we may tailor the offering of products for different e-commerce platforms to address the specific demands of their respective user bases; and (d) during the sales seasons such as Single's Day, we would align the promoting and marketing activities for online stores across the online channels, especially with respect to the breath and depth of discounts offering, to ensure a fair competition among different platforms;

(iv) We formulate and carry out marketing campaigns and strategies considering the performance of our overall online and offline sales networks to avoid cross-platform competition. We also adopt a uniformed pricing policy for products across different sales channels to ensure the standardization of our product pricing;

(v) We provide guidelines to our distributors regarding cannibalization;

(vi) We have a team responsible for reviewing any violations by distributors in relation to cannibalization; and

(vii) We are entitled to terminate the distribution agreements with those distributors that repeatedly engage in severe cannibalization or cross channel or cross region sales.

Low channel stuff risk

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

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

(i) the retailers who entitle to return products are well-known platforms and supermarkets with extensive sales experience and proven track record, who are our long-term cooperation partners;

(ii) our cooperation agreements generally do not provide for minimum purchase requirements nor sales targets for the online and offline retailers, and therefore they are not incentivized or obliged to purchase an amount of products exceeding the demands of their consumers;

(iii) we obtain and review information on sales of our products from our major retailers to evaluate sales volumes and prices of our products in order to avoid channel stuffing from time to time; and

(iv) we communicate with retailers and conduct analysis to understand the reasons for return of products. We also perform quality check on returned products to ensure that they are in good conditions and within the prescribed shelf life for resale.

Relationships between us and certain distributors

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

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

THIRD-PARTY PAYMENT ARRANGEMENTS

Background

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

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

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

Reasons for Utilizing Third-party Payment Arrangements

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

i. some Relevant Customers have pre-determined arrangements with third-party payors for settlement of their payments due to us for their internal operational and financial management practice and/or for convenience;

ii. some Relevant Customers paid through third-party payors because they may experience limited cash flow from time to time; as we generally require our distributors to make the payment before the delivery of the products, the Relevant Customers chose to expedite the settlement of their payments to us through Third-party Payment Arrangements; and

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

Internal Control Measures and Cessation of Third-party Payment Arrangements

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

i. we required our customers to settle their payments directly through their own corporate bank accounts, and in particular, we issued a notice to Relevant Customers informing them that the payments made by third parties including entities and individuals would not be accepted;

ii. for customers who were unable to directly settle payments with us immediately at the relevant time, we required that such customers (1) communicate relevant information to us, including, among others, the identity of the involved third-party payors; (2) obtain prior approval from persons in charge; and (3) provide us with a delegation of payment letter (the "letter"). In the letter, it is specified that the Relevant Customer delegates its payment obligation under the terms of the original agreement with us to the respective third-party payor (the "delegation"), which undertakes to pay directly to us under the same terms. The Relevant Customer also undertakes in the letter that we are released from any legal consequences which may arise from the Third-party Payment Arrangement and the third-party payor shall also waive any rights or claims in respect of the payment made by the third-party payor against us;

iii. before accepting any third-party payment, we verified the payment information against the information recorded in our system to ensure that such payment was settled through the relevant third-party payor's account as identified in the appropriate letter; and

iv. we required our employees to reject all payments made by third-party payors that failed to satisfy the abovementioned requirements.

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

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

OUR SUPPLY CHAIN

To ensure the quality of our products, during the Track Record Period, we produced most of our products through our own production plants. Meanwhile, to maximize production efficiency and broaden our product portfolio, we also cooperate with a selection of reliable OEM suppliers to produce certain products, such as soaps, toothpastes, perfumes and mosquito repellent products. Our criteria for selecting OEM suppliers include their qualifications, reputation, track record, market coverage and industry experience.

Our Production Bases

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

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

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

- ***Systematic control.*** Through the coordinated operation of multiple systems, we are able to accurately control the receipt, inspection and release of raw materials. We also introduced a goods-fleeing prevention system to generate separate bar codes for each piece of goods to ensure that sales are traceable.

- ***Intelligent ingredient preparation.*** Our imported ingredient preparation systems, equipped with weighing, emulsification, water purification and advanced process control programs, have made the ingredient preparation process more intelligent and accurate.

- ***Automatic production.*** Our 45 production lines, most of which are imported automated facilities, help us achieve scientific and automated production.

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

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

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

Notes:

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

(2) The actual production during the year or period is the total volume of the products manufactured during that year or period.

(3) The utilization rate equals the actual production divided by the designed capacity during the same period.

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

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

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

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

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

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

Notes:

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

The actual production for maternity and childcare increased from 7,395.0 tons to 12,932.1 tons, primarily due to an increase in market demand. The designed capacity and actual capacity for skin care products increased primarily due to the production expansion in our Fengxian Plant. The actual production for others decreased from 555.7 tons in 2019 to 461.7 tons in 2020, and further decreased to 336.3 tons in 2021, primarily due to the production reduction in certain color cosmetics brands. Our production utilization rate in the six months ended June 30, 2022 remained relatively low, primarily due to the impact of COVID-19 outbreak in Shanghai and the restrictions to our production activities during such period.

Our Production Expansion Plan

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

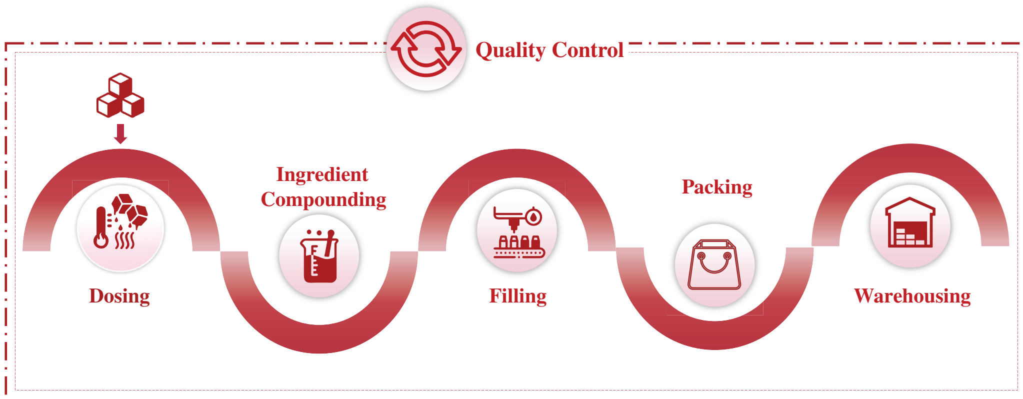
The table below sets out the details of our planned upgrades of our Fengxian Plant and expected increase in designed production capacity:

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

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

Our Production Process

The following diagram illustrates our production process.



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

Raw Materials

Our raw materials involved in the production of our products consist of packaging materials and ingredients. Ingredients used in our production primarily include, among others, moisturizers, active substances and oils. Packaging materials mainly include paper boxes, pump heads, plastic and glass bottles and aluminum foil bags. In 2019, 2020, 2021 and the six months ended June 30, 2022, the total cost of raw materials amounted to RMB914.4 million, RMB991.2 million, RMB1,053.9 million and RMB368.9 million, respectively, which accounted for 81.3%, 82.9%, 83.8% and 83.3% of our total cost of sales, respectively. The prices of our raw materials generally fluctuate with market conditions. We enter into long-term cooperation agreements for certain important raw materials with our suppliers in order to avoid supply shortages or delays. During the Track Record Period and up to the Latest Practicable Date, we did not encounter any material raw materials shortages or delays.

We have a centralized procurement center which is responsible for procurement of raw materials for all our brands. The relevant personnel from each brand usually collaborate with the centralized procurement center to select the most suitable suppliers for our products. Our centralized procurement center issues some general principles and guidelines and oversees the entire procurement process. We comprehensively consider several factors in selecting and evaluating suppliers, including, but not limited to price, quality, location, operating environment and conditions, supply chain capability, product quality and production scale, reputation, track record, market coverage and industry experience. We import most of our ingredients from overseas factories through their agents in China and such ingredients are primarily produced in European countries, the United States and Japan. We also purchase certain ingredients produced in China. For key ingredients, we collaborate with multiple suppliers to reduce the risks associated therewith. We maintain long-term relationships with reputable ingredients suppliers, ensuring sufficient supply of ingredients supply. For a number of our signature products, we produce our own packaging designs to preserve their uniqueness and originality. We also involve key suppliers in our product development process, engaging with their expertise in selecting suitable raw materials. In 2019, on the recommendation of our suppliers, we adopted honeycomb mask sheet in our Gold Honeycomb Active Mask, Multi-effect Golden Honeycomb Mask, and Moisturizing Radiant Pinky Diamond Mask, and received positive reviews from consumers. In 2020, our Gold Honeycomb Active Mask won the "Beauty Evolution Awards" (2020年度新銳榜) by Beauty Evolution.

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

BRANDING AND MARKETING

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

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

Online Marketing

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

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

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

Offline Marketing

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

Marketing Cases

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

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

Strategies and Engagement of Celebrities and KOLs

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

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

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

(i) we require a comprehensive background search on the celebrities or KOLs through query and desktop search in relation to his or her public opinions and public image;

(ii) we engage our legal department to carefully review contracts to ensure a normal clause is included to restraint the negative behaviors of celebrities or KOLs;

(iii) our marketing and branding team maintains close communications with legal department, which periodically provides the latest legislations to ensure ongoing compliance; and

(iv) we also have emergency plans in place to handle negative publicities in a timely manner.

Regulatory Developments

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

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

PRICING

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

CUSTOMERS

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

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

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

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

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

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

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

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

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

Note:

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

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

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

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

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

Customers Services

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

Ordinary complaints, inquiries and feedbacks from consumers received through our customer service hotline or reported by our online or offline retailors or distributors are immediately handled by our relevant customers service staff. If the complaints are serious or require special attention, such complaints will be transferred to our internal complaint handling department which may conduct further investigation into the relevant complaints or communication with the relevant consumers. We would consider the facts and reasonableness of each complaint and strive to handle each of them properly. Consumers generally accept apologies, product exchanges and/or refunds to settle their complaints. We would also conduct follow-up communication with consumers to check if their complaints have been properly resolved.

The Recent Regulatory Developments Relating to Anti-unfair Competition

The CAC, the MITT, the Ministry of Public Security and the SAMR jointly released the Administrative Provisions on the Recommendation of Algorithms for Internet-based Information Services (《互聯網信息服務算法推薦管理規定》), effective on March 1, 2022, which stipulates that algorithmic recommendation service providers shall not carry out monopoly or unfair competition by imposing unreasonable restrictions on other Internet information service providers by using algorithms, or by hindering or disrupting the normal operation of the Internet information services legally provided by such providers.

The SAMR released the Provisions on the Clear Marking of Prices and the Prohibition of Price Frauds (《明碼標價和禁止價格欺詐規定》) on April 14, 2022, effective on July 1, 2022, which specifies that the online trading platform operators shall not, by taking advantage of technical means or otherwise, force the business operators to use the platforms to make false or misleading price labels.

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

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

SUPPLIERS

Our major suppliers are suppliers of raw materials, marketing services, construction services and logistics services. Purchase from our largest supplier, Company G, in each period during the Track Record Period amounted to RMB299.6 million, RMB281.4 million, RMB433.9 million and RMB110.7 million, respectively, representing 14.2%, 10.8%, 17.6% and 12.7% of our total purchase amount in the respective period. Purchase from our five largest suppliers in each period during the Track Record Period amounted to RMB597.5 million, RMB631.8 million, RMB862.2 million and RMB257.6 million, respectively, representing 28.3%, 24.2%, 35.0% and 29.6% of our total purchase amount in the respective period. The services and materials types purchased by us and purchase amount have not had any material changes during the Track Record Period.

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

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

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

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

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

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

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

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

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

Note:

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

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

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

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

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

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

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

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

PRODUCT SAFETY AND QUALITY CONTROL

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

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

Quality Control on Formula Development and Test

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

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

Raw Materials Quality Control

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

Production Process Quality Control

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

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

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

Quality Inspection on Finished Products

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

Product Returns and Recalls

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

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

Distributors generally cannot return our products after receipt. Under the distribution agreements, returns and exchanges are only available for products that are defective or damaged. Under such circumstances, we will be responsible for the costs incurred by returned or exchanged products. We shall not bear the related expenses for returned normal products or other abnormal products which are not caused by us. During the Track Record Period, the total value of products returned in terms of revenue amounted to RMB103.0 million, RMB60.3 million, RMB77.5 million and RMB20.5 million, respectively, representing approximately 3.6%, 1.8%, 2.1% and 1.6%, respectively, of our total revenue for the same periods; specifically returned products attributable to our online channels amounted to RMB0.9 million, RMB8.4 million, RMB51.3 million and RMB19.6 million, respectively, with a return rate of 0.1%, 0.3%, 1.9% and 2.1%; returned products attributable to our offline channels amounted to RMB101.6 million, RMB51.6 million, RMB25.8 million and RMB0.9 million, respectively, with a return rate of 7.7%, 6.7%, 3.1% and 0.3%. We recorded higher product return rates for offline channels during the Track Record Period, primarily because offline retailers such as supermarkets regularly arrange product return to us and procure newly launched products to optimize the display of the latest products of ours on their channels.

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

INVENTORY MANAGEMENT

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

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

We focus on optimizing our inventory management and we maintain a digital SAP system to track incoming and outgoing inventory. The SAP system enables us to manage different aspects of our inventory, namely (i) procurement agreements, orders and applications, and order settlements, (ii) raw material preparation, transfer to production facilities, and the consumption of raw materials, (iii) orders placed by our customers and their delivery process, and (iv) movement of inventories in our warehouse. The system enables us to monitor inventory levels and generates inventory reports on a real-time basis, which in turn helps us maintain optimal inventory levels and improve our working capital efficiency.

WAREHOUSING AND LOGISTICS

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

COMPETITION

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

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

INTELLECTUAL PROPERTY

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

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

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

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

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

EMPLOYEES

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

	Number of employees
Sales and Marketing	2,737
Administration	285
Research and Development	204
Production	148
Total	3,374

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

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

Social Insurance and Housing Provident Funds

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

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

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

The number of employees using third-party agencies for paying social insurance or housing provident funds was 80, 3,302, 2,737 and 2,240, respectively, as of December 31, 2019, 2020, 2021 and June 30, 2022, with such number increasing from 80 as of December 31, 2019 to 3,302 as of December 31, 2020 primarily because we engaged around 3,887 dispatched workers who were not our employees in 2019. According to the Interim Provisions on Labor Dispatch (勞務派遣暫行規定), the number of dispatched workers employed shall not exceed 10% of total employment. In order to rectify the non-compliance issue, we started to enter into employment agreements with such dispatched workers, who eventually became our employees in the late 2020. In 2019, 2020, 2021 and the six months ended June 30, 2022, we made contributions through such third-party agencies of RMB2.3 million, RMB2.4 million, RMB31.3 million and RMB14.8 million, representing approximately 2.3%, 3.9%, 24.5% and 22.7% of our total social insurance premiums and housing provident funds contributions during the same periods. Approximately 68% of the total number of our employees as of December 31, 2021 contributed to 24.5% of the total social insurance and housing provident funds contributions in 2021 primarily due to: (i) the employees whose contributions for social insurance or housing provident funds were paid through third-party agencies are mainly our sales staff of sent to offline stores, such as *Watsons* stores, in different cities outside Shanghai. As the compensation of sales staff typically consists of low base salary plus performance-based incentives, their incomes are generally much lower than that of our employees in Shanghai headquarter of administrative, marketing and R&D roles. During the Track Record Period, the social insurance and housing provident fund contributions of employees at our headquarter could be as high as approximately five times of the contributions of sales staff outside Shanghai, resulting in smaller amounts of social insurance and housing provident fund contributions of those sales staff; and (ii) in China, different cities have their own rules for mandatory minimum social insurance or housing provident fund contributions. Given the more developed social welfare system and a higher average income, the mandatory minimum social insurance and housing provident fund contributions of Shanghai are higher than most of other cities in China. Such a difference also results in the lower social insurance and housing provident contributions of our sales staff than those of employees at our Shanghai headquarter.

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

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

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

The failure to make full contributions of social insurance and housing provident funds was primarily because (i) certain employees were unwilling to pay the social insurance and housing provident funds in full as it requires additional contributions from our employees; (ii) the turnover rate of our sales personnel in different cities across the nation was high, in respect of which (a) the payment of social insurance and housing provident funds for some new employees had not started in the same month of their commencement of employment with us given the need to complete the relevant registration procedures; and (b) some employees' social insurance and housing provident funds payment relationships with former employers had not yet been terminated at the relevant time and we were unable to make contributions for such employees.

Potential Legal Consequences

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

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

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

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

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

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

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

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

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

Remedial Measures

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

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

INSURANCE

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

OCCUPATIONAL HEALTH, SAFETY AND ENVIRONMENTAL MEASURES

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

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

Occupational Health and Safety

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

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

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

Environmental Protection

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

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

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

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

Emissions

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

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

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

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

Use of energy and water

Our resource consumption principally comprises electricity consumption, energy consumption and water consumption to support our business operations, including production facilities and office facilities. In 2019, 2020, 2021 and the six months ended June 30, 2022, we consumed approximately 13,162,995 kWh, 15,131,828 kWh, 18,142,000 kWh and 5,045,947 kWh of electricity, respectively, with an intensity of approximately 4,579.6 kWh, 4,474.8 kWh, 5,013.1 kWh and 3,997.1 per RMB million revenue, respectively. For the same periods, we also consumed approximately 422,107 cubic meters, 422,262 cubic meters, 448,390 cubic meters and 126,953 cubic meters of natural gas, respectively, with an intensity of approximately 146.9 cubic meters, 124.9 cubic meters, 123.9 cubic meters and 100.6 cubic meters per RMB million revenue, respectively. Furthermore, we consumed approximately 232,169 cubic meters, 261,360 cubic meters, 300,312 cubic meters and 90,627 cubic meters of water, respectively, during the same periods, with an intensity of approximately 80.8 cubic meters, 77.3 cubic meters, 83.0 cubic meters and 71.8 cubic meters per RMB million revenue, respectively. We will make continuous efforts in working towards the target of reducing the level of our average annual energy consumption and water consumption per unit revenue over the next three years.

Use of Animal testing

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

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

(i) When engaging third-party animal testing institutions, we normally conduct a background check to ensure they are competent institutions with qualification such as China Metrology Accreditation that recognized by the authorities.

(ii) We have formulated a detailed protocol which specifies the goals and requirements, and further send the protocol to the institutions we engage to evaluate the feasibility and the cost related to such studies.

(iii) The testing institution will be responsible for the preparation and monitoring of animals during and after performing animal testing.

(iv) We believe animal testing can help us identify potential risks and improve our product safety.

(v) Based on the animal testing results, we will then confirm our product design or ensure its safety to our customers.

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

ESG-related risks and opportunities

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

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

SOCIAL AND COMMUNITY MATTERS

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

Disaster and Epidemic Donation

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

Environmental and Social Sustainability

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

Education

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

PROPERTIES

Owned Properties

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

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

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

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

Pursuant to Chapter 5 of the Listing Rules and section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, save and except for the disclosure set forth in Appendix III to this document, this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance (Miscellaneous Provisions) in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance (Miscellaneous Provisions) which requires a valuation report with respect to all our Group's interests in land or buildings. Pursuant to Rule 5.01A and 5.01B of the Listing Rules, if the carrying amount (as defined in Rule 5.01(1) of the Listing Rules) of a property interest (as defined in Rule 5.01(3) of the Listing Rules) is or is above 15% of its total assets (as defined in Rule 5.01(4) of the Listing Rules), this document must include the full text of a valuation report for such property interest. As the carrying amount of our above owned property exceeds 15% of our total assets as at June 30, 2022, being the date of which the most recent audited consolidated statements of the financial position of our Group, in order to comply with Rule 5.01B(2)(a) of the Listing Rules, a property valuation report by AVISTA Valuation Advisory Limited, an independent property valuer, in respect of our above owned property is included in Appendix III to this document. As of June 30, 2022, one of our above owned properties, the Fengxian Plant, had a carrying amount that was more than 15% of our consolidated total assets. See "Appendix III – Property Valuation Report."

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

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

Leased Properties

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

Lease Agreement

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

Lease Registration

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

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

LICENSES, APPROVALS AND PERMITS

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

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

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

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

Compliance

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

- establish an Audit Committee to review and supervise our financial reporting process and internal control system. For the qualifications and experience of the committee members, see "Directors, Supervisors and Senior Management;"

- adopt various policies to ensure compliance with the Listing Rules, including, but not limited to, aspects related to risk management, connected transactions and information disclosure;

- provide anti-corruption and anti-bribery compliance training periodically to our senior management and employees to enhance their knowledge and compliance with applicable laws and regulations, and include relevant policies against non-compliance in employee handbooks;

- organize training sessions for our Directors and senior management in respect of the relevant requirements of the Listing Rules and duties of directors of companies listed in Hong Kong;

- enhance our reporting and records system for production facilities, including centralizing their quality control and safety management systems and conducting regular inspections of the facilities;

- establish a set of emergency procedures in the event of major quality-related issues; and

- provide enhanced training programs on quality assurance and product safety procedures.

AWARDS AND RECOGNITION

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

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

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

OVERVIEW

As of the Latest Practicable Date, Mr. Lyu Yixiong was directly interested in approximately 40.96% and indirectly interested in approximately 50.31% of the total issued share capital of our Company. Mr. Lyu Yixiong holds his indirect interest through (a) Hongyin Investment, of which Mr. Lyu Yixiong is the actual controller and an approximately 93.33%-shareholder, which directly holds 30.00% of our Shares; (b) Shanghai Kans, of which Mr. Lyu Yixiong is the actual controller and the sole shareholder, which directly holds approximately 2.93% of our Shares; (c) Nanyin Investment, of which Mr. Lyu Yixiong is the actual controller and an approximately 83.74%-shareholder, which directly holds approximately 16.91% of our Shares; and (d) Shanghai Shengyan, of which Mr. Lyu Yixiong is the actual controller and the sole owner, which directly holds approximately 0.46% of our Shares. For the details of the remaining shareholders of Hongyin Investment and Nanyin Investment, see "Appendix VII – Statutory and General Information – 5. Employee Share Ownership Plan". Accordingly, our Controlling Shareholders are Mr. Lyu Yixiong, Hongyin Investment, Shanghai Kans, Nanyin Investment and Shanghai Shengyan.

Immediately following the completion of the [**REDACTED**], Mr. Lyu Yixiong will be interested in approximately [**REDACTED**]% of our total share capital (assuming the [**REDACTED**] is not exercised) or approximately [**REDACTED**]% of our total share capital (assuming the [**REDACTED**] is exercised in full). Mr. Lyu Yixiong, Hongyin Investment, Shanghai Kans, Nanyin Investment and Shanghai Shengyan will remain as our Controlling Shareholders upon the [**REDACTED**].

Confirmation

As of the Latest Practicable Date, (i) Mr. Lyu Yixiong holds 99.86% in Shanghai Dalyu Business Consulting Co., Ltd. (上海大呂商務諮詢有限公司), a holding entity, the subsidiaries of which are engaged in a variety of business activities, including catering business and teahouse operations, and 49.00% in Shanghai Dihuo Catering Co., Ltd. (上海底火餐飲有限公司), which is principally engaged in catering business and hotpot restaurants operations; (ii) our executive Director, Ms. Luo Yan (羅燕) holds 49.00% in Shanghai Guli Education Technology Co., Ltd. (上海古力教育科技有限公司), which principally engages in the education industry; and (iii) Ms. Li Hanqiong holds 49.00% in Ningbo Shengda Development Co., Ltd. (寧波盛達發展有限公司) which principally engages in the garment business and is a director and shareholder of Youngor Group Co., Ltd. (雅戈爾集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600177), which principally engages in the garment business and real estate development. As we are a company focusing on developing skincare and personal care products and operating cosmetic brands, we consider that there is a clear delineation between our business and those of the aforementioned companies. As such, as of the Latest Practicable Date, none of our Directors was interested in any business which competes, or is likely to compete, directly or indirectly, with the business of our Group or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independent from our Controlling Shareholders and each of his or its close associates after the [**REDACTED**].

Management Independence

Our daily operational and management decisions are made collectively by our Board and our senior management. Our Board consists of four executive Directors, two non-executive Directors and three independent non-executive Directors. We believe that our Directors, Supervisors and senior management can independently perform their duties in our Company and we can operate independently from our Controlling Shareholders for the following reasons:

- Each of our Directors is aware of his/her fiduciary duties as a director of our Company which requires, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest.

- In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Controlling Shareholders or each of his or its associates, the interested Director(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum.

- Our Board has a balanced composition of executive Directors and independent non-executive Directors which ensures the independence of our Board in making decisions affecting our Company. Specifically, (a) our independent non-executive Directors are not associated with our Controlling Shareholders or each of his or its associates; (b) our independent non-executive Directors account for one-third of the Board; and (c) our independent non-executive Directors individually and collectively possess the requisite knowledge and experience as independent directors of listed companies and will be able to provide professional and experienced advice to our Company. In conclusion, our Directors believe that our independent non-executive Directors are able to bring impartial and sound judgment to the decision-making process of our Board and protect the interest of our Company and our Shareholders as a whole.

- We will establish corporate governance measures and adopt sufficient and effective control mechanisms to manage conflicts of interest, if any, between our Group and our Controlling Shareholders, which would support our independent management. See "– Corporate Governance Measures" in this Section.

Having considered the above factors, our Directors are satisfied that they are able to perform their managerial roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders and each of his or its close associates after the [**REDACTED**].

Operational Independence

Our Group holds all the relevant material intellectual properties rights, licenses, qualifications and permits required for conducting our Group's business. Our Group has sufficient capital, facilities and employees to operate our business independently from our Controlling Shareholders and each of his or its close associates. Our Group also has independent access to our customers. We have our own accounting and financial department, human resources and administration department, internal control department and technology department. We have also established a set of internal control procedures and adopted corporate governance practices to facilitate the effective operation of our business.

For details about our related party transactions during the Track Record Period, see Note 37 of the Accountant's Report as set out in Appendix I of this document. As of the Latest Practicable Date, save for the transaction as disclosed in the section headed "Connected Transactions" in this document, all related party transactions which will constitute connected transactions have been terminated. The Directors do not expect that there will be any other transactions between the Group and the Controlling Shareholders and each of his or its close associates upon or shortly after the [**REDACTED**].

We believe that we are capable of carrying on our business independently of our Controlling Shareholders and each of his or its close associates. Our Directors confirmed that our Group will be able to operate independently from our Controlling Shareholders and each of his or its close associates after the [**REDACTED**].

Financial Independence

Our Group has an independent internal control, accounting and financial management system as well as an independent finance department which makes financial decisions according to our Group's own business needs. Our Group's accounting and finance functions are independent of our Controlling Shareholders and each of his or its close associates.

From December 29, 2018 to September 30, 2020, Shanghai Zhongyi, a wholly owned subsidiary of the Company, entered into a series of agreements with the Fengxian branch of Shanghai Pudong Development Bank (上海浦東發展銀行股份有限公司奉賢支行) ("**SPD Bank**") pursuant to which SPD Bank agreed to lend Shanghai Zhongyi loans (the "**Loans**") in an aggregate amount of RMB227,000,000 (as amended by the third supplemental agreement entered into between Shanghai Zhongyi and SPD Bank on September 30, 2020) for the construction of and purchase of equipment for the new plant of Shangmei Industrial Park Project (上美產業園項目), and a guarantee against Shanghai Zhongyi's obligations under the Loans (the "**Guarantee**") was provided by one of our Controlling Shareholders, Mr. Lyu Yixiong. See "Financial Information – Indebtedness" and Note 28. Interest-bearing bank and other borrowings of the Accountant's Report as set out in Appendix I for more details. The Guarantee was terminated pursuant to the fourth supplemental agreement entered into between Shanghai Zhongyi and SPD Bank on December 24, 2021. As such, our Directors are of the view that our financing from SPD Bank does not affect our financial independence.

Based on the aforesaid, our Directors believe that we have the ability to conduct our business independently from our Controlling Shareholders and each of his or its close associates from a financial perspective and are able to maintain financial independence from our Controlling Shareholders and each of his or its close associates.

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of good corporate governance to protect the interest of our Shareholders. We would adopt the following corporate governance measures to manage potential conflict of interests between our Group and our Controlling Shareholders:

(a) Where a Shareholders' meeting is held for considering proposed transactions in which our Controlling Shareholders has a material interest, our Controlling Shareholders shall abstain from voting on the relevant resolutions and shall not be counted in the quorum for the voting.

(b) Where a Board meeting is held for the matters in which a Director has a material interest, such Director shall abstain from voting on the relevant resolutions and shall not be counted in the quorum for the voting.

(c) In the event that our independent non-executive Directors are requested to review any conflict of interest between our Group and our Controlling Shareholders, our Controlling Shareholders shall provide the independent non-executive Directors with all necessary information and our Company shall disclose the decisions of the independent non-executive Directors either in its annual reports or by way of announcements.

(d) Our Directors (including the independent non-executive Directors) will seek independent and professional opinions from external advisors at our Company's cost as and when appropriate in accordance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules.

(e) Any transactions between our Company and its connected persons shall be in compliance with the relevant requirements of Chapter 14A of the Listing Rules, including the announcement, annual reporting and independent shareholders' approval requirements (if applicable) under the Listing Rules.

(f) We have appointed Maxa Capital Limited as our compliance advisor, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules, including various requirements relating to directors' duties and corporate governance.

Based on above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders and/or other Directors to protect minority Shareholders' right after [**REDACTED**].

Upon [**REDACTED**], transactions between members of our Group and our connected persons will constitute connected transactions or continuing connected transactions of our Company under Chapter 14A of the Listing Rules.

TRANSACTIONS WITH OUR DEEMED CONNECTED PERSON

1. Suzhou Xiongze Packaging Co., Ltd. (蘇州雄澤包裝有限公司) ("Suzhou Xiongze")

Suzhou Xiongze is a company wholly owned by the husband (the "**Relative**") of Ms. Lyu Lichun (呂麗純), a sibling of Mr. Lyu. Having consulted with the Stock Exchange pursuant to Rule 14A.21 taking into account the Relative's association with Mr. Lyu, the transaction between Suzhou Xiongze and the Group should be subject to the connected transaction requirements. For the avoidance of doubt, any other transactions between our Group and Suzhou Xiongze, if any, will be conducted in compliance with the Listing Rules (including but not limited to Rule 14A.21 of the Listing Rules).

OUR CONTINUING CONNECTED TRANSACTION

Nature of transactions	**Applicable Listing Rules**	**Waiver sought**	**Historical amounts** *(RMB in millions)*	**Proposed annual cap for the year ending December 31** *(RMB in millions)*
Non-exempt continuing connected transaction			**For the year ended December 31**	
1. Products Purchasing Framework Agreement	14A.34, 14A.35, 14A.49, 14A.52 to 14A.59 14A.71 14A.76 and 14A.105	Announcement requirement under Chapter 14A of the Listing Rules	2019: 35.2 2020: 36.6 2021: 44.6 **For the six months ended June 30** 2022: 12.4	2022: 45.7 2023: 50.2 2024: 55.2

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

1. Products Purchasing Framework Agreement

Parties

(1) Suzhou Xiongze (for itself and on behalf of its subsidiaries); and

(2) Our Group

Principal terms

On November 24, 2022, we entered into a framework agreement with Suzhou Xiongze (the "**Products Purchasing Framework Agreement**"), pursuant to which we agreed to purchase packaging and ancillary materials as well as printing materials from Suzhou Xiongze.

The initial term of the Products Purchasing Framework Agreement shall commence on the [**REDACTED**] until December 31, 2024.

Reasons for the transaction

During the Track Record Period, we have been purchasing packaging and ancillary materials as well as printing materials from Suzhou Xiongze to satisfy our business needs in our ordinary and usual course of business. Owing to the supplier relationship, Suzhou Xiongze has acquired a comprehensive understanding of our business and operational requirements and has established a foundation for mutual trust. Taking into account our previous procurement experience with Suzhou Xiongze, we believe that Suzhou Xiongze is capable of fulfilling our demands efficiently and reliably with a stable supply of products and materials.

Pricing policies

The procurement of products and materials from Suzhou Xiongze has been made on a cost-plus basis or based on market price, depending on the products and materials purchased.

In order to ensure that any procurement made is fair and reasonable and on normal commercial terms, we have adopted and implemented a management system in managing our suppliers and procurement, and the procurement from Suzhou Xiongze will be subject to such management system like other suppliers of our Group. Under the management system, we invite fee quotes from a list of designated suppliers maintained by us and select the supplier taking into account factors such as the estimated time of delivery of goods and the capacity of the supplier. The terms of the framework agreement entered into between our Group and Suzhou Xiongze are substantially the same as those entered into between our Group and other suppliers on our list of suppliers. Our procurement department will review the pricing terms and/or basis offered by the current suppliers on our list of suppliers on an annual basis and will compare the same against those offered by the suppliers who are not included in such list.

Historical amounts

The total procurement amount paid by us to Suzhou Xiongze for each of the three years ended December 31, 2019, 2020, 2021, and the six months ended June 30, 2022 were approximately RMB35.2 million, RMB36.6 million, RMB44.6 million, and RMB12.4 million, respectively.

Annual caps

The procurement amounts payable to Suzhou Xiongze for the three years ending December 31, 2022, 2023 and 2024 shall not exceed the caps as set out in the table below:

	Proposed annual caps for the year ending December 31 *(RMB in millions)*		
	2022	**2023**	**2024**
Procurement amount	45.7	50.2	55.2

Basis of caps

The proposed annual caps for procurement amount are determined after taking into account: (i) our historical procurement amount from Suzhou Xiongze for the year ended December 31, 2021; (ii) our expected growth in revenue; and (iii) our expected procurement from Suzhou Xiongze remaining at a relatively stable rate.

Listing Rules implications

As the highest applicable percentage ratio of the transactions under the Products Purchasing Framework Agreement for each of the three years ending December 31, 2022, 2023 and 2024 calculated for the purpose of Chapter 14A of the Listing Rules is expected to be more than 0.1% but less than 5% on an annual basis, the transactions contemplated under the Products Purchasing Framework Agreement will, upon [**REDACTED**], be subject to the reporting, announcement and annual review requirements but will be exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

INTERNAL CONTROL MEASURES

Our Group has an independent internal control, accounting and financial management system as well as an independent finance department which makes financial decisions according to our Group's own business needs. See "Relationship with Controlling Shareholders" for further details of the independence of our Group.

In order to ensure that the terms under relevant framework agreements for the continuing connected transactions are fair and reasonable, or no less favorable than terms available to or from Independent Third Parties, and are carried out under normal commercial terms, our procurement team will be responsible for maintaining and reviewing our list of designated suppliers on an annual basis. Additionally, we will adopt the following internal control procedures:

- our various internal departments will be responsible for the control and daily management in respect of the continuing connected transactions;

- our various internal departments will be jointly responsible for evaluating the terms under the framework agreement for the continuing connected transactions, in particular, the fairness of the pricing policies and annual caps under each transaction;

- our various internal departments will regularly monitor the fulfillment status of the annual caps and the transaction updates under the framework agreement; and

- our independent non-executive Directors and auditors will conduct annual review of the continuing connected transactions under the framework agreement and provide annual confirmation to ensure that, in accordance with the Listing Rules, the transactions are conducted in accordance with the terms of the framework agreement, on normal commercial terms and in accordance with the relevant pricing policies.

CONFIRMATION BY DIRECTORS

The Directors (including independent non-executive Directors) are of the view that the non-exempt continuing connected transaction as set out above has been and will be entered into in the ordinary and usual course of business of the Group and on normal commercial terms or better that are fair and reasonable and in the interests of the Company and our Shareholders as a whole; and that the proposed annual caps for the non-exempt continuing connected transaction are fair and reasonable and in the interests of the Company and our Shareholders as a whole.

CONFIRMATION BY THE JOINT SPONSORS

Based on (i) the documentation and data provided by the Company, and (ii) the due diligence conducted and discussions by the Joint Sponsors with the Company, and having made reasonable inquiries and after due and careful consideration, the Joint Sponsors are of the view that, as of the date of this document, the aforesaid non-exempt continuing connected transaction has been entered into in the ordinary and usual course of business of the Company on normal commercial terms which are fair and reasonable, and in the interests of the Company and its Shareholders as a whole, and the proposed annual caps in respect of such continuing connected transaction are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

WAIVER GRANTED BY THE STOCK EXCHANGE

We have applied to the Stock Exchange for, and the Stock Exchange [has granted] us, a waiver pursuant to Rule 14A.105 of the Listing Rules from strict compliance with the announcement requirement under Rule 14A.35 of the Listing Rules in respect of the transactions under the Products Purchasing Framework Agreement for the term ending December 31, 2024, subject to the condition that the total amount of transactions under the Products Purchasing Framework Agreement for each of the three years ending December 31, 2022, 2023 and 2024 shall not exceed the proposed caps as set out in this section.

The independent non-executive Directors and auditors of our Company will review whether the actual transactions under the Products Purchasing Framework Agreement have been entered into pursuant to the principal terms and pricing policies under the Products Purchasing Framework Agreement. The confirmation from our independent non-executive Directors and our auditors will be disclosed annually according to the requirements of the Listing Rules.

OVERVIEW

Our Board consists of nine Directors, including four executive Directors, two non-executive Directors and three independent non-executive Directors. Our Supervisory Committee consists of three Supervisors, including two shareholder representative Supervisors and one employee representative Supervisor. All of our Directors, Supervisors and senior management meet the qualification requirements under the relevant PRC laws and regulations and the Hong Kong Listing Rules for their respective positions.

BOARD OF DIRECTORS

The following table sets forth certain information of our Directors:

Name	Age	Position	Date of appointment as Director	Date of joining our Group	Principal roles and responsibilities
Mr. Lyu Yixiong (呂義雄)	44	Chairman of the Board, executive Director and chief executive officer	October 9, 2014	June 11, 2004	Responsible for the overall affairs of the Board and general management of the Company, including formulation of the general corporate business plans, strategies and major decisions
Ms. Luo Yan (羅燕)	35	Executive Director	May 26, 2020	March 15, 2012	Responsible for the formulation of the general corporate business plans, strategies and major decisions
Mr. Feng Yifeng (馮一峰)	43	Executive Director	June 29, 2017	July 1, 2016	Responsible for the formulation of the general corporate business plans, strategies and major decisions
Ms. Song Yang (宋洋)	33	Executive Director	February 28, 2020	December 16, 2013	Responsible for the formulation of the general corporate business plans, strategies and major decisions
Mr. Sun Hao (孫昊)	32	Non-executive Director	September 30, 2022	September 30, 2022	Participating in the formulation of the general corporate business plans, strategies and major decisions of our Company through the Board

Name	Age	Position	Date of appointment as Director	Date of joining our Group	Principal roles and responsibilities
Ms. Li Hanqiong (李寒窮)	44	Non-executive Director	October 17, 2020	October 17, 2020	Participating in the formulation of the general corporate business plans, strategies and major decisions of our Company through the Board
Mr. Leung Ho Sun Wilson (梁浩新)	42	Independent Non-executive Director	December 21, 2021	December 21, 2021	Supervising and offering independent judgment to the Board
Ms. Luo Yan (羅妍)	39	Independent Non-executive Director	December 21, 2021	December 21, 2021	Supervising and offering independent judgment to the Board
Mr. Liu Yi (劉毅)	36	Independent Non-executive Director	December 21, 2021	December 21, 2021	Supervising and offering independent judgment to the Board

Executive Directors

Mr. Lyu Yixiong (呂義雄), aged 44, currently serves as the executive Director, chairman of the Board and chief executive officer of our Company and is also one of the Controlling Shareholders of our Company. Since Shanghai Chicmax (previously known as Shanghai Kaka Cosmetic Co., Ltd. (上海卡卡化妝品有限公司)) was founded in June 2004, Mr. Lyu has been its chief executive officer, responsible for general management of the Company. Mr. Lyu holds positions in various subsidiaries of our Company, including:

Name of subsidiary	Position held	Period of Appointment
Shanghai Shumei	Legal representative	September 2009 – January 2021
Baby Elephant Cosmetic	Legal representative	December 2015 – March 2019
Leading Investment	Legal representative	April 2016 – Present
Nippon Shuichi	Representative director	January 2019 – Present

Mr. Lyu currently serves as the legal representative of Shanghai Lizi Cosmetics Co., Ltd. (上海黎姿化妝品有限公司) (currently known as Shanghai Lizi Business Consulting Co., Ltd. (上海黎姿商務諮詢有限公司)) and Shanghai KANS, and both companies are not carrying on business and currently do not have any plan to conduct any business in the future.

Mr. Lyu completed the executive management education courses at Cheung Kong Graduate School of Business (長江商學院) in the PRC in November 2018.

Ms. Luo Yan (羅燕), aged 35, is our executive Director, deputy chief executive and the general manager for *KANS* brand. Joining our Group in March 2012, Ms. Luo has been serving in various positions including the chief operation officer from January 2015 to February 2020, the deputy chief executive since March 2020, mainly responsible for e-commerce on emerging media platforms, and the general manager for *KANS* since January 2021, responsible for the overall management and marketing of *KANS*. Ms. Luo was appointed as an executive Director in May 2020.

In addition, Ms. Luo currently holds directorship in various members of the Group, including serving as the executive director of Shanghai Zhongyi since December 2018, the director of Nippon Shuichi since January 2019, the executive director of Shanghai Kans Cosmetic Sales since January 2019, the executive director of Shanghai One Leaf since February 2019, the executive director of Baby Elephant Cosmetic since March 2019, the executive director of Baby Elephant Cosmetic Sales Service since July 2019, the executive director of Shanghai Shumei since January 2021, and the executive director of Shanghai Kans Biotechnology since March 2021.

Ms. Luo obtained a college degree in international trade and economics from Shanghai Lixin University of Accounting and Finance (上海立信會計金融學院) in June 2020.

Mr. Feng Yifeng (馮一峰), aged 43, is our executive Director, deputy chief executive and chief financial officer. Mr. Feng joined our Group in July 2016, serving as the deputy chief executive since July 2016, also in charge of financial matters, and the chief financial officer since February 2021. Mr. Feng was appointed as an executive Director in June 2017 and has been serving as the director of Shanghai Yuzi Technology Co., Ltd. (上海魚子科技有限公司), a company directly held by the Company as to 60%, since July 2020; the director of Shanghai KPC Biotechnology Co., Ltd. (上海昆藥生物科技有限公司) ("**Shanghai KPC**"), a company directly held by the Company as to 51%, since August 2020; the director of Shanghai Teaz Cosmetic Co., Ltd. (上海茶媞化妝品有限公司), a company indirectly held by the Company as to 60% and engaging in cosmetics business, since August 2021; and the chairman of Shanghai Yiye Biotechnology Co., Ltd. (上海怡頁生物科技有限公司), a company indirectly held by the Company as to 56%, since January 2022. Mr. Feng has also been the independent director of Sinopharma-CICC (Shanghai) Private Equity Investment management Co., Ltd. (國藥中金(上海)私募股權投資管理有限公司) since September 2016.

Prior to joining the Group in July 2016, Mr. Feng was a supervisor of China National Accord Medicines Corporation (國藥集團一致藥業股份有限公司) from August 2012 to August 2016, his highest position being the chairman of the supervisory board; an employee of Sinopharm Group Co., Ltd. (國藥控股股份有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 1099), from June 2010 to June 2016, his highest position being the head of finance and asset management; and an employee of PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所) from July 2002 to June 2010, his highest position being a senior audit manager.

Mr. Feng obtained a bachelor's degree in management from Shanghai University of Finance and Economics (上海財經大學) in the PRC in July 2001 and a Master of Business Administration from China Europe International Business School (中歐國際工商學院) in the PRC in October 2015. Mr. Feng was accredited as a certified public accountant (non-practicing) by the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) and as a chartered certified accountant by the Association of Chartered Certified Accountants.

Ms. Song Yang (宋洋), aged 33, is our executive Director, deputy chief executive, the general manager of *One Leaf* brand division and is mainly responsible for research and development, and product innovation of the Company. Joining our Group in December 2013, Ms. Song has been serving in various positions including the director of projects from April 2016 to April 2018, the general manager of our Company's global new product innovation center since May 2018, and the deputy chief executive since September 2019. Ms. Song was appointed as an executive Director in February 2020. Ms. Song has also been serving as the director of Shanghai KPC since August 2020 and the general manager for *One Leaf* since June 2022, responsible for the overall management and marketing of *One Leaf*.

Ms. Song obtained a bachelor's degree in literature from Xianda College of Economics and Humanities, Shanghai International Studies University (上海外國語大學賢達經濟人文學院) in the PRC in July 2012.

Non-executive Directors

Mr. Sun Hao (孫昊), aged 32, is our non-executive Director. Mr. Sun joined Shanghai Premium Bright Global Capital Co. Ltd. (上海銘耀股權投資管理有限公司) in May 2017 where his current position is executive director and primarily focusing on investments in consumer and retail sector. Previously, Mr. Sun worked in Advisory Practice of PricewaterhouseCoopers Limited in its Hong Kong office from October 2014 to April 2017. Before that, from September 2013 to October 2014, Mr. Sun worked in Audit Department of Deloitte Touche Tohmatsu (Hong Kong office).

Mr. Sun obtained a bachelor's degree in Business Economics from City University of Hong Kong in Hong Kong in May 2013.

Ms. Li Hanqiong (李寒窮), aged 44, is our non-executive Director. Ms. Li has also been serving as the director and chief executive officer of Youngor Investment Co., Ltd. (雅戈爾投資有限公司) since April 2007, and the vice chairman of the board of Youngor Group Co., Ltd. (雅戈爾集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600177), since May 2017.

Previously, Ms. Li served as the chief executive officer of Youngor Garment Holdings Co., Ltd. (雅戈爾服裝控股有限公司) from February 2014 to June 2016 and a director of this company since January 2015, and a vice president at Youngor (Hong Kong) Industrial Company Limited (雅戈爾(香港)實業有限公司) from October 2004 to October 2006.

Ms. Li obtained a bachelor's degree in business administration from California State University (加州州立大學) in the US in December 2000 and an Executive Master of Business Administration from China Europe International Business School (中歐國際工商學院) in the PRC in September 2010.

Independent non-executive Directors

Mr. Leung Ho Sun Wilson (梁浩新), aged 42, is our independent non-executive Director. In addition to his position in our Group, Mr. Leung has been serving as a director of Madison Pacific Trust Limited (麥迪遜太平洋信託有限公司) since December 2018. Previously, Mr. Leung worked at Credit Suisse Group (瑞士信貸銀行) and Ernst & Young (安永會計事務所).

Mr. Leung obtained a bachelor's degree in Business Administration (Accounting and Finance) from the University of Hong Kong (香港大學) in December 2002. Mr. Leung is also a member of the Hong Kong Institute of Certified Public Accountants.

Ms. Luo Yan (羅妍), aged 39, is our independent non-executive Director. In addition to her position in our Group, Ms. Luo is currently a professor at the School of Management at Fudan University (復旦大學).

Ms. Luo has also been serving as an independent non-executive director of Shanghai CEO Environmental Protection Technology Co., Ltd. (上海復潔環保科技有限公司), a listed company on the Shanghai Stock Exchange (stock code: 688335), since July 2021; and an independent non-executive director of 3Peak Incorporated (思瑞浦微電子科技(蘇州)股份有限公司), a listed company on the Shanghai Stock Exchange (stock code: 688536), since December 2019.

Ms. Luo obtained a bachelor's degree in management from Shanghai University of Finance and Economics (上海財經大學) in the PRC in June 2005 and a doctorate degree in philosophy from the University of Hong Kong (香港大學) in November 2010. She was employed as a postdoctoral fellow at the School of Economics and Finance of the University of Hong Kong (香港大學) from November 2010 to February 2013.

Mr. Liu Yi (劉毅), aged 36, is our independent non-executive Director. In addition to his position in our Group, Mr. Liu has been a senior partner of Everbright Law Firm (上海市光大律師事務所) since July 2009, and a member of the Financial Instrument Business Specialized Committee of the Shanghai Lawyers Association (上海律師協會金融工具業務研究委員會).

Mr. Liu has been a researcher at the Land and Housing Policy Law Institute of East China University of Political Science and Law (華東政法大學土地與住宅政策法律研究所) since January 2010. He participated in the translation of *Contemporary National Property Management Laws* (《當代主要國家物業管理法》) in 2014.

Mr. Liu obtained a bachelor's degree in law from Anhui University (安徽大學) in the PRC in July 2006 and a master's degree in law from East China University of Political Science and Law (華東政法大學) in the PRC in June 2009. Mr. Liu was admitted to practice law in the PRC in March 2008.

BOARD OF SUPERVISORS

The following table sets forth certain information of our Supervisors:

Name	Age	Position	Date of appointment as Supervisor	Date of joining our Group	Principal roles and responsibilities
Mr. Li Tao (李濤)	47	Chairman of the Supervisory Committee	December 16, 2020	November 7, 2016	Supervising the operating and financial activities of our Company
Ms. Shi Tenghua (施滕花)	37	Supervisor	December 16, 2020	September 18, 2017	Supervising the operating and financial activities of our Company
Ms. Cao Ying (曹瑛)	43	Employee representative Supervisor	December 16, 2020	June 1, 2020	Supervising the operating and financial activities of our Company

Mr. Li Tao (李濤), aged 47, is a Supervisor, the chairman of the Supervisory Committee and the audit director of our Company. Mr. Li has also been serving as the supervisor of various members of the Group, including Shanghai Shumei since January 2021, Shanghai Kans Biotechnology since March 2021, Leading Investment since April 2021, and Shanghai Zhongyi, Shanghai One Leaf, Baby Elephant Cosmetic, and Shanghai Kans Cosmetic Sales since May 2021.

Prior to joining our Group in November 2016, Mr. Li served as the director of audit of Opple Lighting Co., Ltd. (歐普照明股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603515), from July 2011 to April 2013, and an employee of PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所) from November 2000 to December 2008, his highest position being an audit manager.

Mr. Li obtained a bachelor's degree in physics from Nanjing University (南京大學) in the PRC in July 1998. Mr. Li is a certified public accountant, as accredited by Guam Board of Accountancy in June 2016, and a certified fraud examiner (註冊反舞弊調查師), as awarded by the Association of Certified Fraud Examiner in January 2020.

Mr. Li was further employed as the expert of Enterprise Anti-Fraud Alliance (企業反舞弊聯盟) in January 2020, and recognized as a member of Shanghai Criminology Society (上海市犯罪學學會) in April 2020.

Ms. Shi Tenghua (施滕花), aged 37, is a Supervisor of our Company. Ms. Shi served as the manager of the finance department of our Company from September 2017 to October 2019, the senior manager of our finance department from November 2019 to March 2020, our deputy financial director from April 2020 to June 2020, and the general manager of the e-commerce department II (電商二部) from July 2020 to July 2021. She has also been the deputy general manager for *One Leaf*, responsible for the overall brand management and marketing of *One Leaf*, since July 2021.

Prior to joining our Group in September 2017, Ms. Shi was an employee of Shanghai Robam Electric Appliance Sales Co., Ltd. (上海老闆電器銷售有限公司) from August 2007 to September 2017, her highest position being the manager of the finance department.

Ms. Shi obtained a bachelor's degree in finance from Shandong University (山東大學) in the PRC in July 2007.

Ms. Cao Ying (曹瑛), aged 43, is an employee representative Supervisor and the director of legal department of our Company.

Prior to joining our Group in June 2020, Ms. Cao worked at Shanghai Milkground Food Tech Co., Ltd. (上海妙可藍多食品科技股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600882), from February 2017 to May 2020, her highest position being the director of legal department and representative of securities-related matters; at Shanghai OCJ Co., Ltd. (上海東方希傑商務有限公司) from May 2004 to February 2017, her highest position being the deputy general manager of the general management center and the director of the audit and legal department; and as a lawyer with Watson & Band (上海市華誠律師事務所) from August 2000 to August 2003.

Ms. Cao obtained a bachelor's degree in law from Shanghai University (上海大學) in the PRC in July 2000 and a master's degree in law from Fudan University (復旦大學) in the PRC in January 2014. Ms. Cao was admitted to practice law in the PRC in March 2001.

SENIOR MANAGEMENT

The following table sets forth certain information of our senior management:

Name	Age	Position	Date of appointment as senior management	Date of joining our Group	Principal roles and responsibilities
Mr. Lyu Yixiong (呂義雄)	44	Chairman of the Board and chief executive officer	June 11, 2004	June 11, 2004	Responsible for the overall affairs of the Board and formulation of the general corporate business plans, strategies and major decisions
Ms. Luo Yan (羅燕)	35	Deputy chief executive	March 1, 2020	March 15, 2012	Responsible for e-commerce on emerging media platforms and the overall management and marketing of *KANS*
Mr. Feng Yifeng (馮一峰)	43	Deputy chief executive and chief financial officer	July 1, 2016	July 1, 2016	Responsible for financial, investment and information management of the Company
Ms. Song Yang (宋洋)	33	Deputy chief executive	September 19, 2019	December 16, 2013	Responsible for research and development, product innovation of the Company, and the overall management and marketing of *One Leaf*
Mr. Lian Ming (廉明)	38	Board secretary	September 16, 2020	September 16, 2020	Responsible for information disclosure, investor relation and preparation for general meetings and meeting of the Board

Mr. Lyu Yixiong (呂義雄), aged 44, is our executive Director, chief executive officer and the chairman of the Board. See "– Board of Directors" in this section for the biographical details of Mr. Lyu.

Ms. Luo Yan (羅燕), aged 35, is our executive Director and deputy chief executive. See "– Board of Directors" in this section for the biographical details of Ms. Luo.

Mr. Feng Yifeng (馮一峰), aged 43, is our executive Director, deputy chief executive, and chief financial officer. See "– Board of Directors" in this section for the biographical details of Mr. Feng.

Ms. Song Yang (宋洋), aged 33, is our executive Director and deputy chief executive. See "– Board of Directors" in this section for the biographical details of Ms. Song.

Mr. Lian Ming (廉明), aged 38, is the secretary of the Board of our Company. Prior to joining our Group in September 2020, Mr. Lian served as the director, secretary of the board of directors and executive assistant of Guangdong Marubi Biotechnology Co., Ltd. (廣東丸美生物技術股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603983) and specialized in research, development and production of cosmetics, from July 2010 to July 2020, and an employee of the Jiangsu branch of the China Petroleum and Chemical Corporation (中石油化工股份有限公司江蘇石油分公司) from July 2009 to July 2010.

Mr. Lian was recognized as "Guangzhou High-tier Financial Talent" by the Guangzhou Municipal Financial Regulatory Bureau in June 2020.

Mr. Lian obtained a master's degree in law from Tsinghua University (清華大學) in the PRC in July 2009.

KINSHIP

There is no family or blood relationship among any of the Directors, Supervisors and senior management of our Company.

JOINT COMPANY SECRETARIES

Mr. Lian Ming (廉明) is the secretary of the Board, and was appointed as the joint company secretary of our Company on December 21, 2021 with his appointment taking effect on the [**REDACTED**]. See "– Senior Management" above for the biographical details of Mr. Lian.

Mr. Li Kin Wai (李健威) is the joint company secretary of our Company and was appointed on December 21, 2021 with his appointment taking effect on the [**REDACTED**]. Mr. Li is a corporate service manager of Tricor Services Limited with more than 10 years of experience in accounting, auditing and corporate secretarial services. He has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies.

Mr. Li is a Chartered Secretary, a Chartered Governance Professional and an Associate of both The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute in the United Kingdom. Mr. Li obtained a bachelor's degree and a master's degree in corporate governance from the Open University of Hong Kong (香港公開大學) in August 2010 and November 2020, respectively.

Mr. Li is currently a joint company secretary of Sinco Pharmaceuticals Holdings Limited (興科蓉醫藥控股有限公司), a company listed on the Stock Exchange (stock code: 6833), Sihuan Pharmaceutical Holdings Group Ltd. (四環醫藥控股集團有限公司), a company listed on the Stock Exchange (stock code: 0460) and A-living Smart City Services Co., Ltd. (雅生活智慧城市服務股份有限公司), a company listed on the Stock Exchange (stock code: 3319), and the company secretary of Zhengye International Holdings Company Limited (正業國際控股有限公司), a company listed on the Stock Exchange (stock code: 3363).

BOARD COMMITTEES

Our Company has established three Board Committees in accordance with the relevant PRC laws and regulations, the Articles and the corporate governance practice under the Listing Rules, namely the Audit Committee, the Remuneration and Appraisal Committee and the Nomination Committee.

Audit Committee

The Audit Committee of our Company consists of three members, namely, Mr. Leung Ho Sun Wilson, Ms. Luo Yan (羅妍), and Mr. Liu Yi. Mr. Leung Ho Sun Wilson is the chairman of the Audit Committee. The primary responsibilities of the Audit Committee are to review and supervise our financial reporting process, including:

(a) to make recommendations to the Board on the appointment, replacement and removal of the external auditor, to consider and approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee shall discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commences;

(c) to develop and implement policy on engaging an external auditor to provide non-audit services;

(d) to monitor internal audit system of the Company and ensure the implementation of such systems;

(e) to facilitate communications between the internal audit department and external auditors;

(f) to review the financial information and relevant disclosures of the Company; and

(g) to monitor the Company in respect of financial reporting system, risk management and internal controls system.

Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee of our Company consists of three Directors, namely, Ms. Luo Yan (羅妍), Mr. Liu Yi and Mr. Lyu Yixiong. Ms. Luo Yan (羅妍) is the chairman of the Remuneration and Appraisal Committee. The primary responsibilities of the Remuneration and Appraisal Committee include:

(a) to make recommendations to the Board on our Company's remuneration policy and structure for all Directors, Supervisors and senior management, and on the establishment of a formal and transparent procedure for developing the remuneration policy;

(b) to review and approve the remuneration proposals of senior management with reference to the Board's corporate goals and objectives;

(c) to make recommendations to the Board on the remuneration packages of the executive Director and senior management or to determine, with delegated responsibility, the remuneration packages of the executive Director and senior management. The remuneration packages shall include benefits in kind, pension rights and compensation payments (including compensation for loss or termination of their office or appointment);

(d) to make recommendations to the Board on the remuneration of non-executive Directors;

(e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in our Group;

(f) to review and approve the compensation payable to the executive Director and senior management for their loss or termination of office or appointment to ensure that such compensation is consistent with the contractual terms and is otherwise fair and not excessive;

(g) to review and approve the compensation arrangements relating to dismissal or removal of the Directors for misconduct to ensure that such compensation is consistent with the contractual terms and is otherwise fair and not excessive; and

(h) to ensure that no Director or any of his associates is involved in deciding his own remuneration.

Nomination Committee

The Nomination Committee of our Company consists of three members, namely, Mr. Lyu Yixiong, Mr. Liu Yi and Ms. Luo Yan (羅妍). Mr. Lyu Yixiong is the chairman of the Nomination Committee. The primary responsibilities of the Nomination Committee include:

(a) to review the structure, size and composition of the Board (including the skills, knowledge and experience) at least annually and make recommendations on any proposed changes to the Board to complement our Company's corporate strategy;

(b) to identify individuals suitably qualified to become board members and select and make recommendations to the Board on the selection of individuals nominated for directorships;

(c) to assess the independence of the independent non-executive Directors; and

(d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors (in particular the chairman of the Board and the chief executive officer).

REMUNERATION OF DIRECTORS AND SUPERVISORS

Our Company offers the executive Directors, Supervisors and members of senior management, who are also employees of our Company, emolument in the form of salaries, allowances, discretionary bonus and benefits in kind. Our non-executive Directors do not receive any fees, salaries, allowances, discretionary bonus, pension schemes contribution and other benefits in kind (if applicable). Our independent non-executive Directors receive emolument based on their responsibilities (including being members or the chair of Board committees). We adopt a market and incentive-based employee emolument structure and implement a multi-layered evaluation system which focuses on performance and management goals.

The aggregate amount of remuneration paid to our Directors and Supervisors (including salaries, allowances and benefits in kind, pension scheme contributions, performance-related bonuses and share-based payment) for each of the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022 were RMB13,067,448.27, RMB54,100,300.97, RMB16,246,940.64 and RMB4,334,663.62, respectively.

For each of the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, the aggregate amount of salaries, allowances and benefits in kind, pension scheme contributions, performance-related bonuses and share-based payment paid to the five highest-paid individuals of our Group were RMB11,536,591.51, RMB53,143,445.43, RMB30,947,549.51, and RMB3,785,371.48, respectively.

During the Track Record Period, there was no remuneration paid or payable by our Company to our Directors, Supervisors or the five highest-paid individuals as an inducement to join or upon joining our Company. During the Track Record Period, there was no compensation paid or payable by our Company to our Directors, former Directors, Supervisors, former Supervisors or the five highest-paid individuals for the loss of any office in connection with the management of the affairs of any subsidiary of our Company.

During the Track Record Period, none of our Directors or Supervisors has waived or agreed to waive any remuneration or benefits in kind for the past two years. Save as disclosed above, there was no other payments paid or payable by our Company or any of our subsidiaries to our Directors, Supervisors or the five highest-paid individuals during the Track Record Period.

Under the remuneration policy of our Company, the Remuneration and Appraisal Committee will consider various factors such as salaries paid by comparable companies, tenure, commitment, responsibilities and performance of our Directors, Supervisors and the senior management (as the case may be), in assessing the amount of remuneration payable to our Directors, Supervisors and such employees. It is estimated that under the arrangements currently in force, the aggregate amounts of remuneration payable by our Company to our Directors and Supervisors for the year ending December 31, 2022 is approximately RMB6,228,568 (excluding any discretionary bonus).

DIRECTORS' AND SUPERVISORS' INTEREST

Save as disclosed in this Document, none of our Directors and Supervisors (i) held any other positions in our Company or any other members of our Group as of the Latest Practicable Date; (ii) had any other relationship with any Directors, Supervisors, senior management or Controlling Shareholders of our Company as of the Latest Practicable Date; and (iii) held any directorship in any other listed companies in the three years immediately prior to the date of this Document.

Except as disclosed above, none of our Directors have any interest in any business which competes or is likely to compete with the business of our Group (as defined in note (1) of Rule 8.10(2) of the Listing Rules).

Except as disclosed herein, to the best of the knowledge, information and belief of our Directors and Supervisors after having made all reasonable enquiries, there was no additional matter with respect to the Directors or Supervisors that needs to be brought to the attention of our Shareholders and there was no additional information relating to the Directors or Supervisors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

MANAGEMENT PRESENCE

We have applied for, and the Stock Exchange [has granted], a waiver from compliance with Rule 8.12 of the Listing Rules. For further details, see the section headed "Waivers from Compliance with the Listing Rules" in this document.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

We are committed to achieving high standards of corporate governance which are crucial to our development and safeguard the interests of our Shareholders. To accomplish this, except for Code Provision C.2.1, we expect to comply with the corporate governance requirements under the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Listing Rules after the [**REDACTED**].

Code Provision C.2.1 of the CG Code states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Lyu Yixiong is both the chairman of our Board and the chief executive officer of our Company. Notwithstanding the deviation from Code Provision C.2.1 of the CG Code, given Mr. Lyu Yixiong's extensive knowledge and experience of the Group's business, the Board considers that vesting the roles of both chairman of the Board and chief executive officer of the Company in the same person brings the benefit of ensuring consistent leadership within the Group and enabling more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and efficiently. The Board will nevertheless continue to review the structure from time to time and consider the appropriate move to take when appropriate.

BOARD DIVERSITY POLICY

In order to enhance the effectiveness of our Board and to maintain high standard of corporate governance, the Board has adopted a board diversity policy (the "**Board Diversity Policy**"). The Board Diversity Policy sets out the criteria in selecting candidates to our Board, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Our Board currently consists of five male and four female members, with four executive Directors, two non-executive Directors and three independent non-executive Directors, of ages ranging from 32 to 50. We consider that our Board has a balanced mix of skill-set, experience, expertise, and diversity which enhances decision-making capability and the overall effectiveness of the Board in achieving sustainable business operation and enhancing shareholder value.

The Nomination Committee is responsible for reviewing the structure and diversity of the Board and selecting individuals to be nominated as Directors. After the [**REDACTED**], the Nomination Committee will monitor and evaluate the implementation of the Board Diversity Policy from time to time to ensure its continued effectiveness, and when necessary, make any revisions that may be required and recommend any such revisions to our Board for consideration and approval. The Nomination Committee will also include in successive annual reports a summary of the Board Diversity Policy, including any measurable objectives set for implementing the Board Diversity Policy and the progress on achieving these objectives.

COMPLIANCE ADVISER

We have appointed Maxa Capital Limited as our compliance adviser pursuant to Rules 3A.19 and 19A.05 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, we must consult with and, if necessary, seek advice from our compliance adviser on a timely basis in the following circumstances:

(i) before the publication of any regulatory announcement, circular or financial report;

(ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including but not limited to share issues and share repurchases;

(iii) where our Company proposes to use the [**REDACTED**] of the [**REDACTED**] in a manner different from that detailed in this Document, or where the business activities, developments or results of our Group deviate from any forecast, estimate or other information in this Document; and

(iv) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of its listed securities or any other matters under Rule 13.10 of the Listing Rules.

Pursuant to Rule 19A.06 of the Listing Rules, our compliance adviser will, in a timely manner, inform us of any amendments or supplements to the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to our Group. The term of the appointment of our compliance adviser shall commence on the [**REDACTED**] and end on the date when we distribute our annual report in respect of our financial results for the first full financial year commencing after the [**REDACTED**], and such appointment may be subject to extension by mutual agreement.

OUR SHARE CAPITAL

Immediately before the [REDACTED]

As of the Latest Practicable Date, the registered share capital of our Company was RMB360,000,000, consisting of 360,000,000 shares, with a nominal value of RMB1.00 each.

Upon the Completion of the [REDACTED]

Immediately after the [**REDACTED**] and conversion of Domestic Shares into H Shares (assuming the [**REDACTED**] is not exercised), the share capital of the Company will be as follows:

Description of Shares	Number of Shares	Approximate % of the enlarged issued share capital after the [REDACTED]
Domestic Shares	[**REDACTED**]	[**REDACTED**]%
H Shares to be converted from Domestic Shares	[**REDACTED**]	[**REDACTED**]%
H Shares to be issued pursuant to the [**REDACTED**]	[**REDACTED**]	[**REDACTED**]%
Total	[**REDACTED**]	100%

Note: See "History, Conversion and Corporate Structure – Corporate Structure – Corporate structure immediately following completion of the [**REDACTED**]" for details of the identities of our Shareholders whose Shares will be converted into H Shares upon [**REDACTED**].

Assuming the [**REDACTED**] is exercised in full, the share capital of our Company immediately following the [**REDACTED**] and conversion of Domestic Shares into H Shares will be as follows:

Description of Shares	Number of Shares	Approximate % of the enlarged issued share capital after the [REDACTED]
Domestic Shares	[**REDACTED**]	[**REDACTED**]%
H Shares to be converted from Domestic Shares	[**REDACTED**]	[**REDACTED**]%
H Shares to be issued pursuant to the [**REDACTED**]	[**REDACTED**]	[**REDACTED**]%
Total	[**REDACTED**]	100%

Note: See "History, Conversion and Corporate Structure – Corporate Structure – Corporate structure immediately following completion of the [**REDACTED**]" for details of the identities of our Shareholders whose Shares will be converted into H Shares upon [**REDACTED**].

CLASS OF SHARES

Upon completion of the [**REDACTED**] and conversion of Domestic Shares into H Shares, our Shares will consist of Domestic Shares and H Shares. Domestic Shares and H Shares are both ordinary Shares in the share capital of our Company.

Our H Shares may only be subscribed for and traded in Hong Kong dollars. Our Domestic Shares, on the other hand, may only be subscribed for and traded in RMB. Apart from certain qualified domestic institutional investors in the PRC, through Shanghai-Hong Kong Stock Connect, or through Shenzhen-Hong Kong Stock Connect or other persons who are entitled to hold our H Shares pursuant to relevant PRC laws and regulations or upon approvals of any competent authorities, our H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC. Our Domestic Shares, on the other hand, can be purchased or transferred between legal or natural persons of the PRC, qualified foreign institutional investors and qualified foreign strategic investors.

We shall pay all dividends in respect of H Shares in Hong Kong dollars and all dividends in respect of Domestic Shares in RMB. See "Appendix V – Summary of Principal Legal and Regulatory Provisions" and "Appendix VI – Summary of Articles of Association" for details of the circumstances under which general meetings and class meetings of the Company are required.

Our H Shares and our Domestic Shares will rank equally with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this Document, except as described in this document. The differences between the two classes of Shares, provisions on class rights, dispatch of notices and financial reports to Shareholders, dispute resolution, registration of Shares on different registers of Shareholders, the procedure of transfer of Shares and appointment of dividend receiving agents as contained in the Articles of Association are summarized in "Summary of the Articles of Association" in Appendix VI to this document.

Furthermore, any change or abrogation of the rights of class Shareholders shall be approved by way of a special resolution of the general meeting of Shareholders and by a separate class shareholders meeting of class Shareholders convened by the affected class of Shareholders. The circumstances under which a general meeting and/or a class meeting is required are summarized in "Summary of the Articles of Association" in Appendix VI to this document. However, the special approval process of separate classes of Shareholders is not required under the following circumstances:

i. where the Company issues domestic shares and overseas listed foreign shares, upon approval by a special resolution of the general meeting, either concurrently or separately once every 12 months, and the quantity of domestic investment shares and overseas listed foreign shares intended to be issued does not exceed 20% of the outstanding shares of the respective classes;

ii. where the Company's plan to issue domestic shares and overseas listed foreign shares upon its incorporation is implemented within 15 months from the date of approval by the securities regulatory authorities under the State Council; or

iii. where, as approved by the securities regulatory authorities under the State Council and Hong Kong Stock Exchange, the transfer of domestic shares to foreign investors, the conversion of domestic shares of the Company into foreign shares and the [**REDACTED**] and trading of such shares on an overseas stock exchange.

Furthermore, the transfer of Domestic Shares is subject to such restrictions as PRC law may impose from time to time. Save for the [**REDACTED**], we do not propose to carry out any public or private issue or to place securities simultaneously with the [**REDACTED**] or within the next six months from the [**REDACTED**]. We have not approved any share issue plan other than the [**REDACTED**].

The [**REDACTED**] will rank pari passu in all respects with all Shares currently in issue or to be issued as mentioned in this Document and will qualify and rank equally for all dividends or other distributions declared, made or paid on the Shares on a [**REDACTED**] which falls after the date of this Document.

CONVERSION OF OUR DOMESTIC SHARES INTO H SHARES

As of the Latest Practicable Date, we have one class of ordinary Shares, which is Domestic Shares. Our Domestic Shares are unlisted Shares which are currently not listed or traded on any stock exchange.

Upon completion of the [**REDACTED**] and pursuant to the approval of the CSRC dated April 12, 2022, [**REDACTED**] Domestic Shares held by eight Shareholders will be converted to H Shares on a one-for-one basis and be [**REDACTED**] for trading on the Stock Exchange. To the extent any Domestic Shares are not converted into H Shares, all unlisted Shares will comprise such number of Domestic Shares held by our Shareholders not converted into H Shares and we will have two classes of Shares, Domestic Shares and H Shares. The term "unlisted Shares" is used to describe whether certain Shares are listed on a stock exchange and is not unique to PRC laws.

If any of the unlisted Shares are to be converted, [**REDACTED**] and traded as H Shares on the Hong Kong Stock Exchange, such conversion, [**REDACTED**] and trading will need the approval of the relevant PRC regulatory authorities, including the CSRC, and the approval of the Hong Kong Stock Exchange.

Listing Review and Approval by the CSRC

In accordance with the Guidelines for the "Full Circulation" Program for Domestic Unlisted Shares of H-share Listed Companies (《H股公司境內未上市股份申請「全流通」業務指引》) announced by the CSRC, H-share listed companies which apply for the conversion of shares into H shares for listing and circulation on the Hong Kong Stock Exchange shall file the application with the CSRC according to the administrative licensing procedures necessary for the "examination and approval of public issuance and listing (including additional issuance) of overseas shares by a joint stock company". An H-share listed company may apply for a "Full Circulation" separately or when applying for refinancing overseas. An unlisted domestic joint stock company may apply for "full circulation" when applying for an overseas [**REDACTED**].

The Company applied for a "Full Circulation" when applying for an overseas [**REDACTED**] with the CSRC on December 30, 2021, and submitted the application reports, authorization documents of the shareholders of unlisted shares for which an H-share "full circulation" were applied, explanation about the compliance of share acquisition and other documents in accordance with the requirements of the CSRC.

The Company has received the reply from the CSRC dated April 12, 2022 in relation to the approval of the overseas [**REDACTED**] and "Full Circulation", pursuant to which, (1) the Company was approved to issue no more than [**REDACTED**] H Shares with a nominal value of RMB1.00 each, which are all ordinary shares, and upon this issuance the Company may be [**REDACTED**] on the Main Board of the Hong Kong Stock Exchange; (2) a total of [**REDACTED**] unlisted shares and held by the eight Shareholders of the Company, namely Mr. Lyu Yixiong, Hongyin Investment, Nanyin Investment, Ximei Investment, Youngor Investment, Mr. Zhang Huai'an, Shanghai Yingfu, and Anxin Zhipu Investment (the "Full Circulation Participating Shareholders"), were approved to be converted into H Shares, and the relevant Shares may be [**REDACTED**] on the Hong Kong Stock Exchange upon completion of the conversion. This reply shall remain effective within 12 months from the date of approval.

[**REDACTED**] ***Approval by the Hong Kong Stock Exchange***

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the granting of [**REDACTED**] of, and permission to deal in, our H Shares to be issued pursuant to the [**REDACTED**] (including any H Shares which may be issued pursuant to the exercise of the [**REDACTED**]) and the H Shares to be converted from [**REDACTED**] Domestic Shares on the Hong Kong Stock Exchange, which is subject to the approval by the Hong Kong Stock Exchange.

We will perform the following procedures for the conversion of unlisted shares into H Shares after receiving the approval of the Hong Kong Stock Exchange: (1) giving instructions to our H Share Registrar regarding relevant share certificates of the converted H Shares; and (2) enabling the converted H Shares to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in the CCASS. The Full Circulation Participating Shareholders may only deal in the Shares upon completion of following domestic procedures.

Domestic Procedures

The Full Circulation Participating Shareholders may only deal in the Shares upon completion of the below arrangement procedures for the registration, deposit and transaction settlement in relation to the conversion and [**REDACTED**]:

i. We will appoint CSDC as the nominal holder to deposit the relevant securities at CSDC (Hong Kong), which will then deposit the securities at HKSCC in its own name. CSDC, as the nominal holder of the Full Circulation Participating Shareholders, shall handle all custody, maintenance of detailed records, cross-broader settlement and corporate actions, etc. relating to the converted H Shares for the Full Circulation Participating Shareholders;

ii. We will engage a domestic securities company (the "Domestic Securities Company") to provide services such as the transmission of sell orders and trading messages in respect of the converted H Shares. The Domestic Securities Company will engage a Hong Kong securities company (the "Hong Kong Securities Company") for settlement of share transactions. We will make an application to CSDC, Shenzhen Branch for the maintenance of a detailed record of the initial holding of the converted H Shares held by our Shareholders. Meanwhile, we will submit applications for a domestic transaction commission code and abbreviation, which shall be confirmed by CSDC, Shenzhen Branch as authorized by SZSE;

iii. The SZSE shall authorize Shenzhen Securities Communication Co., Ltd. to provide services relating to transmission of trading orders and trading messages in respect of the Converted H Shares between the Domestic Securities Company and the Hong Kong Securities Company, and the real-time market forwarding services of the H Shares;

iv. According to the Notice of the SAFE on Issues Concerning the Foreign Exchange Administration of Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》), the Full Circulation Shareholders that held Domestic Shares shall complete the overseas shareholding registration with the local foreign exchange administration bureau before the Shares are sold, and after the overseas shareholding registration, open a specified bank account for the holding of overseas shares by domestic investors at a domestic bank with relevant qualifications and open a fund account for the H Share "Full Circulation" at the Domestic Securities Company. The Domestic Securities Company shall open a securities trading account for the H Share "Full Circulation" at the Hong Kong Securities Company; and

v. The Full Circulation Participating Shareholders shall submit trading orders of the Converted H Shares through the Domestic Securities Company. Trading orders of the Full Circulation Participating Shareholders for the relevant Shares will be submitted to the Hong Kong Stock Exchange through the securities trading account opened by the Domestic Securities Company at the Hong Kong Securities Company. Upon completion of the transaction, settlements between each of the Hong Kong Securities Company and CSDC (Hong Kong), CSDC (Hong Kong) and CSDC, CSDC and the Domestic Securities Company, and the Domestic Securities Company and the Full Circulation Participating Shareholders, will all be conducted separately.

As a result of the conversion, the shareholding of the relevant Full Circulation Participating Shareholders in our share capital registered shall be reduced by the number of Shares converted and the number of H Shares shall be increased by the number of converted H Shares.

A Shareholder holding Domestic Shares not converted into H Shares can work with the Company according to the Articles of Association and follow the procedures set out in this Document to convert the Domestic Shares into H Shares after the [**REDACTED**] if they want, provided that such conversion of Domestic Shares into and [**REDACTED**] and trading of H Shares will be subject to the approval of the relevant PRC regulatory authorities, including the CSRC, the approval of the Hong Kong Stock Exchange and the satisfaction of the public float requirement under the Listing Rules by the Company.

RESTRICTION ON TRANSFER OF SHARES ISSUED PRIOR TO THE [REDACTED]

In accordance with Article 141 of the PRC Company Law, the shares issued prior to any [**REDACTED**] of shares by a company cannot be transferred within one year from the date on which such publicly offered shares are listed and traded on the relevant stock exchange. As such, the Shares issued by the Company prior to the [**REDACTED**] will be subject to such statutory restriction on transfer within a period of one year from the [**REDACTED**].

The Company will work with the Domestic Securities Company to be engaged by the Company to restrict the trading of the H Shares converted from unlisted Shares technically within one year after the [**REDACTED**]. In the unlikely event that any Full Circulation Participating Shareholders trades their H Shares during such restriction period, as advised by the PRC Legal Advisors, there will be no administrative penalty on the Company under the PRC laws and regulations but there is risk that the underlying agreement for the transfer of such H Shares may be declared void pursuant to the Civil Code of the People's Republic of China.

Our Directors, Supervisors and members of senior management shall declare their shareholdings in the Company and any changes in their shareholdings. Shares transferred by our Directors, Supervisors and members of the senior management each year during their term of office shall not exceed 25% of their total respective shareholdings in the Company. The Shares that the aforementioned persons held in the Company cannot be transferred within one year from the date on which the shares are listed and traded, nor within half a year after they leave their positions in the Company. The Articles of Association may contain other restrictions on the transfer of our Shares held by our Directors, Supervisors and members of senior management.

REGISTRATION OF SHARES NOT LISTED ON AN OVERSEAS STOCK EXCHANGE

According to the Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (《關於境外上市公司非境外上市股份集中登記存管有關事宜的通知》) issued by the CSRC, the Company is required to register the Domestic Shares with the China Clearing within 15 business days upon the [**REDACTED**] and provide a written report to the CSRC regarding the results of centralized registration and deposit of the Domestic Shares as well as the offering and [**REDACTED**] of the H Shares.

LOCK-UP PERIODS

In accordance with Article 141 of the PRC Company Law, the shares issued prior to any [**REDACTED**] of shares by a company cannot be transferred within one year from the date on which such publicly offered shares are listed and traded on the relevant stock exchange. As such, the Shares issued by our Company prior to the issue of our H Shares will be subject to such statutory restriction on transfer within a period of one year from the [**REDACTED**].

Our Directors, Supervisors and members of senior management shall declare their shareholdings in our Company and any changes in their shareholdings. Shares transferred by our Directors, Supervisors and members of the senior management each year during their term of office shall not exceed 25% of their total respective shareholdings in our Company. The Shares that the aforementioned persons held in our Company cannot be transferred within one year from the date on which the Shares are listed and traded, nor within half a year after they leave their positions in our Company. The Articles of Association may contain other restrictions on the transfer of our Shares held by our Directors, Supervisors and members of senior management.

In addition, (i) each of our existing Shareholders has undertaken to us not to transfer our Shares it holds at the time of [**REDACTED**] within one year from the [**REDACTED**]; and (ii) the Controlling Shareholders have also given a lock-up undertaking to us, the Joint Sponsors and the [**REDACTED**]. See "[**REDACTED**] – [**REDACTED**] Arrangements and Expenses – [**REDACTED**] – Undertakings to the Stock Exchange pursuant to the Listing Rules – Undertakings by the Controlling Shareholders" for further details.

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS ARE REQUIRED

Pursuant to the PRC Company Law and the terms of the Articles of Association, our Company may from time to time by special resolution of shareholders (i) increase its capital or decrease its capital or capital redemption reserve; (ii) consolidate our shares; (iii) divide its shares into several classes; (iv) subdivide our shares; and (v) cancel any shares which have not been taken up. See "Appendix VI – Summary of Articles of Association" in this Document for further details.

SHAREHOLDERS' GENERAL MEETINGS AND CLASS MEETINGS

For details of circumstances under which our Shareholders' general meeting and Shareholders' class meeting are required, see subsection "General Meeting" in "Appendix VI – Summary of the Articles of Association".

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the [**REDACTED**], the following persons are expected to have an interest and/or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at general meetings of our Company:

			As of the Latest Practicable Date		Immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised)		
Name of Substantial Shareholder	Class of Shares to be held after the [REDACTED]	Nature of Interest	Number of Shares	Approximate percentage in the Company	Number of Shares	Approximate percentage in the relevant class of Shares of the Company	Approximate percentage in the Company
Mr. Lyu Yixiong	Domestic Shares	Beneficial interest	147,440,000(L)	40.96%	[REDACTED]	[REDACTED]	[REDACTED]
	H shares		–	–	[REDACTED]	[REDACTED]	[REDACTED]
	Domestic Shares	Interest in controlled corporation(2)	181,112,560(L)	50.31%	[REDACTED]	[REDACTED]	[REDACTED]
	H shares		–	–	[REDACTED]	[REDACTED]	[REDACTED]
Hongyin Investment	Domestic Shares	Beneficial interest	108,000,000(L)	30.00%	[REDACTED]	[REDACTED]	[REDACTED]
	H shares		–	–	[REDACTED]	[REDACTED]	[REDACTED]
Nanyin Investment	Domestic Shares	Beneficial interest	60,880,000(L)	16.91%	[REDACTED]	[REDACTED]	[REDACTED]
	H shares		–	–	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

(1) (L) denotes long position.

(2) As at the Latest Practicable Date, Mr. Lyu Yixiong holds 93.33% equity interest in Hongyin Investment, 83.74% equity interest in Nanyin Investment, and the entire equity interest in Shanghai Kans and Shanghai Shengyan. Therefore, Mr. Lyu Yixiong is deemed to be interested in the shares held by Hongyin Investment, Nanyin Investment, Shanghai Kans and Shanghai Shengyan.

Save as disclosed above, our Directors are not aware of any other person who will have any interest and/or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at general meetings of our Company or any other member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

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)*	%	*(RMB in millions)*	%
							(Unaudited)			
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.

FUTURE PLANS

See "Business – Our Strategies" for a detailed discussion of our future plans.

USE OF [REDACTED]

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

- Approximately [**REDACTED**]%, or HK$[**REDACTED**], for branding activities by 2026 to continue to enhance the brand image and raise brand awareness of our existing brands, as well as to establish the brand images of our new brands, primarily including:

  (i) approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used for conducting online brand marketing activities, including: (a) carrying out approximately [**REDACTED**] promotion campaigns for each of our existing brands relating to brand-building, in order to raise our brand awareness and strengthen consumer links; and (b) increasing online advertisements for our brands, collaboration with popular KOLs, and recommendations, operation and maintenance of our brands on emerging media platforms;

  (ii) approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used for conducting offline brand marketing activities, including: (a) placing approximately [**REDACTED**] advertisements each year in the next five years on large screens in multiple locations such as airports, railway stations and landmark commercial venues in order to increase the exposure of our brands; and (b) conducting more than [**REDACTED**] offline activities such as new product launches and KOL meetings targeting young people to enhance our brand awareness among young consumers;

  (iii) approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used for increasing celebrity endorsement and cooperative promotion, including inviting approximately [**REDACTED**] celebrities to endorse our brands and products, and carrying out IP cooperation projects with target groups of our brands, such as engaging co-branding activities across borders, and IP content cooperation with vertical platforms, in order to enhance brand quality and reach potential target groups of our brands; and

(iv) approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used for producing high-quality advertising content, and innovating the content of our brands by timely capturing social hotspots and gaining insights into consumer demands. We plan to produce promotional videos and graphic materials to establish emotional links and resonance with consumers and improve our brand image.

- Approximately [**REDACTED**]%, or HK$[**REDACTED**], for enhancing our R&D capabilities by strengthening our fundamental research and product development by 2026, to maintain the continuous innovation of our brands, including:

(i) approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used to strengthen our fundamental research capabilities, including: (a) enhancing our research and development related to functional skincare product technologies, upgrading the research platforms of dual strain fermentation, and building research platforms for plant extraction, targeted skin care, and safe and hyposensitivity; (b) purchasing advanced experimental analysis and testing equipment; and (c) recruiting personnel with enriched fundamental research experience; and

(ii) approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used for upgrading existing brands and developing new brands, including: (a) investing in the market research, development and design of our brands, in order to support the brands' formulation and packaging upgrade; (b) recruiting R&D personnel who are experienced in brand-building and product design; and (c) upgrading our product test center and establishing a more complete testing system.

- Approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used to strengthen our production and supply chain capabilities by 2024, mainly involving the renovation of our production facilities, upgrading our automation equipment, and the expansion of production capacities in the Fengxian Plant, including:

(i) approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used for Phase I of the Fengxian Plant. We plan to use the relevant net [**REDACTED**] to procure approximately [**REDACTED**] sets of production facilities, such as automated packing machines, lot number detection equipment and facial mask automated production lines to upgrade the existing production lines.

(ii) approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used for Phase II of the Fengxian Plant. We plan to use the relevant net [**REDACTED**] to procure approximately [**REDACTED**] sets of production facilities, such as homogeneous emulsifying equipment of different volumes, automatic lotion and milk filling machine and automatic cream filling machine to upgrade the existing manufacturing facilities, increase production scales, improve production efficiency and save costs. We also plan to allocate a portion of the [**REDACTED**] to refurbish the Phase II of Fengxian Plant.

Upon completion of the expansion and upgrade of our Fengxian Plant, we expect to increase the production capacities by approximately 13,345.8 ton, 11,483.6 ton and 1,241.5 ton for skincare products, maternity and childcare products, and other products, respectively.

- Approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used for increasing the breadth and depth of our sales networks by 2026 to enhance the penetration of our products, including:

  (i) approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used for our online sales channels, including: (a) strengthening cooperation with emerging media platforms which have growth potential and are popular with young consumers, such as *Douyin, Kuaishou*, and *Xiaohongshu*; (b) consolidating our cooperation with major e-commerce platforms such, as *Tmall*, *JD.com*, and *VIP.com*; and (c) developing our own live-streaming team to enhance our online sales capabilities in a cost-effective manner;

  (ii) approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used for offline channels, including (a) consolidating and extending our cooperation with offline retailers such as *Watsons* and offline distributors in order to deepen penetration of our products in different tranches of cities in China; (b) opening offline experience stores to increase interaction with our consumers and exposure of our brands; and (c) exploring a new cooperation model with cosmetic shops to expand new sales networks offline.

- Approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used for enhancing our digitization and information infrastructure by 2024, including: (a) procuring digital platform solutions to enhance marketing, decision-making and product operation efficiencies, and strengthen risk management; (b) purchasing and upgrading corporate management systems, such as enterprise resource planning systems, management systems for R&D and business middle office systems; and (c) procuring efficient cloud equipment, data storage and analysis infrastructure to enhance network infrastructure and relevant information technology facilities.

- Approximately [**REDACTED**]%, or HK$[**REDACTED**], will be used for working capital and other general corporate purposes.

If the [**REDACTED**] is set at the high-end of the [**REDACTED**] range or the low-end of the [**REDACTED**] range, the net [**REDACTED**] of the [**REDACTED**] will increase or decrease by approximately HK$[**REDACTED**] and HK$[**REDACTED**], respectively. To the extent that the net [**REDACTED**] from the [**REDACTED**] are more or less than expected, we will increase or decrease the intended use of our net [**REDACTED**] for the above purposes on a pro rata basis. To the extent that the net [**REDACTED**] are further reduced, we will decrease the intended use of our net [**REDACTED**] for the above purposes on a pro rata basis.

If the [**REDACTED**] is exercised in full, the [**REDACTED**] Grantor will receive the net [**REDACTED**] for up to [**REDACTED**] additional [**REDACTED**] to be sold and transferred upon the exercise of the [**REDACTED**]. If any part of our development plan does not proceed as planned for reasons such as changes in government policies that would render the development of any of our projects not viable, or the occurrence of force majeure events, we will carefully evaluate the situation and may reallocate the net [**REDACTED**] from the [**REDACTED**].

To the extent that the net [**REDACTED**] of the [**REDACTED**] are not immediately used for the purposes described above and to the extent permitted by the relevant laws and regulations, we intend to hold such funds in short-term deposits with licensed banks or authorised financial institutions.

[**REDACTED**]

[REDACTED]

[REDACTED]

[**REDACTED**]

[REDACTED]

[**REDACTED**]

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The following is the text of a report received from our Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SHANGHAI CHICMAX COSMETIC CO., LTD., J.P. MORGAN SECURITIES (FAR EAST) LIMITED, CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED AND CLSA CAPITAL MARKETS LIMITED

INTRODUCTION

We report on the historical financial information of Shanghai Chicmax Cosmetic Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-100, which comprises the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the years ended 31 December 2019, 2020 and 2021, and the six months ended 30 June 2022 (the "Relevant Periods"), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2019, 2020 and 2021 and 30 June 2022 and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-100 forms an integral part of this report, which has been prepared for inclusion in this document of the Company dated [**REDACTED**], (the "[**REDACTED**]") in connection with the initial [**REDACTED**] of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group and the Company as at 31 December 2019, 2020 and 2021 and 30 June 2022 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

REVIEW OF INTERIM COMPARATIVE FINANCIAL INFORMATION

We have reviewed the interim comparative financial information of the Group which comprises the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months ended 30 June 2021 and other explanatory information (the "Interim Comparative Financial Information"). The directors of the Group are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor* of the Entity issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 to the Historical Financial Information, respectively.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 12 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Relevant Periods.

Certified Public Accountants
Hong Kong
[**REDACTED**]

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

		Year ended 31 December			Six months ended 30 June	
	Notes	**2019**	**2020**	**2021**	**2021**	**2022**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Revenue	*5*	2,874,321	3,381,633	3,618,882	1,831,718	1,262,394
Cost of sales		(1,124,948)	(1,195,042)	(1,258,243)	(611,878)	(442,852)
Gross profit		1,749,373	2,186,591	2,360,639	1,219,840	819,542
Other income and gains	*6*	134,516	75,434	91,422	17,756	59,253
Selling and distribution expenses		(1,324,877)	(1,535,791)	(1,572,275)	(788,047)	(607,875)
Administrative expenses		(225,540)	(263,718)	(261,720)	(129,180)	(102,599)
Research and development costs		(82,894)	(77,378)	(104,749)	(49,759)	(51,925)
Impairment losses on financial assets, net	*7*	(34,789)	4,646	(6,303)	(2,951)	(739)
Other expenses	*6*	(81,462)	(71,522)	(77,807)	(50,862)	(27,111)
Finance costs	*8*	(81,885)	(40,498)	(20,934)	(13,154)	(9,794)
Share of profits and losses of associates		479	1,862	(149)	438	(385)
Profit before tax	*7*	52,921	279,626	408,124	204,081	78,367
Income tax credit/(expense)	*11*	6,477	(76,444)	(69,353)	(29,823)	(15,586)
Profit for the year/period		59,398	203,182	338,771	174,258	62,781
Attributable to:						
Owners of the parent		62,571	203,457	338,887	174,603	65,339
Non-controlling interests		(3,173)	(275)	(116)	(345)	(2,558)
		59,398	203,182	338,771	174,258	62,781
Earnings per share attributable to ordinary equity holders of the parent						
Basic and diluted						
- For profit for the year/period	*13*	RMB0.17	RMB0.57	RMB0.94	RMB0.49	RMB0.18

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December			Six months ended 30 June	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit for the year/period	59,398	203,182	338,771	174,258	62,781
Other comprehensive income					
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations	1,360	(746)	(8,264)	(4,257)	(6,745)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	1,360	(746)	(8,264)	(4,257)	(6,745)
Total comprehensive income for the year/period	60,758	202,436	330,507	170,001	56,036
Attributable to:					
Owners of the parent	63,931	202,711	330,623	170,346	58,594
Non-controlling interests	(3,173)	(275)	(116)	(345)	(2,558)
	60,758	202,436	330,507	170,001	56,036

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 30 June
	Notes	**2019**	**2020**	**2021**	**2022**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS					
Property, plant and equipment	*14*	520,601	662,520	636,428	613,411
Investment properties	*15*	–	–	10,523	9,904
Prepayments, other receivables and other assets	*22*	12,454	13,306	19,890	20,595
Right-of-use assets	*16*	211,668	178,673	161,662	150,523
Other intangible assets	*17*	23,159	20,051	18,226	19,047
Investments in associates	*18*	1,949	4,947	1,646	1,261
Deferred tax assets	*19*	198,302	150,027	103,078	99,565
Total non-current assets		968,133	1,029,524	951,453	914,306
CURRENT ASSETS					
Inventories	*20*	506,230	577,291	621,201	571,456
Trade and bills receivables	*21*	396,940	340,848	374,874	295,888
Prepayments, other receivables and other assets	*22*	246,549	121,990	181,827	198,920
Financial assets at fair value through profit or loss	*23*	–	–	–	29,000
Pledged deposits	*24*	33,652	440	–	11,500
Cash and cash equivalents	*24*	132,374	154,195	145,208	114,965
Assets classified as held for sale	*25*	39,960	–	–	–
Total current assets		1,355,705	1,194,764	1,323,110	1,221,729
CURRENT LIABILITIES					
Trade and bills payables	*26*	717,900	549,122	565,961	382,990
Other payables and accruals	*27*	599,465	500,204	413,249	434,748
Interest-bearing bank and other borrowings	*28*	348,892	270,962	59,970	265,820
Lease liabilities	*16*	33,583	20,790	21,896	24,387
Tax payable		17,416	28,872	39,053	36,170
Other liabilities	*29*	507,458	–	–	–
Total current liabilities		2,224,714	1,369,950	1,100,129	1,144,115
NET CURRENT (LIABILITIES)/ASSETS		(869,009)	(175,186)	222,981	77,614
TOTAL ASSETS LESS CURRENT LIABILITIES		99,124	854,338	1,174,434	991,920

		As at 31 December			As at 30 June
	Notes	**2019**	**2020**	**2021**	**2022**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT LIABILITIES					
Lease liabilities	*16*	105,342	87,808	73,080	60,370
Interest-bearing bank and other borrowings	*28*	158,486	164,544	130,089	95,089
Other payables	*27*	28,963	17,596	16,227	15,200
Total non-current liabilities		292,791	269,948	219,396	170,659
Net (liabilities)/assets		(193,667)	584,390	955,038	821,261
EQUITY					
Equity attributable to owners of the parent					
Share capital	*30*	180,000	360,000	360,000	360,000
(Deficits)/reserves	*32*	(366,934)	218,951	589,979	450,900
		(186,934)	578,951	949,979	810,900
Non-controlling interests		(6,733)	5,439	5,059	10,361
Total equity		(193,667)	584,390	955,038	821,261

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the parent								
	Share capital	Share-based payment reserve*	Capital reserve*	Statutory reserve funds*	Exchange fluctuation reserve*	Accumulated losses*	Total	Non-controlling interests	Total deficits
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(note 30)		*(note 32)*	*(note 32)*	*(note 32)*				
At 1 January 2019	180,000	91,447	16,160	8,123	898	(556,532)	(259,904)	(6,955)	(266,859)
Profit/(loss) for the year	–	–	–	–	–	62,571	62,571	(3,173)	59,398
Other comprehensive income for the year:									
Exchange differences related to foreign operations	–	–	–	–	1,360	–	1,360	–	1,360
Total comprehensive income/(loss)for the year	–	–	–	–	1,360	62,571	63,931	(3,173)	60,758
Capital contribution of minority shareholder	–	–	–	–	–	–	–	3,395	3,395
Equity-settled share-based compensation	–	9,039	–	–	–	–	9,039	–	9,039
Transfer from retained profits	–	–	–	7,714	–	(7,714)	–	–	–
At 31 December 2019	180,000	100,486	16,160	15,837	2,258	(501,675)	(186,934)	(6,733)	(193,667)

	Attributable to owners of the parent								
	Share capital *RMB'000* *(note 30)*	**Share-based payment reserve*** *RMB'000*	**Capital reserve*** *RMB'000* *(note 32)*	**Statutory reserve funds*** *RMB'000* *(note 32)*	**Exchange fluctuation reserve*** *RMB'000* *(note 32)*	**Accumulated losses*** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2020	180,000	100,486	16,160	15,837	2,258	(501,675)	(186,934)	(6,733)	(193,667)
Profit/(loss) for the year	–	–	–	–	–	203,457	203,457	(275)	203,182
Other comprehensive income for the year:									
Exchange differences related to foreign operations	–	–	–	–	(746)	–	(746)	–	(746)
Total comprehensive (loss)/income for the year	–	–	–	–	(746)	203,457	202,711	(275)	202,436
Capital contribution of minority shareholder	–	–	–	–	–	–	–	6,532	6,532
Acquisition of non-controlling interests	–	–	(7,814)	–	–	–	(7,814)	5,915	(1,899)
Equity-settled share-based compensation	–	53,043	–	–	–	–	53,043	–	53,043
Deemed capital contribution from the shareholder *(note 28)*	–	–	517,945	–	–	–	517,945	–	517,945
Conversion into a joint stock Company	–	–	(225,577)	(15,837)	–	241,414	–	–	–
Transfer capital reserve into share capital *(note 29)*	180,000	–	(180,000)	–	–	–	–	–	–
Transfer from retained profits	–	–	–	11,844	–	(11,844)	–	–	–
At 31 December 2020	360,000	153,529	120,714	11,844	1,512	(68,648)	578,951	5,439	584,390

	Attributable to owners of the parent								
	Share capital *RMB'000* *(note 30)*	**Share-based payment reserve*** *RMB'000*	**Capital reserve*** *RMB'000* *(note 32)*	**Statutory reserve funds*** *RMB'000* *(note 32)*	**Exchange fluctuation reserve*** *RMB'000* *(note 32)*	**Retained profits*** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2021	360,000	153,529	120,714	11,844	1,512	(68,648)	578,951	5,439	584,390
Profit/(loss) for the year	–	–	–	–	–	338,887	338,887	(116)	338,771
Other comprehensive income for the year:									
Exchange differences related to foreign operations	–	–	–	–	(8,264)	–	(8,264)	–	(8,264)
Total comprehensive (loss)/income for the year	–	–	–	–	(8,264)	338,887	330,623	(116)	330,507
Acquisition of non-controlling interests	–	–	(1,035)	–	–	–	(1,035)	(264)	(1,299)
Equity-settled share-based compensation	–	41,440	–	–	–	–	41,440	–	41,440
Transfer from retained profits	–	–	–	18,712	–	(18,712)	–	–	–
At 31 December 2021	360,000	194,969	119,679	30,556	(6,752)	251,527	949,979	5,059	955,038

	Attributable to owners of the parent								
(Unaudited)	**Share capital** *RMB'000* *(note 30)*	**Share-based payment reserve*** *RMB'000*	**Capital reserve*** *RMB'000* *(note 32)*	**Statutory reserve funds*** *RMB'000* *(note 32)*	**Exchange fluctuation reserve*** *RMB'000* *(note 32)*	**Retained profits*** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2021	360,000	153,529	120,714	11,844	1,512	(68,648)	578,951	5,439	584,390
Profit/(loss) for the period	–	–	–	–	–	174,603	174,603	(345)	174,258
Other comprehensive income for the period:									
Exchange differences related to foreign operations	–	–	–	–	(4,257)	–	(4,257)	–	(4,257)
Total comprehensive (loss)/income for the period	–	–	–	–	(4,257)	174,603	170,346	(345)	170,001
Acquisition of non-controlling interests	–	–	(1,456)	–	–	–	(1,456)	1,056	(400)
Equity-settled share-based compensation	–	31,140	–	–	–	–	31,140	–	31,140
At 30 June 2021	360,000	184,669	119,258	11,844	(2,745)	105,955	778,981	6,150	785,131

	Attributable to owners of the parent								
	Share capital	**Share-based payment reserve***	**Capital reserve***	**Statutory reserve funds***	**Exchange fluctuation reserve***	**Retained profits***	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(note 30)		*(note 32)*	*(note 32)*	*(note 32)*				
At 1 January 2022	360,000	194,969	119,679	30,556	(6,752)	251,527	949,979	5,059	955,038
Profit/(loss) for the period	–	–	–	–	–	65,339	65,339	(2,558)	62,781
Other comprehensive income for the period:									
Exchange differences related to foreign operations	–	–	–	–	(6,745)	–	(6,745)	–	(6,745)
Total comprehensive (loss)/income for the period	–	–	–	–	(6,745)	65,339	58,594	(2,558)	56,036
Contribution from non-controlling shareholders	–	–	–	–	–	–	–	7,860	7,860
Dividend declared	–	–	–	–	–	(200,000)	(200,000)	–	(200,000)
Equity-settled share-based compensation	–	2,327	–	–	–	–	2,327	–	2,327
At 30 June 2022	360,000	197,296	119,679	30,556	(13,497)	116,866	810,900	10,361	821,261

* These reserve accounts comprise the consolidated reserves of RMB(366,934,000), RMB218,951,000, RMB589,979,000, RMB418,981,000 and RMB450,900,000 in the consolidated statements of financial position as at 31 December 2019, 2020 and 2021 and 30 June 2021 and 2022, respectively.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December			Six months ended 30 June	
		2019	2020	2021	2021	2022
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES						
Profit before tax		52,921	279,626	408,124	204,081	78,367
Adjustments for:						
Finance costs	8	81,885	40,498	20,934	13,154	9,794
Inventory impairment and scrap		57,847	33,189	66,861	46,357	21,478
Impairment/(reversal of impairment) of trade and other receivables		30,829	(5,643)	6,303	2,951	739
Share of profits and losses of associates		(479)	(1,862)	149	(438)	385
Interest income	6	(1,944)	(2,125)	(460)	(237)	(295)
Depreciation of investment properties		–	–	516	–	619
Depreciation of property, plant and equipment	7	38,178	48,288	61,240	25,799	34,267
Depreciation of right-of-use assets	7	40,954	32,768	24,112	11,948	13,169
Amortisation of intangible assets	7	2,875	2,766	2,227	1,598	1,484
Loss/(gain) on disposal of items of property, plant and equipment	7	2,573	(918)	(1,651)	62	488
Loss on disposal of other intangible assets		–	–	23	–	–
Gain on disposal of items of right-of-use assets		(17)	(618)	(62)	(59)	(1)
Gain on disposal of assets held for sale		–	(1,074)	–	–	–
(Gain)/loss on disposal of subsidiaries	7	(67,472)	654	–	–	–
Loss/(gain) on disposal of associates		–	–	351	(660)	–
Fair value gain on financial assets at fair value through profit or loss		–	–	(162)	–	(66)
Equity-settled share-based compensation expense	7	9,039	53,043	41,440	31,140	2,327
		247,189	478,592	629,945	335,696	162,755
(Increase)/decrease in inventories		(25,345)	(104,250)	(110,771)	(78,411)	28,267
Decrease/(increase) in trade and bills receivables		75,927	59,584	(38,778)	(25,700)	79,883
Decrease/(increase) in prepayments, other receivables and other assets		21,897	(28,314)	(63,669)	(58,159)	(2,366)
Increase/(decrease) in amount due to related parties		514	1,299	(1,812)	–	–

	Notes	Year ended 31 December			Six months ended 30 June	
		2019	**2020**	**2021**	**2021**	**2022**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
(Increase)/decrease in amount due from related parties		(3,038)	(37,354)	(168)	10	–
Decrease/(increase) in pledged deposits		16,727	33,212	440	(1,155)	(11,500)
(Decrease)/increase in trade and bills payables		(25,847)	(168,778)	16,839	103,100	(182,971)
(Decrease)/increase in other payables and accruals		(227,648)	46,571	(85,308)	(90,915)	(115,808)
Cash generated from/(used in) operations		80,376	280,562	346,718	184,466	(41,740)
Interest received		1,944	2,125	460	237	295
Income tax paid		(4,964)	(16,713)	(11,985)	(10,622)	(33,113)
Net cash flows generated from/(used in) operating activities		77,356	265,974	335,193	174,081	(74,558)
CASH FLOWS USED IN INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment		(160,717)	(139,809)	(63,124)	(41,109)	(31,613)
Proceeds from disposal of items of property, plant and equipment		1,285	931	4,800	362	503
Additions to other intangible assets		(4,307)	(1,604)	(2,607)	(2,578)	(2,305)
Proceeds from disposal of items of other intangible assets		125	1,946	2,182	–	–
Proceeds from disposal of assets held for sale		–	31,438	–	–	–
Proceeds from disposal of associates		–	693	700	300	–
Proceeds from disposal of subsidiaries	*33*	80,474	2,654	–	–	–
Dividend received from associates		–	–	2,101	1,844	–
Purchase of financial assets at fair value through profit or loss		–	–	(29,000)	(10,000)	(37,000)
Proceeds from disposal of financial assets at fair value through profit or loss		–	–	29,172	–	8,066
Loans to related parties		(1,930)	(81,170)	–	–	–
Repayment from related parties		15,067	175,949	490	490	–
Interest received		–	4,725	–	–	–
Investments in associates		(1,470)	(2,698)	–	–	–
Net cash flows used in investing activities		(71,473)	(6,945)	(55,286)	(50,691)	(62,349)

		Year ended 31 December			Six months ended 30 June	
	Notes	**2019**	**2020**	**2021**	**2021**	**2022**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES						
Proceeds from bank loans		657,063	472,914	40,300	10,000	215,820
Repayment of bank loans		(575,794)	(542,605)	(285,447)	(150,320)	(44,970)
Proceeds from related party loans		41,800	–	–	–	–
Repayment to related party loans		(1,655)	(103,755)	–	–	–
Capital contribution from non-controlling interests		3,395	6,533	–	–	7,860
Purchases of non-controlling interests		–	–	(1,299)	–	–
Principal portion of lease payments		(33,568)	(29,482)	(28,344)	(10,381)	(12,248)
Dividend paid		–	–	–	–	(50,177)
Interest paid		(31,144)	(43,537)	(14,765)	(13,154)	(9,794)
Net cash flows generated from/(used in) financing activities		60,097	(239,932)	(289,555)	(163,855)	106,491
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		65,980	19,097	(9,648)	(40,465)	(30,416)
Cash and cash equivalents at beginning of year/period		60,831	132,374	154,195	154,195	145,208
Effect of foreign exchange rate changes, net		5,563	2,724	661	(249)	173
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	*24*	132,374	154,195	145,208	113,481	114,965
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and cash equivalents as stated in the consolidated statements of financial position and statements of cash flows		132,374	154,195	145,208	113,481	114,965

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

		As at 31 December			As at 30 June
	Notes	**2019**	**2020**	**2021**	**2022**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS					
Property, plant and equipment	*14*	6,909	8,109	19,459	16,139
Prepayments, other receivables and other assets	*22*	3,342	4,785	6,918	10,071
Right-of-use assets	*16*	46,018	37,518	29,966	26,358
Other intangible assets	*17*	17,745	15,892	15,307	16,238
Investments in subsidiaries		500,546	425,166	510,716	526,016
Deferred tax assets	*19*	40,967	47,788	25,839	29,371
Total non-current assets		615,527	539,258	608,205	624,193
CURRENT ASSETS					
Inventories	*20*	138,559	46,630	1,474	4,712
Trade and bills receivables	*21*	529,725	430,332	660,330	568,226
Prepayments, other receivables and other assets	*22*	618,488	208,193	173,015	113,733
Pledged deposits	*24*	31,426	–	–	11,500
Cash and cash equivalents	*24*	1,908	32,391	50,229	2,999
Total current assets		1,320,106	717,546	885,048	701,170
CURRENT LIABILITIES					
Trade and bills payables	*26*	584,709	117,752	232,906	14,319
Other payables and accruals	*27*	405,761	142,342	120,237	237,453
Interest-bearing bank and other borrowings	*28*	195,000	85,104	–	150,500
Lease liabilities	*16*	7,630	6,974	7,385	7,608
Tax payable		–	7,211	14,133	14,078
Total current liabilities		1,193,100	359,383	374,661	423,958
NET CURRENT ASSETS		127,006	358,163	510,387	277,212
TOTAL ASSETS LESS CURRENT LIABILITIES		742,533	897,421	1,118,592	901,405
NON-CURRENT LIABILITIES					
Lease liabilities	*16*	39,498	32,524	25,139	21,275
Other liabilities	*29*	507,458	–	–	–
Total non-current liabilities		546,956	32,524	25,139	21,275
NET ASSETS		195,577	864,897	1,093,453	880,130
EQUITY					
Share capital	*30*	180,000	360,000	360,000	360,000
Reserves	*32*	15,577	504,897	733,453	520,130
Total equity		195,577	864,897	1,093,453	880,130

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a limited company incorporated in the People's Republic of China on 11 June 2004. The registered office is located at Room 701, No. 515 Yinxiang Road, Nanxiang Town, Jiading District, Shanghai, Mainland China. The Company was restructured from a limited company to a joint-stock company on 15 December 2020.

During the Relevant Periods, the Group was principally involved in the following activities: research and development, production and sales of cosmetics.

Information about subsidiaries

The Company and its subsidiaries now comprising the Group are controlled by Mr. Lyu Yixiong.

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, the particulars of the Company's material subsidiaries are set out below:

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shanghai Shumei Cosmetic Co., Ltd. ("上海東美化妝品有限公司") *(iii)*	PRC/Mainland China 08 September 2009	RMB10,000,000	100%	–	Sales of cosmetics
Shanghai Zhongyi Daily Chemical Co., Ltd. ("上海中翊日化有限公司") *(i)*	PRC/Mainland China 05 August 2010	RMB260,000,000	100%	–	Production of cosmetics
Suzhou Industrial Park Lizi Cosmetic Co., Ltd. ("蘇州工業園區黎姿化妝品有限公司") *(iii)*	PRC/Mainland China 23 April 2004	RMB42,000,000	100%	–	Production of cosmetics
Shanghai Baby Elephant Cosmetic Co., Ltd. ("上海紅色小象化妝品有限公司") *(iii)*	PRC/Mainland China 28 December 2015	RMB10,000,000	100%	–	Sales of cosmetics
Shanghai Kans Cosmetic Sales Service Co., Ltd. ("上海韓束化妝品銷售服務有限公司") *(iii)*	PRC/Mainland China 29 June 2016	RMB5,000,000	100%	–	Sales of cosmetics
Shanghai Cosmetea Cosmetics Co., Ltd. ("上海珂思美媞化妝品有限公司") *(iii)*	PRC/Mainland China 08 July 2016	RMB5,000,000	100%	–	Sales of cosmetics
Nippon Hondo Co., Ltd. ("日本紅道株式會社") *(iii)*	Japan 30 July 2015	JPY62,000,000	–	100%	Sales of cosmetics

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Nippon Shuichi Cosmetics Co., Ltd. ("日本秀一化妝品株式會社") *(iii)*	Japan 04 July 2017	JPY80,000,000	–	100%	Production of cosmetics
Hondo Co., Ltd. ("紅道有限公司") *(iii)*	Republic of Korea 09 November 2015	KRW3,780,000,000	–	100%	Sales of cosmetics
Shanghai Hongdao Cosmetic Co., Ltd. ("上海紅道化妝品有限公司") *(iii)*	PRC/Mainland China 02 February 2018	RMB5,000,000	100%	–	Sales of cosmetics
Shanghai One Leaf Cosmetic Co., Ltd. ("上海一葉子化妝品有限公司") *(iii)*	PRC/Mainland China 09 September 2014	RMB10,000,000	100%	–	Sales of cosmetics
Shanghai HiFace Cosmetic Co., Ltd. ("上海赫妃拉化妝品有限公司") *(iii)*	PRC/Mainland China 28 December 2017	RMB5,000,000	100%	–	Sales of cosmetics
Shanghai Huami Supply Chain Management Co., Ltd. ("上海花迷供應鏈管理有限公司") *(iii)*	PRC/Mainland China 09 January 2019	RMB1,000,000	–	100%	Supply chain management
Shanghai Baby Elephant Cosmetic Sales Service Co., Ltd. ("上海紅色小象化妝品銷售服務有限公司") *(ii)*	PRC/Mainland China 12 June 2018	RMB10,000,000	100%	–	Sales of cosmetics
Shanghai Asnami Cosmetics Co., Ltd. ("上海安彌兒化妝品有限公司") *(ii)*	PRC/Mainland China 15 May 2019	RMB10,000,000	–	100%	Sales of cosmetics
Shanghai KPC Biotechnology Co., Ltd. ("上海昆藥生物科技有限公司") *(iii)*	PRC/Mainland China 11 August 2020	RMB20,000,000	51%	–	Sales of cosmetics

* The English names of the companies registered in the People's Republic of China (the "PRC") represent the best efforts of management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results during the Relevant Periods or formed a substantial portion of the net assets of the Group.

Notes:

(i) The statutory financial statements of these companies for the year ended 31 December 2019 and 2020 prepared in accordance with PRC Generally Accepted Accounting Principles were audited by Shanghai Xuanhe Certified Public Accountants LLP.

The statutory financial statements of these companies for the year ended 31 December 2021 prepared in accordance with PRC Generally Accepted Accounting Principles were audited by Shanghai Zirong Certified Public Accountants LLP.

(ii) The statutory financial statements of these companies for the year ended 31 December 2019 prepared in accordance with PRC Generally Accepted Accounting Principles were audited by Reanda Certified Public Accountants LLP.

The statutory financial statements of these companies for the year ended 31 December 2020 and 2021 prepared in accordance with PRC Generally Accepted Accounting Principles were audited by Shanghai Zirong Certified Public Accountants LLP.

(iii) No statutory financial statements have been prepared for these entities for the years ended 31 December 2019, 2020 and 2021.

2.1 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 1 January 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.

2.2 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in this Historical Financial Information. The Group intends to adopt them, if applicable, when they become effective.

Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
IFRS 17	*Insurance Contracts*[1]
Amendments to IFRS 17	*Insurance Contracts*[1,3]
Amendment to IFRS 17	*Initial Application of IFRS 17 and IFRS 9 – Comparative Information*[1]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[1]
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to IAS 8	*Definition of Accounting Estimates*[1]
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]

1 Effective for annual periods beginning on or after 1 January 2023

2 No mandatory effective date yet determined but available for adoption

3 As a consequence of the amendments to IFRS 17, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

The Group is in the process of making an assessment of the impact of these new or revised IFRSs upon initial application. Up to now, the Group considers that these standards will not have a significant impact on the Group's financial performance and financial position.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an entity in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of an associate is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investment in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of an associate is included as part of the Group's investments in associates.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its debt investments at fair value through other comprehensive income at the end of each of the Relevant Periods. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Historical Financial Information on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each of the Relevant Periods.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Relevant Periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; and the sponsoring employers of the post-employment benefit plan;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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 capitalised 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, the Group recognises such parts as individual assets with specific useful lives and depreciates 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. The principal annual rates used for this purpose are as follows:

Category	**Annual rates**
Buildings	4.75%
Plant and machinery	9.50% – 47.50%
Motor vehicles	23.75% – 47.50%
Furniture, fixtures and equipment	19.00% – 47.50%
Leasehold improvements	19.00% – 47.50%

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 recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised 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 capitalised 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.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs.

The Group measures its investment properties at cost, including related transaction costs. Depreciation is calculated using the straight-line method to allocate their cost over their estimated useful lives in 20 years.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

Transfers among investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of other intangible assets are assessed to be either finite or indefinite. Other intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each of the Relevant Periods.

Intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives. The principal estimated useful lives of intangible assets are as follows:

Categories	**Estimated useful lives**
Software	3-10 years, considering the software technology updates in the market and the development stage of the Group
Others, mainly include vehicle license plate	2-10 years, vehicle license plate is amortised on a straight-line basis over the useful life of 10 years, based on the Group's minimal planned years of usage

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised 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 recognised, 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 as follows:

Category	**Estimated useful lives**
Land use right	50 years

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.

(b) Lease liabilities

Lease liabilities are recognised 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 the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised 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, the Group uses its 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 rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has not increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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 recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables, interest-bearing bank and other borrowings and other liabilities.

Subsequent measurement

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

Financial liabilities at amortised cost (other payables, interest-bearing bank and other borrowings and other liabilities)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised 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 recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised 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 amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised 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 an 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 recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable 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 labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised 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 recognised for a provision is the present value at the end of each of the Relevant Periods 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.

Income tax

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

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 Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or 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 recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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 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 recognised 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 Relevant Periods 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. Unrecognised deferred tax assets are reassessed at the end of each of the Relevant Periods and are recognised 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 realised 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 Relevant Periods.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right exists 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 realise 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.

Government grants

Government grants are recognised 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 recognised 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.

Revenue recognition

Revenue from contracts with customers

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

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled 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 recognised 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 the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised 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.

(a) Sale of goods

Revenue from the sale of goods is recognised 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 recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

(b) Transportation services

The Group provides transportation services between its warehouses and its customers. The Group recognise transportation services revenue over time as customers receive the benefit of the services as the goods are transported from one location to another. As such, transportation service revenue is recognised proportionally as goods move from one location to another and the related costs are recognised as incurred. The Group uses an output method of progress based on time-in-transit as it best depicts the transfer of control to the customer.

Other income

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

Contract liabilities

A contract liability is recognised 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 recognised as revenue when the Group performs under the contract. (i.e., transfers control of the related goods or services to the customer).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 4.75% and 5.39% has been applied to the expenditure on the individual assets.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Share-based payments

The Company operates certain incentive shares schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the 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 7 November 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, further details of which are given in note 31 to the Historical Financial Information.

The cost of equity-settled transactions is recognised 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 recognised for equity-settled transactions at the end of each of the Relevant Periods until the vesting date reflects the extent to which the vesting period has expired and the Group's 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 recognised as at 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 the Group's 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 recognised. 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 recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised 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 cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised 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 cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled 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.

Foreign currencies

The Historical Financial Information is presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Employee benefits

Social pension plans

The Group has the social pension plans for its employees arranged by local government labour and security authorities. The Group makes contributions on a monthly basis to the social pension plans. The contributions are charged to profit or loss as they become payable in accordance with the rules of the social pension plans. Under the plans, the Group has no further obligations beyond the contributions made.

Housing fund and other social insurances

The Group has participated in defined social security contribution schemes for its employees pursuant to the relevant laws and regulations of the PRC. These include housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances. The contributions are charged to profit or loss on an accrual basis. The Group has no further obligations beyond the contributions made.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Variable consideration for returns and rebates

The Group estimates variable consideration to be included in the transaction price for the sale of products with rights of return and rebates.

The Group developed a statistical model for forecasting sales returns and rebates. The model used the historical return data of each product to come up with expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Group.

The Group's expected rebates are analysed on a per customer basis for contracts that are subject to some thresholds. Determining whether a customer will likely be entitled to a rebate depends on the customer's historical rebate entitlement, sell out and payment collection to date.

The Group updates its assessment of expected returns and rebates quarterly and the refund liabilities are adjusted accordingly. Estimates of expected returns and rebates are sensitive to changes in circumstances and the Group's past experience regarding returns and rebate entitlements may not be representative of customers' actual returns and rebate entitlements in the future. As at 31 December 2019, 2020, 2021 and June 30 2022, the amounts recognised as refund liabilities were RMB32,806,000, RMB14,068,000, RMB29,604,000 and RMB6,279,000 respectively, and the amounts recognised as rebates were RMB72,317,000, RMB47,884,000, RMB27,100,000 and RMB22,203,000 respectively.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Provision for expected credit losses on trade and bills receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 21.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are included in note 19 to the Historical Financial Information.

Provision for slow-moving inventories and net realisable value of inventories

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period, and makes a provision for slow-moving inventory items. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. A write-down of inventories to net realisable value is made based on the estimated net realisable value of inventories. The assessment of the write-down amount requires 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.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into one single business unit that includes primarily the manufacture and sale of cosmetic products.

The information reported to the directors of the Company, who are the chief operating decision makers, for the purpose of resource allocation and assessment of performance does not contain discrete operating segment financial information and the directors reviewed the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.

Geographical information

(a) Revenue from external customers

	Year ended 31 December			Six months ended 30 June	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Mainland China	2,865,524	3,368,271	3,587,706	1,818,697	1,253,682
Other countries/regions	8,797	13,362	31,176	13,021	8,712
	2,874,321	3,381,633	3,618,882	1,831,718	1,262,394

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Mainland China	688,829	803,759	787,081	761,169
Japan	79,676	74,481	61,864	53,572
Others	1,326	1,257	–	–
	769,831	879,497	848,945	814,741

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets.

Information about major customers

Revenue of approximately RMB494,185,000, RMB363,518,000, RMB417,397,000 RMB221,746,000 and RMB173,919,000 were derived from sales to a single customer during the year ended 31 December 2019, 2020 and 2021, and the six months ended 30 June, 2021 and 2022, respectively, accounting for approximately 17.2%, 10.7%, 11.5%, 12.1% and 13.8% of the total revenue for the respective periods. Other than this entity, the Group has a large number of customers, and none of the sales to whom accounted for 10.00% or more of the Group's revenue during the Relevant Periods.

5. REVENUE

An analysis of the Group's revenue is as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Revenue from contracts with customers					
Sales of goods	2,858,983	3,369,138	3,606,750	1,825,450	1,258,732
Transportation services	15,338	12,495	12,132	6,268	3,662
	2,874,321	3,381,633	3,618,882	1,831,718	1,262,394

(a) Disaggregated revenue information

	Year ended 31 December			Six months ended 30 June	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Types of goods or services					
Sales of goods	2,858,983	3,369,138	3,606,750	1,825,450	1,258,732
Transportation services	15,338	12,495	12,132	6,268	3,662
	2,874,321	3,381,633	3,618,882	1,831,718	1,262,394

Timing of revenue recognition

	Year ended 31 December			Six months ended 30 June	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Goods transferred at a point in time	2,858,983	3,369,138	3,606,750	1,825,450	1,258,732
Services transferred over time	15,338	12,495	12,132	6,268	3,662
	2,874,321	3,381,633	3,618,882	1,831,718	1,262,394

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	Year ended 31 December			Six months ended 30 June	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:					
Sale of goods	114,641	182,309	128,937	128,937	81,120

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon receipt of the goods by customers or delivery of goods, and the payment period is generally uncertain, expect for certain major customers where payment is due within 60 to 90 days from receipt.

Transportation services

The performance obligation is satisfied over time as services are rendered. Transportation services are for periods of within one month, and are billed based on the time incurred.

As of the end of each of the Relevant Periods, the amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) are immaterial and all the amounts are expected to be recognised as revenue within one year.

6. OTHER INCOME AND GAINS AND OTHER EXPENSES

		Year ended 31 December			**Six months ended 30 June**	
	Notes	**2019**	**2020**	**2021**	**2021**	**2022**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Other income						
Government grants	*(a) (b)*	60,299	64,521	77,494	11,838	38,738
Bank interest income		416	498	460	237	295
Interest income from related parties		1,528	1,627	–	–	–
Others		2,907	3,016	5,840	2,071	4,994
		65,150	69,662	83,794	14,146	44,027
Gains						
Gain on disposal of a subsidiary	*33*	67,472	–	–	–	–
Gain on disposal of property, plant and equipment		–	918	2,326	50	–
Gain on write-off of outstanding payables		1,461	3,834	2,902	2,519	127
Others		433	1,020	2,400	1,041	15,099
		69,366	5,772	7,628	3,610	15,226
		134,516	75,434	91,422	17,756	59,253
Other expenses						
Inventory impairment and scrap		69,756	57,761	66,861	46,357	21,478
Foreign exchange loss		3,362	5,106	5,152	3,551	2,358
Others		8,344	8,655	5,794	954	3,275
		81,462	71,522	77,807	50,862	27,111

(a) The government grants related to income have been received to reward for the contribution to the local economic growth. These grants related to income are recognised in the statement of profit or loss upon receipt of these rewards. There are no unfulfilled conditions or contingencies relating to these grants.

(b) The Group has received certain government grants related to the investments in long-term assets in production bases. The grants related to assets were recognised in the statement of profit or loss over the useful lives of relevant assets. There are no unfulfilled conditions or contingencies relating to these grants.

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		Year ended 31 December			Six months ended 30 June	
	Notes	**2019**	**2020**	**2021**	**2021**	**2022**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Cost of inventories sold*		1,124,948	1,195,042	1,258,243	611,878	442,852
Depreciation of property, plant and equipment	*14*	38,178	48,288	61,240	25,799	34,267
Depreciation of right-of-use assets	*16*	40,954	32,768	24,112	11,948	13,169
Amortisation of intangible assets	*17*	2,875	2,766	2,227	1,598	1,484
Wages and salaries		413,626	348,203	418,537	218,797	150,730
Pension scheme contributions, social welfare and other welfare		87,739	50,141	111,937	56,775	54,726
Share-based compensation expense		9,039	53,043	41,440	31,140	2,327
Foreign exchange differences	*6*	3,362	5,106	5,152	3,551	2,358
Marketing and promotion expenses		803,121	1,069,646	1,034,045	509,564	407,633
Inventory impairment and scrap	*6*	69,756	57,761	66,861	46,357	21,478
Interest expense	*8*	81,885	40,498	20,934	13,154	9,794
Impairment losses on financial assets, net		34,789	(4,646)	6,303	2,951	739
Loss/(gain) on disposal of items of property, plant, and equipment		2,573	(918)	(1,651)	62	488
(Gain)/loss on disposal of subsidiaries	*6*	(67,472)	654	–	–	–
[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

* Cost of inventories sold include expenses relating to depreciation of property, plant and equipment, depreciation of right-of-use assets and employee benefit expense, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

Expenses included in the cost of inventories sold:					
Depreciation of property, plant and equipment	23,394	32,192	39,600	19,155	22,433
Depreciation of right-of-use assets	6,458	3,874	1,512	754	525
Employee benefit expense	34,476	22,422	34,037	14,413	12,040
Delivery expenses	21,284	18,704	22,588	10,744	6,810

8. FINANCE COSTS

An analysis of finance costs is as follows:

		Year ended 31 December			Six months ended 30 June	
	Notes	**2019** *RMB'000*	**2020** *RMB'000*	**2021** *RMB'000*	**2021** *RMB'000 (Unaudited)*	**2022** *RMB'000*
Interest on bank and other borrowings		29,949	28,611	14,765	9,950	7,028
Interest on other liabilities	*29*	45,932	8,737	–	–	–
Interest on lease liabilities	*16*	9,060	7,330	6,169	3,204	2,766
		84,941	44,678	20,934	13,154	9,794
Less: Interest capitalised		(3,056)	(4,180)	–	–	–
		81,885	40,498	20,934	13,154	9,794

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Details of the emoluments paid or payable to the directors and the chief executive of the Company for the services provided to the Group during the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2019 *RMB'000*	**2020** *RMB'000*	**2021** *RMB'000*	**2021** *RMB'000 (Unaudited)*	**2022** *RMB'000*
Fees	–	–	39	–	225
Other emoluments:					
Salaries, allowances and benefits in kind	8,052	5,705	5,519	2,384	1,182
Pension scheme contributions	834	513	605	290	384
Performance-related bonuses	336	500	333	333	629
Share-based payment	3,847	47,383	9,753	9,753	–
	13,069	54,101	16,249	12,760	2,420

(a) Independent non-executive directors

		Year ended 31 December 2021					
	Notes	**Fees** *RMB'000*	**Salaries, allowances and benefits in kind** *RMB'000*	**Pension scheme contributions** *RMB'000*	**Performance-related bonuses** *RMB'000*	**Share-based payment** *RMB'000*	**Total** *RMB'000*
Independent non-executive directors:							
Mr. Liu Yi	*(i)*	13	–	–	–	–	13
Ms. Luo Yan (羅妍)	*(i)*	13	–	–	–	–	13
Mr. Leung Ho Sun	*(i)*	13	–	–	–	–	13
		39	–	–	–	–	39

There were no fees and other emoluments payable to the independent non-executive directors during the six months ended 30 June 2021.

	Notes	Six months ended 30 June 2022					
		Fees	**Salaries, allowances and benefits in kind**	**Pension scheme contributions**	**Performance-related bonuses**	**Share-based payment**	**Total**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Independent non-executive directors:							
Mr. Liu Yi	*(i)*	75	–	–	–	–	75
Ms. Luo Yan (羅妍)	*(i)*	75	–	–	–	–	75
Mr. Leung Ho Sun	*(i)*	75	–	–	–	–	75
		225	–	–	–	–	225

Notes:

(i) Mr. Liu Yi, Ms. Luo Yan (羅妍) and Mr. Leung Ho Sun were appointed as independent non-executive directors on 21 December 2021.

(b) Executive directors, non-executive directors and the chief executive

	Note	Year ended 31 December 2019				
		Salaries, allowances and benefits in kind	**Pension scheme contributions**	**Performance-related bonuses**	**Share-based payment**	**Total**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chief executive and executive director:						
Mr. Lyu Yixiong		600	101	–	–	701
Executive directors:						
Ms. Bao Yanyue		1,871	127	–	390	2,388
Ms. Guo Wenjing		1,251	101	112	–	1,464
Ms. Luo Yan (羅燕)		1,223	101	42	1,573	2,939
Mr. Jiao Hanwei	*(i)*	920	–	–	1,573	2,493
Ms. Song Yang		579	101	44	–	724
Ms. Zhou Qianjing		552	101	48	–	701
Mr. Weng Dehua		552	101	48	311	1,012
Mr. Feng Yifeng		504	101	42	–	647
Non-executive directors:						
Mr. Zeng Zhijie		–	–	–	–	–
Mr. Jin Ming		–	–	–	–	–
		8,052	834	336	3,847	13,069

		Year ended 31 December 2020				
	Notes	**Salaries, allowances and benefits in kind**	**Pension scheme contributions**	**Performance-related bonuses**	**Share-based payment**	**Total**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chief executive and executive director:						
Mr. Lyu Yixiong		575	86	–	–	661
Executive directors:						
Ms. Luo Yan (羅燕)		1,801	86	42	472	2,401
Ms. Guo Wenjing		1,221	55	116	–	1,392
Ms. Song Yang		765	86	44	15,606	16,501
Mr. Weng Dehua	*(ii)*	529	91	48	93	761
Mr. Feng Yifeng		483	55	250	15,606	16,394
Ms. Bao Yanyue	*(iii)*	216	35	–	–	251
Ms. Zhou Qianjing	*(iii)*	115	19	–	15,606	15,740
Non-executive directors:						
Mr. Zeng Zhijie	*(iv)*	–	–	–	–	–
Mr. Jin Ming		–	–	–	–	–
Ms. Li Hanqiong	*(v)*	–	–	–	–	–
		5,705	513	500	47,383	54,101

		Year ended 31 December 2021				
	Note	**Salaries, allowances and benefits in kind**	**Pension scheme contributions**	**Performance-related bonuses**	**Share-based payment**	**Total**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chief executive and executive director:						
Mr. Lyu Yixiong		600	121	38	–	759
Executive directors:						
Ms. Luo Yan (羅燕)		1,622	121	72	–	1,815
Ms. Guo Wenjing	*(vi)*	1,284	121	80	9,753	11,238
Ms. Song Yang		1,196	121	85	–	1,402
Mr. Feng Yifeng		817	121	58	–	996
Non-executive directors:						
Mr. Jin Ming		–	–	–	–	–
Ms. Li Hanqiong		–	–	–	–	–
		5,519	605	333	9,753	16,210

	Six months ended 30 June 2021				
(Unaudited)	**Salaries, allowances and benefits in kind** *RMB'000*	**Pension scheme contributions** *RMB'000*	**Performance-related bonuses** *RMB'000*	**Share-based payment** *RMB'000*	**Total** *RMB'000*
Chief executive and executive director:					
Mr. Lyu Yixiong	299	58	38	–	395
Executive directors:					
Ms. Luo Yan (羅燕)	579	58	72	–	709
Ms. Guo Wenjing	642	58	80	9,753	10,533
Ms. Song Yang	613	58	85	–	756
Mr. Feng Yifeng	251	58	58	–	367
Non-executive directors:					
Mr. Jin Ming	–	–	–	–	–
Ms. Li Hanqiong	–	–	–	–	–
	2,384	290	333	9,753	12,760

		Six months ended 30 June 2022				
	Note	**Salaries, allowances and benefits in kind** *RMB'000*	**Pension scheme contributions** *RMB'000*	**Performance-related bonuses** *RMB'000*	**Share-based payment** *RMB'000*	**Total** *RMB'000*
Chief executive and executive director:						
Mr. Lyu Yixiong		242	96	–	–	338
Executive directors:						
Ms. Luo Yan (羅燕)		498	96	42	–	636
Ms. Song Yang		244	96	232	–	572
Mr. Feng Yifeng		198	96	355	–	649
Non-executive directors:						
Mr. Jin Ming	*(vii)*	–	–	–	–	–
Ms. Li Hanqiong		–	–	–	–	–
		1,182	384	629	–	2,195

The non-executive directors waived or agreed to waive any remuneration during the Relevant Periods.

Notes:

(i) Mr. Jiao Hanwei was appointed on 21 April 2015 and resigned on 18 April 2019.

(ii) Mr. Weng Dehua was appointed on 21 April 2015 and resigned on 28 June 2020.

(iii) Ms. Bao Yanyue and Ms. Zhou Qianjing were appointed on 19 April 2019 and resigned on 23 March 2020.

(iv) Mr. Zeng Zhijie was appointed on 21 April 2015 and resigned on 9 October 2020.

(v) Ms. Li Hanqiong was appointed on 23 December 2020.

(vi) Ms. Guo Wenjing was appointed on 1 January 2018 and resigned on 2 December 2021.

(vii) Mr. Jin Ming was appointed on 7 December 2016 and resigned on 10 September 2022 due to personal reason.

There were no disagreement or dispute between the resigned directors with the Board in connection with their resignation.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022 included three, four, one, one and two directors, respectively, details of whose remuneration are set out in note 9 above. Details of the remaining two, one, four, four and three highest paid employees who are not the directors of the Group during the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022, respectively, are as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Salaries, allowances and benefits in kind	2,536	1,980	2,886	1,479	1,019
Pension scheme contributions	253	127	474	232	288
Performance-related bonuses	42	–	113	88	308
Share-based payment	885	–	16,236	12,959	884
	3,716	2,107	19,709	14,758	2,499

The number of non-director highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	**2020**	**2021**	**2021** *(Unaudited)*	**2022**
Nil to HK$1,000,000	–	–	–	–	2
HK$1,000,000 to HK$1,500,001	–	–	3	3	1
HK$1,500,001 to HK$2,000,000	1	1	1	1	–
Above HK$2,000,000	1	–	–	–	–
	2	1	4	4	3

11. INCOME TAX (CREDIT)/EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Current – PRC	21,981	26,549	21,028	29,718	9,391
Current – other jurisdictions	981	1,620	1,376	207	2,682
Deferred tax	(29,439)	48,275	46,949	(102)	3,513
Total tax (credit)/charge for the year/period	(6,477)	76,444	69,353	29,823	15,586

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

PRC Corporate Income Tax

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 those are subject to tax exemption set out below.

Shanghai Zhongyi Daily Chemical Co., Ltd. was accredited as an "Advanced Technology Enterprise" in 2018 and 2021, and therefore Shanghai Zhongyi Daily Chemical Co., Ltd. was entitled to a preferential EIT rate of 15% for the Relevant Periods. This qualification is subject to review by the relevant tax authority in the PRC for every three years.

Certain of the Group's PRC subsidiaries are qualified as small and micro enterprises and are entitled to a preferential corporate income tax rate of 20% during the Relevant Periods.

Hong Kong profits tax

The statutory rate of Hong Kong profits tax was 16.5% for the Relevant Periods on the estimated assessable profits arising in Hong Kong.

Income Tax of Other Jurisdictions

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

A reconciliation of the tax (credit)/expense applicable to profit before tax at the statutory rate applicable in Mainland China to the tax expense at the effective tax rates is as follows:

		Year ended 31 December			Six months ended 30 June	
		2019	**2020**	**2021**	**2021**	**2022**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Profit before income tax		52,921	279,626	408,124	204,081	78,367
Tax at the PRC corporate income tax rate of 25%		13,230	69,907	102,031	51,020	19,592
Effect of different tax rates of some subsidiaries		(20,472)	(6,709)	(16,636)	(18,482)	(1,299)
Expenses not deductible for tax		15,616	14,383	12,563	6,716	4,502
Tax losses utilised from previous periods		(1,236)	–	(17,298)	(4,677)	(874)
Tax losses not recognised		6,557	5,960	1,158	735	253
Profits and losses attributable to associates		(120)	(465)	37	(110)	96
Income not subject to tax	*(i)*	(12,675)	–	–	–	–
Additional deductible allowance for research and development expenses	*(ii)*	(7,377)	(6,632)	(12,502)	(5,379)	(6,684)
Total tax (credit)/charge for the year/period		(6,477)	76,444	69,353	29,823	15,586

Notes:

(i) The Company disposed a subsidiary (note 33), Shanghai Biyoulan Cosmetic Co., Ltd (上海必優蘭日化有限公司), which was previous acquired under common control with initial investment costs in book value of RMB25,178,000 (the "Investment Costs") to an independent third party at a consideration of RMB80,477,000 (the"Consideration"). A disposal gain of RMB67,472,000 was recognised to reflect the differences between the Consideration and the Investment Costs, together the accumulated post acquisition losses of RMB12,173,000. Among the gain of RMB67,472,000, RMB18,977,000 (to be the difference between the Consideration and the initial purchase price of RMB61,500,000) was taxable income pursuant to local tax regulations, and the remaining disposal gain of RMB48,495,000 was not subject to tax.

(ii) Qualified advanced technology enterprise can enjoy super deduction for eligible research and development expenses for EIT purpose. During the year ended 31 December 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, the applicable super deduction rate were 175%, 175% 200%, 200%, and 200% respectively.

12. DIVIDENDS

At shareholder's general meeting held on 2 April 2022, the Company declared cash dividend of RMB200 million to all shareholders.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 360,000,000 in issue during the Relevant Periods. When calculate the weighted average number of ordinary shares during the year ended 31 December 2019 and 2020, the additional 180,000,000 shares issued through conversion of capital reserve (note 30) were deemed to be issued as at 1 January 2019.

The Group had no potentially dilutive shares in issue during the Relevant Periods.

The calculation of basic earnings per share is based on:

	Year ended 31 December			Six months ended 30 June	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Earnings					
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	62,571	203,457	338,887	174,603	65,339

	Year ended 31 December			Six months ended 30 June	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Shares					
Weighted average number of ordinary shares in issue during the year/period used in the basic earnings per share calculation	360,000,000	360,000,000	360,000,000	360,000,000	360,000,000
Basic earnings per share (RMB)	0.17	0.57	0.94	0.49	0.18

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2019							
At 1 January 2019:							
Cost	182,261	112,050	17,308	26,778	15,277	110,210	463,884
Accumulated depreciation and impairment	(19,083)	(21,298)	(11,652)	(15,374)	(6,468)	–	(73,875)
Net carrying amount	163,178	90,752	5,656	11,404	8,809	110,210	390,009
At 1 January 2019, net of accumulated depreciation and impairment	163,178	90,752	5,656	11,404	8,809	110,210	390,009
Additions	14,619	26,069	2,385	2,429	4,993	119,564	170,059
Disposals	–	(441)	(1,326)	(132)	–	–	(1,899)
Depreciation provided during the year	(9,153)	(14,672)	(2,344)	(5,607)	(6,402)	–	(38,178)
Transfers	26,349	37,930	82	3,037	–	(67,398)	–
Exchange realignment	435	166	2	7	–	–	610
At 31 December 2019, net of accumulated depreciation and impairment	195,428	139,804	4,455	11,138	7,400	162,376	520,601
At 31 December 2019:							
Cost	223,664	175,470	16,282	31,707	20,270	162,376	629,769
Accumulated depreciation and impairment	(28,236)	(35,666)	(11,827)	(20,569)	(12,870)	–	(109,168)
Net carrying amount	195,428	139,804	4,455	11,138	7,400	162,376	520,601

Group

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2020							
At 1 January 2020:							
Cost	223,664	175,470	16,282	31,707	20,270	162,376	629,769
Accumulated depreciation and impairment	(28,236)	(35,666)	(11,827)	(20,569)	(12,870)	–	(109,168)
Net carrying amount	195,428	139,804	4,455	11,138	7,400	162,376	520,601
At 1 January 2020, net of accumulated depreciation and impairment	195,428	139,804	4,455	11,138	7,400	162,376	520,601
Additions	5,630	6,003	2,891	2,594	10,202	165,614	192,934
Disposals	–	(1,328)	(166)	(121)	–	–	(1,615)
Disposal of a subsidiary	–	–	–	(182)	–	–	(182)
Depreciation provided during the year	(16,130)	(18,122)	(1,296)	(5,166)	(7,574)	–	(48,288)
Transfers	293,248	21,506	641	629	1,676	(317,700)	–
Exchange realignment	(398)	(503)	(5)	(24)	–	–	(930)
At 31 December 2020, net of accumulated depreciation and impairment	477,778	147,360	6,520	8,868	11,704	10,290	662,520
At 31 December 2020:							
Cost	522,085	199,820	16,215	33,699	32,148	10,290	814,257
Accumulated depreciation and impairment	(44,307)	(52,460)	(9,695)	(24,831)	(20,444)	–	(151,737)
Net carrying amount	477,778	147,360	6,520	8,868	11,704	10,290	662,520

Group

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2021							
At 1 January 2021:							
Cost	522,085	199,820	16,215	33,699	32,148	10,290	814,257
Accumulated depreciation and impairment	(44,307)	(52,460)	(9,695)	(24,831)	(20,444)	–	(151,737)
Net carrying amount	477,778	147,360	6,520	8,868	11,704	10,290	662,520
At 1 January 2021, net of accumulated depreciation and impairment	477,778	147,360	6,520	8,868	11,704	10,290	662,520
Additions	105	11,278	22,330	5,507	8,457	8,582	56,259
Disposals	(883)	(878)	(744)	(156)	–	–	(2,661)
Depreciation provided during the year	(24,698)	(19,905)	(4,160)	(3,995)	(8,482)	–	(61,240)
Transfers	11,468	1,189	–	101	5,223	(17,981)	–
Transfer to investment properties	(9,525)	–	–	–	–	–	(9,525)
Exchange realignment	(4,423)	(4,208)	(39)	(255)	–	–	(8,925)
At 31 December 2021, net of accumulated depreciation and impairment	449,822	134,836	23,907	10,070	16,902	891	636,428
At 31 December 2021:							
Cost	502,917	194,505	32,955	33,891	28,097	891	793,256
Accumulated depreciation and impairment	(53,095)	(59,669)	(9,048)	(23,821)	(11,195)	–	(156,828)
Net carrying amount	449,822	134,836	23,907	10,070	16,902	891	636,428

Group

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
30 June 2022							
At 1 January 2022:							
Cost	502,917	194,505	32,955	33,891	28,097	891	793,256
Accumulated depreciation and impairment	(53,095)	(59,669)	(9,048)	(23,821)	(11,195)	–	(156,828)
Net carrying amount	449,822	134,836	23,907	10,070	16,902	891	636,428
At 1 January 2022, net of accumulated depreciation and impairment	449,822	134,836	23,907	10,070	16,902	891	636,428
Additions	1,236	8,685	–	963	1,009	7,422	19,315
Disposals	–	(622)	–	(359)	–	(10)	(991)
Depreciation provided during the period	(11,859)	(12,000)	(3,711)	(1,933)	(4,764)	–	(34,267)
Transfers	–	6,759	–	–	–	(6,915)	(156)
Exchange realignment	(3,470)	(3,164)	(33)	(251)	–	–	(6,918)
At 30 June 2022, net of accumulated depreciation and impairment	435,729	134,494	20,163	8,490	13,147	1,388	613,411
At 30 June 2022:							
Cost	500,286	204,488	30,621	28,523	24,730	1,388	790,036
Accumulated depreciation and impairment	(64,557)	(69,994)	(10,458)	(20,033)	(11,583)	–	(176,625)
Net carrying amount	435,729	134,494	20,163	8,490	13,147	1,388	613,411

(i) As at 31 December 2019, 2020 and 2021 and 30 June 2022, certain of the Group's buildings, plant and machinery and construction in progress with net carrying amounts of approximately RMB375,262,000, RMB529,089,000, RMB486,595,000 and RMB263,392,000, respectively, were pledged to secure general banking facilities granted to the Group (note 28).

Company

	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2019						
At 1 January 2019:						
Cost	897	4,516	13,929	3,644	465	23,451
Accumulated depreciation and impairment	(95)	(2,573)	(9,181)	(2,087)	–	(13,936)
Net carrying amount	802	1,943	4,748	1,557	465	9,515
At 1 January 2019, net of accumulated depreciation and impairment	802	1,943	4,748	1,557	465	9,515
Additions	–	1,863	104	656	258	2,881
Disposals	–	(1,084)	(102)	–	–	(1,186)
Depreciation provided during the year	(85)	(703)	(2,437)	(1,076)	–	(4,301)
Transfers	110	–	340	–	(450)	–
At 31 December 2019, net of accumulated depreciation and impairment	827	2,019	2,653	1,137	273	6,909
At 31 December 2019:						
Cost	1,007	4,824	14,003	4,300	273	24,407
Accumulated depreciation and impairment	(180)	(2,805)	(11,350)	(3,163)	–	(17,498)
Net carrying amount	827	2,019	2,653	1,137	273	6,909

Company

	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2020						
At 1 January 2020:						
Cost	1,007	4,824	14,003	4,300	273	24,407
Accumulated depreciation and impairment	(180)	(2,805)	(11,350)	(3,163)	–	(17,498)
Net carrying amount	827	2,019	2,653	1,137	273	6,909
At 1 January 2020, net of accumulated depreciation and impairment	827	2,019	2,653	1,137	273	6,909
Additions	–	1,227	1,048	1,009	2,044	5,328
Disposals	–	(77)	(3)	–	–	(80)
Depreciation provided during the year	(96)	(532)	(1,700)	(1,720)	–	(4,048)
Transfers	–	641	–	1,676	(2,317)	–
At 31 December 2020, net of accumulated depreciation and impairment	731	3,278	1,998	2,102	–	8,109
At 31 December 2020:						
Cost	1,007	5,160	14,988	6,985	–	28,140
Accumulated depreciation and impairment	(276)	(1,882)	(12,990)	(4,883)	–	(20,031)
Net carrying amount	731	3,278	1,998	2,102	–	8,109

Company

	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2021						
At 1 January 2021:						
Cost	1,007	5,160	14,988	6,985	–	28,140
Accumulated depreciation and impairment	(276)	(1,882)	(12,990)	(4,883)	–	(20,031)
Net carrying amount	731	3,278	1,998	2,102	–	8,109
At 1 January 2021, net of accumulated depreciation and impairment	731	3,278	1,998	2,102	–	8,109
Additions	–	11,117	3,597	1,216	843	16,773
Disposals	(89)	(540)	(43)	–	–	(672)
Depreciation provided during the year	(95)	(2,040)	(1,022)	(1,594)	–	(4,751)
Transfers	–	–	–	843	(843)	–
At 31 December 2021, net of accumulated depreciation and impairment	547	11,815	4,530	2,567	–	19,459
At 31 December 2021:						
Cost	897	14,566	17,800	4,471	–	37,734
Accumulated depreciation and impairment	(350)	(2,751)	(13,270)	(1,904)	–	(18,275)
Net carrying amount	547	11,815	4,530	2,567	–	19,459

Company

	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Leasehold improvements	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
30 June 2022					
At 1 January 2022:					
Cost	897	14,566	17,800	4,471	37,734
Accumulated depreciation and impairment	(350)	(2,751)	(13,270)	(1,904)	(18,275)
Net carrying amount	547	11,815	4,530	2,567	19,459
At 1 January 2022, net of accumulated depreciation and impairment	547	11,815	4,530	2,567	19,459
Additions	–	–	520	–	520
Disposals	–	–	(269)	–	(269)
Depreciation provided during the period	(43)	(1,639)	(799)	(1,090)	(3,571)
At 30 June 2022, net of accumulated depreciation and impairment	504	10,176	3,982	1,477	16,139
At 30 June 2022:					
Cost	897	14,566	18,051	4,471	37,985
Accumulated depreciation and impairment	(393)	(4,390)	(14,069)	(2,994)	(21,846)
Net carrying amount	504	10,176	3,982	1,477	16,139

15. INVESTMENT PROPERTIES

Group	Industrial properties
	RMB'000
31 December 2021	
As at 1 January 2021	–
Transfer from owner-occupied property	9,525
Transfer from right-of-use assets	1,514
Depreciation charge	(516)
As at 31 December 2021	10,523

Group	Industrial properties
	RMB'000
30 June 2022	
As at 1 January 2022	10,523
Depreciation charge	(619)
As at 30 June 2022	9,904

The Group's investment properties are measured using a cost model and depreciated to write off their costs net of estimated residual values over their estimated useful lives on a straight-line basis.

The Group's investment properties are located on the land in the PRC with a land use right period from 2009 to 2054.

Fair values of the investment properties as at the end of the Relevant Periods are as follows:

	As at 31 December 2021	As at 30 June 2022
	RMB'000	*RMB'000*
Investment properties in the PRC	119,500	120,400

The fair value of the Group's investment properties as at 31 December 2021 and 30 June 2022 are determined by the valuations conducted by Avista Valuation Advisory Ltd, an independent valuer. Under the valuation models, an income-based approach has been adopted for industrial properties.

The income approach is based on the rental income of the properties derived from the existing leases and/or achievable in the existing market with due allowance for the reversionary income potential of the leases, which have been then capitalized to determine the market value at an appropriate capitalization rate.

The fair value estimations for the owner-occupied properties were at Level 3 of the fair value hierarchy.

The fair value measurement is based on the above properties' highest and best use, which does not differ from their actual use.

During the year ended 31 December 2021 and the six months ended 30 June 2022, there were no transfers into or out of Level 3 or any other level.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 16 to the Historical Financial Information.

At 30 June 2022, the investment properties with net carrying amounts of approximately RMB9,904,000, were pledged to secure general banking facilities granted to the Group (note 28).

16. LEASES

The Group as a lessee

The Group as a lessee has lease contracts for items of office premises, plant and machinery and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of office premises and plant generally have lease terms between 2 and 10 years, while machinery equipment generally has lease terms of 5 years.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the Relevant Periods are as follows:

Group

	Leasehold land	Office premises and plant	Total
	RMB'000	*RMB'000*	*RMB'000*
31 December 2019			
As at 1 January 2019	119,755	167,820	287,575
Additions	–	6,751	6,751
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(1,744)	(1,744)
Depreciation charge	(2,495)	(38,459)	(40,954)
Transfer to assets held for sale	(39,960)	–	(39,960)
As at 31 December 2019	77,300	134,368	211,668

Group

	Leasehold land	Office premises and plant	Equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2020				
As at 1 January 2020	77,300	134,368	–	211,668
Additions	–	1,828	4,952	6,780
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(7,007)	–	(7,007)
Depreciation charge	(1,661)	(30,661)	(446)	(32,768)
As at 31 December 2020	75,639	98,528	4,506	178,673

Group

	Leasehold land	Office premises and plant	Equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2021				
As at 1 January 2021	75,639	98,528	4,506	178,673
Additions	–	9,696	–	9,696
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(1,081)	–	(1,081)
Transfer to investment properties	(1,514)	–	–	(1,514)
Depreciation charge	(1,642)	(21,480)	(990)	(24,112)
As at 31 December 2021	72,483	85,663	3,516	161,662

Group

	Leasehold land	Office premises and plant	Equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
30 June 2022				
As at 1 January 2022	72,483	85,663	3,516	161,662
Additions	–	2,036	–	2,036
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(6)	–	(6)
Depreciation charge	(806)	(12,032)	(331)	(13,169)
As at 30 June 2022	71,677	75,661	3,185	150,523

As at 31 December 2019, 2020 and 2021 and 30 June 2022, the leasehold land with net carrying amounts of approximately RMB77,300,000, RMB75,639,000, RMB72,483,000 and RMB71,677,000, respectively, were pledged to secure general banking facilities granted to the Group (note 28).

Company	Office premises and plant
	RMB'000
31 December 2019	
As at 1 January 2019	54,527
Depreciation charge	(8,509)
As at 31 December 2019	46,018

Company	**Office premises and plant**
	RMB'000
31 December 2020	
As at 1 January 2020	46,018
Depreciation charge	(8,500)
As at 31 December 2020	37,518

Company	**Office premises and plant**
	RMB'000
31 December 2021	
As at 1 January 2021	37,518
Depreciation charge	(7,552)
As at 31 December 2021	29,966

Company	**Office premises and plant**
	RMB'000
30 June 2022	
As at 1 January 2022	29,966
Depreciation charge	(3,608)
As at 30 June 2022	26,358

(b) Lease liabilities

The carrying amounts of lease liabilities and the movements during the Relevant Periods are as follows:

Group

	As at 31 December			**As at 30 June**
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount at beginning of year/period	167,503	138,925	108,598	94,976
New leases	6,751	6,780	9,696	2,036
Accretion of interest recognised during the year/period	9,060	7,330	6,169	2,766
Revision of a lease term arising from a change in the non-cancellable period of a lease	(1,761)	(7,625)	(1,143)	(7)
Payments	(42,628)	(36,812)	(28,344)	(15,014)
Carrying amount at end of year/period	138,925	108,598	94,976	84,757
Current portion	33,583	20,790	21,896	24,387
Non-current portion	105,342	87,808	73,080	60,370

Company

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount at beginning of year/period	54,307	47,128	39,498	32,524
Accretion of interest recognised during the year/period	3,161	2,700	2,265	963
Payments	(10,340)	(10,330)	(9,239)	(4,604)
Carrying amount at end of year/period	47,128	39,498	32,524	28,883
Current portion	7,630	6,974	7,385	7,608
Non-current portion	39,498	32,524	25,139	21,275

The maturity analysis of lease liabilities is disclosed in note 40 to the Historical Financial Information.

(c) ***The amounts recognised in profit or loss in relation to leases are as follows:***

Group

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest on lease liabilities	9,060	7,330	6,169	2,766
Depreciation charge of right-of-use assets	40,954	32,768	24,112	13,169
Expense relating to short-term leases and leases of low-value assets	4,686	3,066	843	848
Total amount recognised in profit or loss	54,700	43,164	31,124	16,783

Company

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest on lease liabilities	3,161	2,700	2,265	963
Depreciation charge of right-of-use assets	8,509	8,500	7,552	3,608
Expense relating to short-term leases and leases of low-value assets	1,116	878	85	31
Total amount recognised in profit or loss	12,786	12,078	9,902	4,602

The Group as a lessor

The Group leases its investment properties (note 15) consisting of one industrial property located on the land in the PRC under operating lease arrangements since 2021. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year ended 31 December 2021 and the six months ended 30 June 2022 were RMB1,786,000 and RMB2,792,000, respectively.

At 31 December 2021, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

Group

	As at 31 December 2021	As at 30 June 2022
	RMB'000	*RMB'000*
Within one year	5,240	5,240
After one year but within two years	5,240	5,240
After two years but within three years	5,335	5,955
After three years but within four years	6,002	6,502
After four years but within five years	6,127	6,277
After five years	30,162	27,010
	58,106	56,224

17. OTHER INTANGIBLE ASSETS

Group

	Software	Others	Total
	RMB'000	*RMB'000*	*RMB'000*
31 December 2019			
Cost at 1 January 2019, net of accumulated amortisation	16,766	5,086	21,852
Additions	4,148	159	4,307
Disposal	(125)	–	(125)
Amortisation provided during the year	(2,514)	(361)	(2,875)
As at 31 December 2019	18,275	4,884	23,159

Group

	Software	Others	Total
	RMB'000	*RMB'000*	*RMB'000*
31 December 2020			
Cost at 1 January 2020, net of accumulated amortisation	18,275	4,884	23,159
Additions	1,452	152	1,604
Disposal	(1,735)	(211)	(1,946)
Amortisation provided during the year	(2,475)	(291)	(2,766)
At 31 December 2020	15,517	4,534	20,051

Group

	Software	Others	Total
	RMB'000	*RMB'000*	*RMB'000*
31 December 2021			
Cost at 1 January 2021, net of accumulated amortisation	15,517	4,534	20,051
Additions	690	1,917	2,607
Disposal	(84)	(2,121)	(2,205)
Amortisation provided during the year	(2,222)	(5)	(2,227)
At 31 December 2021	13,901	4,325	18,226

Group

	Software	Others	Total
	RMB'000	*RMB'000*	*RMB'000*
30 June 2022			
Cost at 1 January 2022, net of accumulated amortisation	13,901	4,325	18,226
Additions	1,373	932	2,305
Amortisation provided during the period	(1,289)	(195)	(1,484)
Reclassification	1,387	(1,387)	–
At 30 June 2022	15,372	3,675	19,047

Company

	Software	Others	Total
	RMB'000	*RMB'000*	*RMB'000*
31 December 2019			
Cost at 1 January 2019, net of accumulated amortisation	15,947	1,628	17,575
Additions	2,544	–	2,544
Disposal	(125)	–	(125)
Amortisation provided during the year	(2,249)	–	(2,249)
At 31 December 2019	16,117	1,628	17,745

Company

	Software	Others	Total
	RMB'000	*RMB'000*	*RMB'000*
31 December 2020			
Cost at 1 January 2020, net of accumulated amortisation	16,117	1,628	17,745
Additions	1,444	151	1,595
Disposal	(1,195)	(152)	(1,347)
Amortisation provided during the year	(2,101)	–	(2,101)
At 31 December 2020	14,265	1,627	15,892

Company

	Software	Others	Total
	RMB'000	*RMB'000*	*RMB'000*
31 December 2021			
Cost at 1 January 2021, net of accumulated amortisation	14,265	1,627	15,892
Additions	338	1,955	2,293
Disposal	(20)	(817)	(837)
Amortisation provided during the year	(2,041)	–	(2,041)
At 31 December 2021	12,542	2,765	15,307

Company

	Software	Others	Total
	RMB'000	*RMB'000*	*RMB'000*
30 June 2022			
Cost at 1 January 2022, net of accumulated amortisation	12,542	2,765	15,307
Additions	1,373	932	2,305
Disposal	–	(185)	(185)
Amortisation provided during the period	(1,189)	–	(1,189)
Reclassification	1,387	(1,387)	–
At 30 June 2022	14,113	2,125	16,238

18. INVESTMENTS IN ASSOCIATES

Group

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Share of net assets	1,949	4,947	1,646	1,261

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	Year ended 31 December			Six months ended 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Share of the associates' profit/(loss) for the year/period	479	1,862	(149)	(385)
Aggregate carrying amount of the Group's investments in the associates	1,949	4,947	1,646	1,261

19. DEFERRED TAX

The movements in deferred tax assets during the Relevant Periods are as follows:

Group

	Year ended 31 December 2019						
	Impairment loss on financial assets	**Losses available for offsetting against future taxable profits**	**Impairment loss on inventories**	**Accrued expense**	**Unrealised profits**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2019	57,127	63,434	14,202	22,277	5,511	10,428	172,979
Deferred tax credited/(charged) to profit or loss during the year	7,626	6,283	3,158	(4,198)	12,936	7,322	33,127
Gross deferred tax assets at 31 December 2019	64,753	69,717	17,360	18,079	18,447	17,750	206,106

Group

	Year ended 31 December 2020						
	Impairment loss on financial assets	**Losses available for offsetting against future taxable profits**	**Impairment loss on inventories**	**Accrued expense**	**Unrealised profits**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2020	64,753	69,717	17,360	18,079	18,447	17,750	206,106
Deferred tax (charged)/credited to profit or loss during the year	(53,421)	(3,013)	(7,754)	(6,108)	2,137	22,780	(45,379)
Gross deferred tax assets at 31 December 2020	11,332	66,704	9,606	11,971	20,584	40,530	160,727

Group

	Year ended 31 December 2021						
	Impairment loss on financial assets	**Losses available for offsetting against future taxable profits**	**Impairment loss on inventories**	**Accrued expense**	**Unrealised profits**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2021	11,332	66,704	9,606	11,971	20,584	40,530	160,727
Deferred tax (charged)/credited to profit or loss during the year	(3,846)	(40,205)	(1,952)	(5,401)	14,030	(11,376)	(48,750)
Gross deferred tax assets at 31 December 2021	7,486	26,499	7,654	6,570	34,614	29,154	111,977

Group

	Six months ended 30 June 2022						
	Impairment loss on financial assets	**Losses available for offsetting against future taxable profits**	**Impairment loss on inventories**	**Accrued expense**	**Unrealised profits**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2022	7,486	26,499	7,654	6,570	34,614	29,154	111,977
Deferred tax (charged)/credited to profit or loss during the period	(801)	270	349	(963)	(5,601)	2,449	(4,297)
Gross deferred tax assets at 30 June 2022	6,685	26,769	8,003	5,607	29,013	31,603	107,680

Company

	Year ended 31 December 2019			
	Impairment loss on financial assets	**Losses available for offsetting against future taxable profits**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2019	6,403	21,802	4,595	32,800
Deferred tax (charged)/credited to profit or loss during the year	(2,349)	4,611	6,026	8,288
Gross deferred tax assets at 31 December 2019	4,054	26,413	10,621	41,088

Company

	Year ended 31 December 2020				
	Impairment loss on financial assets	**Losses available for offsetting against future taxable profits**	**Impairment loss on investments in subsidiaries**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2020	4,054	26,413	–	10,621	41,088
Deferred tax credited/(charged) to profit or loss during the year	11,744	(26,413)	15,204	6,218	6,753
Gross deferred tax assets at 31 December 2020	15,798	–	15,204	16,839	47,841

Company

	Year ended 31 December 2021				
	Impairment loss on financial assets	**Losses available for offsetting against future taxable profits**	**Impairment loss on investments in subsidiaries**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2021	15,798	–	15,204	16,839	47,841
Deferred tax charged to profit or loss during the year	(15,428)	–	–	(6,574)	(22,002)
Gross deferred tax assets at 31 December 2021	370	–	15,204	10,265	25,839

Company

	Six months ended 30 June 2022				
	Impairment loss on financial assets	**Losses available for offsetting against future taxable profits**	**Impairment loss on investments in subsidiaries**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2022	370	–	15,204	10,265	25,839
Deferred tax credited to profit or loss during the period	763	712	–	2,057	3,532
Gross deferred tax assets at 30 June 2022	1,133	712	15,204	12,322	29,371

The movements in deferred tax liabilities during the Relevant Periods are as follows:

Group

	Year ended 31 December 2019		
	Accelerated tax depreciation	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2019	4,116	–	4,116
Deferred tax charged to profit or loss during the year	3,666	22	3,688
Deferred tax liabilities at 31 December 2019	7,782	22	7,804

Group

	Year ended 31 December 2020		
	Accelerated tax depreciation	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2020	7,782	22	7,804
Deferred tax charged/(credited) to profit or loss during the year	2,905	(9)	2,896
Deferred tax liabilities at 31 December 2020	10,687	13	10,700

Group

	Year ended 31 December 2021		
	Accelerated tax depreciation	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2021	10,687	13	10,700
Deferred tax credited to profit or loss during the year	(1,790)	(11)	(1,801)
Deferred tax liabilities at 31 December 2021	8,897	2	8,899

Group

	Six months ended 30 June 2022		
	Accelerated tax depreciation	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2022	8,897	2	8,899
Deferred tax (credited)/charged to profit or loss during the period	(788)	4	(784)
Deferred tax liabilities at 30 June 2022	8,109	6	8,115

Company

	Year ended 31 December 2019
	Accelerated tax depreciation
	RMB'000
At 1 January 2019	468
Deferred tax credited to profit or loss during the year	(347)
Deferred tax liabilities at 31 December 2019	121

Company

	Year ended 31 December 2020
	Accelerated tax depreciation
	RMB'000
At 1 January 2020	121
Deferred tax credited to profit or loss during the year	(68)
Deferred tax liabilities at 31 December 2020	53

Company

	Year ended 31 December 2021
	Accelerated tax depreciation
	RMB'000
At 1 January 2021	53
Deferred tax credited to profit or loss during the year	(53)
Deferred tax liabilities at 31 December 2021	–

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statements of financial position. The following is an analysis of the deferred tax balances of the Group and the Company for financial reporting purposes:

Group

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net deferred tax assets recognised in the consolidated statement of financial position	198,302	150,027	103,078	99,565

Company

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net deferred tax assets recognised in the statement of financial position	40,967	47,788	25,839	29,371

As at 31 December 2019, 2020 and 2021 and 30 June 2022, deferred tax assets have not been recognised in respect of tax losses of RMB1,827,000, nil, RMB3,000 and RMB7,000 and deductible temporary differences of RMB6,543,000, nil, nil and RMB2,000 arising in Mainland China, respectively, which will expire in one to five years for offsetting against future taxable profits.

As at 31 December 2019, 2020 and 2021 and 30 June 2022, deferred tax assets have not been recognised in respect of tax losses of RMB14,734,000, RMB20,401,000 and RMB18,885,000 RMB21,200,000 and deductible temporary differences of RMB997,000, RMB337,000 and RMB416,000, RMB407,000 arising in other jurisdictions, respectively, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

20. INVENTORIES

Group

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	143,286	119,904	127,579	127,997
Work in progress	39,578	31,925	21,826	24,155
Finished goods	323,366	425,462	471,796	419,304
	506,230	577,291	621,201	571,456

As at 31 December 2019, the Group's inventories with carrying amounts of RMB46,013,000 were pledged as security for the Group's bank loans, as further detailed in note 28 to the Historical Financial Information.

Company

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Finished goods	138,559	46,630	1,474	4,712

21. TRADE AND BILLS RECEIVABLES

Group

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	444,479	359,783	391,007	307,601
Bills receivable	10,335	23,847	10,288	10,507
Impairment	(57,874)	(42,782)	(26,421)	(22,220)
Trade and bills receivables, net	396,940	340,848	374,874	295,888

The Group's trading terms with its customers are mainly payment in advance, except for certain major customers, where is normally on credit. The credit period is generally due within 45 to 90 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing. Bills receivable are non-interest-bearing and have a maturity period ranging from 1 to 180 days for the financial years ended 31 December 2019, 31 December 2020 and 31 December 2021 and the six months ended 30 June 2022.

The net value of the Group's trade and bills receivables due from the Group's related parties is further detailed in note 37 to the Historical Financial Information, which are repayable on credit terms similar to those offered to the major customers of the Group.

The Group's trade receivables with a carrying amount of RMB184,814,000 at 31 December 2019 and RMB144,652,000 at 31 December 2020, were pledged as security for the Group's bank loans, as further detailed in note 28 to the Historical Financial Information.

As at 31 December 2019, 31 December 2020 and 31 December 2021 and 30 June 2022, the bills receivable with right of recourse of the Group were RMB10,335,000, RMB23,847,470, RMB9,788,000 and RMB10,507,000, respectively, were paid to certain of its suppliers in order to settle the trade payables due to some suppliers. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such endorsed bills, and accordingly, it continued to recognise the full carrying amounts of the endorsed bills and the associated trade payables settled. The expected credit losses rate for bills receivable is assessed to be immaterial, and thus the loss allowance is immaterial.

As part of its normal business, the Group entered into a trade receivable factoring arrangement (the "Arrangement") and transferred certain trade receivables to a bank. Under the Arrangement, the Group may be required to reimburse the bank for loss of interest if any trade debtors have late payment up to 180 days. The Group is not exposed to default risks of the trade debtors after the transfer. Subsequent to the transfer, the Group did not retain any rights on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. The Group have transferred financial assets in such a way do not qualify for derecognition. The original carrying value of the trade receivables transferred under the Arrangement that have not been settled as at 31 December 2019 was RMB80,000,000.

An ageing analysis of the Group's trade receivables and bills receivable as at the end of each of the Relevant Periods, based on the invoice date and net of loss allowance, is as follows:

Group

	As at 31 December			**As at 30 June**
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	391,678	335,220	369,114	281,406
1 – 2 years	5,262	5,628	5,760	14,364
2 – 3 years	–	–	–	118
	396,940	340,848	374,874	295,888

The movements in the loss allowance for impairment of trade receivables are as follows:

	As at 31 December			**As at 30 June**
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period	27,045	57,874	42,782	26,421
Impairment losses, net	30,829	(5,643)	4,752	(897)
Amount written off as uncollectible	–	(9,449)	(21,113)	(3,304)
At end of year/period	57,874	42,782	26,421	22,220

The increase in the loss allowance in 2019 was due to the rising amount of long ageing trade receivables. The decrease in the loss allowance in 2020 was due to the fact that the Group has written off long ageing trade receivables of RMB9,449,000. The decrease in the loss allowance in 2021 and the six months ended 30 June 2022 was due to the fact that the Group has written off long ageing trade receivables of RMB21,113,000 and RMB3,304,000 respectively.

An impairment analysis is performed at the end of each of the Relevant Periods using a provision matrix to measure expected credit losses. The provision rates are based on ageing on invoice for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the end of each of the Relevant Periods about past events, current conditions and forecasts of future economic conditions.

The Group writes off trade receivables when there is information indicating that the counterparty is in severe financial difficulties and there is no realistic prospect of recovery, for example when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs sooner, also taking into account legal advice where appropriate.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

Group

As at 31 December 2019

	Less than 1 year	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
Expected credit loss rate	3%	83%	100%	100%	13%
Gross carrying amount (RMB'000)	394,937	30,472	13,289	5,781	444,479
Expected credit losses (RMB'000)	13,594	25,210	13,289	5,781	57,874

As at 31 December 2020

	Less than 1 year	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
Expected credit loss rate	3%	69%	100%	100%	12%
Gross carrying amount (RMB'000)	320,189	18,197	11,560	9,837	359,783
Expected credit losses (RMB'000)	8,816	12,569	11,560	9,837	42,782

As at 31 December 2021

	Less than 1 year	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
Expected credit loss rate	2%	61%	100%	100%	7%
Gross carrying amount (RMB'000)	365,641	14,780	3,058	7,528	391,007
Expected credit losses (RMB'000)	6,815	9,020	3,058	7,528	26,421

As at 30 June 2022

	Less than 1 year	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
Expected credit loss rate	1%	39%	95%	100%	7%
Gross carrying amount (RMB'000)	275,933	21,133	2,610	7,925	307,601
Expected credit losses (RMB'000)	3,535	8,269	2,491	7,925	22,220

Company

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables – third parties	184,814	144,652	21,422	14,663
Trade receivables – subsidiaries of the Company	336,088	282,600	629,834	544,341
Bills receivable	10,335	7,679	10,288	10,507
Impairment	(1,512)	(4,599)	(1,214)	(1,285)
Trade and bills receivables, net	529,725	430,332	660,330	568,226

An ageing analysis of the Company's trade receivables and bills receivable as at the end of each of the Relevant Periods, based on the invoice date and net of loss allowance, is as follows:

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	529,725	429,099	660,112	568,029
Over 1 years	–	1,233	218	197
	529,725	430,332	660,330	568,226

The movements in the loss allowance for impairment of trade receivables are as follows:

Company

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period	1,887	1,512	4,599	1,214
Impairment losses, net	(375)	3,214	834	71
Amount written off as uncollectible	–	(127)	(4,219)	–
At end of year/period	1,512	4,599	1,214	1,285

Set out below is the information about the credit risk exposure on the Company trade receivables using a provision matrix:

As at 31 December 2019

	Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	0%	100%	100%	100%	0%
Gross carrying amount (RMB'000)	520,167	39	10	686	520,902
Expected credit losses (RMB'000)	777	39	10	686	1,512

As at 31 December 2020

	Less than 1 year	1 to 2 years	Over 3 years	Total
Expected credit loss rate	0%	72%	100%	1%
Gross carrying amount (RMB'000)	422,264	4,401	587	427,252
Expected credit losses (RMB'000)	844	3,168	587	4,599

As at 31 December 2021

	Less than 1 year	1 to 2 years	2 to 3 years	Total
Expected credit loss rate	0%	67%	100%	0%
Gross carrying amount (RMB'000)	650,422	672	162	651,256
Expected credit losses (RMB'000)	599	453	162	1,214

As at 30 June 2022

	Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	0%	60%	95%	100%	0%
Gross carrying amount (RMB'000)	558,187	449	350	17	559,003
Expected credit losses (RMB'000)	666	269	333	17	1,285

22. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

Group

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deductible input VAT	107,064	31,740	62,120	50,403
Corporate income tax recoverable	4,134	4,298	4,060	22,217
Right-of-return assets	8,589	3,979	7,632	1,991
[**REDACTED**]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Deposits and other receivables	19,677	20,044	12,335	19,249
Other financial assets included in prepayments and other receivables	1,814	4,268	12,048	11,621
Prepayments	42,214	56,224	72,758	81,357
Amounts due from related parties	62,640	490	–	–
Others	2,688	3,244	6,860	8,146
Impairment allowance	(2,271)	(2,297)	(3,074)	(3,499)
Current portion	246,549	121,990	181,827	198,920
Rental deposits	12,454	8,913	8,602	8,606
Prepayments	–	4,393	11,288	11,989
Non-current portion	12,454	13,306	19,890	20,595
	259,003	135,296	201,717	219,515

Most of the above assets are neither past due nor impaired.

As at the end of each of the Relevant Periods, other receivables of the Group are considered to be of low credit risk and thus the Group has assessed that the ECL for other receivables is immaterial under the 12-month expected credit loss method.

Company

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deductible input VAT	6,418	628	1,655	1,520
Corporate income tax recoverable	–	–	30	–
Right-of-return assets	7,082	2,822	1,872	461
[**REDACTED**]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Deposits and other receivables	1,201	95	330	2,316
Prepayments	14,583	4,786	13,841	20,853
Amounts due from subsidiaries	462,561	257,428	38,957	83,133
Dividend receivable	140,372	–	108,000	–
Others	62	114	1,488	1,245
Impairment allowance	(13,791)	(57,680)	(246)	(3,230)
Current portion	618,488	208,193	173,015	113,733
Rental deposits	3,342	3,370	3,471	3,475
Prepayments	–	1,415	3,447	6,596
Non-current portion	3,342	4,785	6,918	10,071
	621,830	212,978	179,933	123,804

Most of the above assets are neither past due nor impaired.

As at the end of each of the Relevant Periods, other receivables of the Company are considered to be of low credit risk and thus the Company has assessed that the ECL for deposits and other receivables is immaterial under the 12-month expected credit loss method.

Details of amounts due from related parties are set out in note 37.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Group

	As at 30 June
	2022
	RMB'000
Structured deposits	29,000

The Group's financial assets at fair value through profit or loss represent principal guaranteed structured deposits. The structured deposits are placed with banks in the PRC with expected return rates linked to certain exchange rates in the contracts. The annual expected return rates range from 1.15% to 3.35%. The initial maturities are usually within 3 months.

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	132,374	154,195	145,208	114,965
Pledged deposits	33,652	440	–	11,500
	166,026	154,635	145,208	126,465

Company

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	1,908	32,391	50,229	2,999
Pledged deposits	31,426	–	–	11,500
	33,334	32,391	50,229	14,499

Group

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents and restricted cash denominated in				
– RMB	155,627	148,240	132,848	104,068
– JPY	3,134	5,872	10,131	18,751
– USD	–	401	2,229	3,646
– KRW	7,265	122	–	–
	166,026	154,635	145,208	126,465

Company

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents and restricted cash Denominated in				
– RMB	33,334	32,391	50,229	14,499

As at 30 June 2022, the cash and bank balances of the Group denominated in JPY, USD and KRW amounted to RMB18,751,000 (2021: RMB10,131,000, 2020: RMB5,872,000, 2019: RMB3,134,000), RMB3,646,000 (2021: RMB2,229,000, 2020: RMB401,000, 2019: Nil), Nil (2021: Nil, 2020: RMB122,000, 2019: RMB7,265,000), respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

25. ASSETS CLASSIFIED AS HELD FOR SALE

Group

	As at 31 December
	2019
	RMB'000
Assets	
Leasehold land	39,960
Assets classified as held for sale	39,960
Liabilities	
Liabilities directly associated with the assets classified as held for sale	–
Net assets directly associated with the disposal group	39,960

On 2 December 2019, a subsidiary of the Group, Huzhou Shangmei Quantong Supply Chain Management Co., Ltd. ("湖州上美全通供應鏈管理有限公司") signed a state-owned land use right agreement with the local government to dispose of the land use right through sale.

26. TRADE AND BILLS PAYABLES

Group

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	671,480	549,122	565,961	382,990
Bills payable	46,420	–	–	–
	717,900	549,122	565,961	382,990

The amount of the Group's trade and bills payables due to the Group's related parties in note 37, which represents credit terms similar to those offered by the Group's related parties to their major customers, is disclosed.

The trade payables are non-interest-bearing and are normally settled within 6 months.

Company

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	538,289	67,752	232,906	14,319
Bills payable	46,420	50,000	–	–
	584,709	117,752	232,906	14,319

As of the end of each of the Relevant Periods, the ageing analysis of trade payables and bills payable, based on the invoice date, is as follows:

Group

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	707,780	537,225	557,988	379,610
Over 1 year	10,120	11,897	7,973	3,380
	717,900	549,122	565,961	382,990

Company

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	584,658	115,263	230,460	11,699
Over 1 year	51	2,489	2,446	2,620
	584,709	117,752	232,906	14,319

27. OTHER PAYABLES, ACCRUALS AND OTHER CURRENT LIABILITIES

Group

	Notes	As at 31 December			As at 30 June
		2019	**2020**	**2021**	**2022**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current					
Contract liabilities	*(i)*	182,309	128,937	81,120	74,191
Refund liabilities		32,806	14,068	29,604	6,279
VAT and other tax payables		75,847	109,663	99,347	24,395
Staff payroll and welfare payables		45,547	65,291	58,179	26,890
Accrued operating expenses		87,260	74,087	66,903	87,959
Payables for purchase of property, plant and equipment		12,473	61,408	27,424	13,881
Deposits	*(ii)*	38,802	31,494	27,297	27,494
Amounts due to related parties	*(iii)*	111,855	1,812	–	–
[**REDACTED**]		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Dividend payable	*(iv)*	–	–	–	149,823
Others		12,566	13,444	2,540	2,618
		599,465	500,204	413,249	434,748
Non-current					
Deferred government grants		28,963	17,596	16,227	15,200
		628,428	517,800	429,476	449,948

Company

	Notes	As at 31 December			As at 30 June
		2019	**2020**	**2021**	**2022**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current					
Contract liabilities	*(i)*	110,332	16,348	41,101	33,893
Refund liabilities		27,103	8,950	10,071	1,548
VAT and other tax payables		19,325	28,774	24,652	1,818
Staff payroll and welfare payables		26,312	14,717	9,225	5,955
Accrued operating expenses		24,647	19,886	11,984	22,563
Payables for purchase of property, plant and equipment		481	294	210	4
Deposits	*(ii)*	1,505	265	158	157
Amounts due to related parties	*(iii)*	194,171	50,208	1,941	334
[**REDACTED**]		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Dividend payable	*(iv)*	–	–	–	149,823
Others		1,885	2,900	60	140
		405,761	142,342	120,237	237,453

(i) Details of contract liabilities are as follows:

Group

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advance payments from customers	109,992	81,053	54,020	51,988
Sales rebates	72,317	47,884	27,100	22,203
	182,309	128,937	81,120	74,191

Company

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advance payments from customers	110,332	16,348	41,101	33,893

The Group's contract liabilities include advance payments from customers and sales rebates. The decreases in contract liabilities as at 31 December 2019, 2020 and 2021 and 30 June 2022 were mainly due to the decreases in short-term advances received from customers in relation to the revenue generated from sales to online distributors and sales to offline distributors.

(ii) Deposits mainly represent deposits from customers at the end of each Relevant Periods.

(iii) At 31 December 2019, the balance of the loan from Mr. Lyu Yixiong, the controlling shareholder, was RMB101,185,000, and related interest was RMB7,586,000. The loan from Mr. Lyu Yixiong was fully repaid in 2020.

(iv) The Group declared a dividend of RMB200,000,000 to all shareholders on 2 April 2022. As at 30 June 2022, the Group has paid the dividend of RMB50,177,000 and the remaining dividend has been paid subsequently in November 2022.

Except for the aforementioned loan, other payables are unsecured, interest-free and repayable on demand.

Details of amounts due to related parties are set out in note 37.

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	As at 31 December									As at 30 June		
	2019			2020			2021			2022		
	Effective interest rate (%)	*Maturity*	*RMB'000*	*Effective interest rate (%)*	*Maturity*	*RMB'000*	*Effective interest rate (%)*	*Maturity*	*RMB'000*	*Effective interest rate (%)*	*Maturity*	*RMB'000*
Current												
Bank loans – secured	1.03-8.50	2020	313,892	1.03-8.50	2021	219,932	3.60	2022	29,970	2.63-5.39	2022-2023	215,820
Current portion of long-term bank loans – secured	4.75	2020	35,000	1.03-4.75	2021	51,030	5.39	2022	30,000	5.39	2023	50,000
			348,892			270,962			59,970			265,820
Non-current												
Bank loans – secured	1.03-5.39	2021-2023	151,536	4.75-5.39	2022-2024	161,397	4.75-5.39	2023-2024	130,089	4.75-5.39	2023-2024	95,089
Other loans – unsecured	1.00-2.00	2021-2022	6,950	1.00-2.00	2022	3,147	–	–	–	–		–
			158,486			164,544			130,089			95,089

Company

	As at 31 December									As at 30 June		
	2019			2020			2021			2022		
	Effective interest rate (%)	*Maturity*	*RMB'000*	*Effective interest rate (%)*	*Maturity*	*RMB'000*	*Effective interest rate (%)*	*Maturity*	*RMB'000*	*Effective interest rate (%)*	*Maturity*	*RMB'000*
Current												
Bank loans – secured	4.35-5.90	2020	195,000	3.50-4.95	2021	85,104	–	–	–	2.63-5.20	2022-2023	150,500
			195,000			85,104			–			150,500

Group

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Analysed into:				
Bank loans repayable:				
Within one year or on demand	348,892	270,962	59,970	265,820
In the second year	53,121	13,115	68,415	67,645
In the third to fifth years, inclusive	98,415	148,282	61,674	27,444
	500,428	432,359	190,059	360,909
Other borrowings repayable:				
Within one year or on demand	–	–	–	–
In the second to fifth years, inclusive	6,950	3,147	–	–
	6,950	3,147	–	–
	507,378	435,506	190,059	360,909

Company

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Analysed into:				
Bank loans repayable:				
Within one year or on demand	195,000	85,104	–	150,500

Notes:

(a) As at 31 December 2019, certain of the Group's bank loans amounting to

(i) RMB60,047,000 were guaranteed by Ms. Luo Yan (羅燕), and secured by mortgages over the Group's inventories with a net carrying values of approximately RMB46,013,000, with an interest rate of 7.50%;

(ii) RMB55,000,000 were guaranteed by Mr. Lyu Yixiong, Shanghai Kans Enterprise Management Co., Ltd. and the Group, and secured by mortgages over the Group's trade receivables with a carrying values of approximately RMB184,814,000, with interest rates of 4.35% and 5.00%;

(iii) RMB80,000,000 were secured by mortgages over the Group's trade receivables with a net carrying values of approximately RMB80,000,000;

(iv) RMB223,415,000 were guaranteed by Mr. Lyu Yixiong, Ms. Han Yanyan and the Group, and secured by mortgages over the Group's buildings and machinery, construction in progress and leasehold land with net carrying values of approximately RMB249,028,000, RMB113,940,000 and RMB77,300,000, respectively, with interest rates between 4.75% and 5.50% (notes 14 and 16). The guarantee provided by Ms. Han Yanyan was subsequently released in October 2021;

(v) RMB6,966,000 were secured by mortgages over the Group's land and buildings with a net carrying value of approximately RMB12,294,000 (note 14), denominated in JPY, with an interest rate of 1.03%; and

(vi) RMB75,000,000 were guaranteed by Mr. Lyu Yixiong and the Group, with interest rates between 5.00% and 7.20%.

(b) As at 31 December 2020, certain of the Group's bank loans amounting to

(i) RMB55,000,000 were guaranteed by Mr. Lyu Yixiong, Shanghai Kans Enterprise Management Co., Ltd and the Group, and secured by mortgages over the Group's trade receivables with a carrying value of approximately RMB144,652,000, with an interest rate of 3.50%;

(ii) RMB241,397,000 were guaranteed by Mr. Lyu Yixiong, Ms. Han Yanyan and the Group, and secured by mortgages over the Group's buildings and machinery and leasehold land with net carrying values of approximately RMB517,215,000 and RMB75,639,000, respectively, with interest rates between 4.75% and 5.39% (notes 14 and 16). The guarantee provided by Ms. Han Yanyan was released in October 2021;

(iii) RMB1,031,000 were secured by mortgages over the Group's land and buildings with a net carrying values of approximately RMB11,874,000 (note 14), respectively, denominated in JPY, with an interest rate of 1.03%; and

(iv) RMB85,104,000 were guaranteed by Mr. Lyu Yixiong and the Group, with interest rates between 3.50% and 6.80%.

(c) As at 31 December 2021, certain of the Group's bank loans amounting to

(i) RMB29,970,000 were guaranteed by the Group, with an interest rate of 3.60%;

(ii) RMB160,089,000 were guaranteed by the Group, and secured by mortgages over the Group's buildings and machinery and leasehold land with net carrying values of approximately RMB486,595,000 and RMB72,483,000, respectively, with interest rates between 4.75% and 5.39% (notes 14 and 16); and

(d) As at 30 June 2022, certain of the Group's bank loans amounting to

(i) RMB160,409,000 were guaranteed by the Group, and secured by mortgages over the Group's buildings and leasehold land with net carrying values of approximately RMB263,392,000 and RMB71,677,000, respectively, with interest rates between 2.65% and 5.39% (notes 14 and 16);

(ii) RMB50,000,000 were secured by mortgages over the Group's investment properties with a net carrying value of approximately RMB9,904,000, respectively, with an interest rate of 4.20% (note 15);

(iii) RMB150,500,000 were guaranteed by the Group with interest rates of 2.63% to 5.20%.

(e) The Group's other borrowings of RMB6,950,000 and RMB3,147,000, denominated in USD, for the years ended 31 December 2019 and 2020, respectively, with interest rates between 1.00% and 2.00%.

29. OTHER LIABILITIES

Group and Company

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other liabilities	507,458	–	–	–

Pursuant to capital contribution agreement signed in March 2015, the Company issued equity interests of RMB8,388,000, RMB4,356,000 and RMB3,816,000 to White Sand (HK) Investment Limited, Shanghai Lianyi Venture Capital Center (limited partnership) ("Shanghai Lianyi") and Shanghai Ximei Investment Center (limited partnership), which are series A investors, for cash consideration of USD25,000,030, RMB80,000,000 and RMB70,000,000, respectively.

Redemption rights

Pursuant to the Series A capital contribution agreement, Series A equity interest shall be redeemable by the Company or the controlling shareholder upon the occurrence of certain contingent events by 31 December 2019, including the failure of a submission of qualified [**REDACTED**] of the Company in the domestic or foreign share market. The price at which Series A equity interest is redeemed shall be an amount that would give the investment holders of Series A equity interest at a compound interest rate of ten percent per annum for their investments in the Company minus accumulated dividends. Other liabilities are classified as financial liabilities at amortised cost. The balance of other liabilities as at 31 December 2019 represented the principal amounts of the capital contribution of RMB324,405,000 and accumulated interest payable related to redemption liabilities of RMB183,053,000.

In February 2020, Shanghai Shengyan Business Management Center ("Shanghai Shengyan", an entity controlled by the controlling shareholder of the Company) signed equity repurchase agreements with White Sand (HK) Investment Limited and Shanghai Lianyi respectively to repurchase the shares of the Company. Pursuant to this agreement, the above mentioned redemption rights were terminated and related other liabilities of RMB399,618,000 were transferred to capital reserve.

In October 2020, the Company, the controlling shareholder and Shanghai Ximei Investment Center (limited partnership) reached a supplementary agreement stipulating that the Company no longer has any redemption obligation under the Series A capital contribution agreement and related other liabilities of RMB118,327,000 was transferred to capital reserve.

During the years ended 31 December 2019 and 2020, the Company recorded interest expenses on these other liabilities amounted to RMB45,932,000 and RMB8,737,000 using the effective interest rate method.

30. SHARE CAPITAL

Group and Company

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Issued and fully paid:				
360,000,000 (2021: 360,000,000, 2020: 360,000,000, 2019: 180,000,000) ordinary shares of RMB1.00 each	180,000	360,000	360,000	360,000

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital
At 1 January 2020	180,000,000	180,000
Transfer from reserves*	180,000,000	180,000
At 31 December 2020	360,000,000	360,000

* The Company was incorporated in Shanghai, the People's Republic of China on 11 June 2004 as a limited liability company with registered capital of RMB180,000,000 divided into 180,000,000 shares of RMB1.00 each. On 31 October 2020, the Company was converted into a joint stock limited company. On 31 December 2020, the Company's shareholders approved a resolution that RMB180,000,000 of capital reserve had been converted to 180,000,000 shares of RMB1.00 each.

There was no movement in the Company's share capital during the years ended 31 December 2019 and 2021 and the six months ended 30 June 2021 and 2022.

31. SHARE INCENTIVE SCHEMES

Mr. Lyu Yixiong (the controlling shareholder of the Group) has implemented 5 share incentive schemes (hereinafter referred to as "plan I" to "plan V") through the shareholding platform controlled by the controlling shareholder of the Group, to encourage and reward people who contribute to the operation of the Group. Eligible persons include directors and other employees of the Group.

In July 2016, 5 employees (including directors) of the Group entered into an agreement (plan I) with Mr. Lyu Yixiong. Under this agreement, Mr. Lyu Yixiong granted these 5 employees 3,601,800 shares of the Company with vesting periods from 31 July 2016 to 31 July 2020. In December 2017, 1 of the 5 employees defaulted and a total of 901,800 shares of the Company were forfeited. In October 2019, 1 of the 5 employees resigned and a total of 718,200 shares of the Company were repurchased by Mr. Lyu Yixiong.

In July 2016, 9 employees of the Group entered into an agreement (plan II) with Mr. Lyu Yixiong. Under this agreement, Mr Lyu Yixiong granted these 9 employees 2,322,000 shares of the Company with vesting periods from 31 July 2016 to 31 July 2021. In June and September 2018, 3 of the 9 employees resigned and a total of 522,000 shares of the Company were repurchased by Mr. Lyu Yixiong. In February and December 2019, 2 of the 9 employees resigned and a total of 540,000 shares of the Company were repurchased by Mr. Lyu Yixiong. In July and November 2020, 2 of the 9 employees resigned and a total of 360,000 shares of the Company were repurchased by Mr. Lyu Yixiong.

In August 2016, 9 employees (including directors) of the Group entered into an agreement (plan III) with the Company. Under this agreement, the Company granted 9 employees the right to purchase fixed value shares of the Company at a specific price after the successful [**REDACTED**] of the Company. In October 2017, 3 of the 9 employees signed a termination agreement with the Company. In March 2018, 2 of the 9 employees terminated the agreement due to their resignation. In March 2021, the remaining 4 employees entered into an agreement (plan V) with Mr. Lyu Yixiong which is deemed as modification to the terms and conditions of plan III. Under this agreement, Mr. Lyu Yixiong granted them 504,000 shares of the Company with no vesting periods.

In March 2020, 3 employees (including directors) of the Group entered into an agreement (plan IV) with Mr. Lyu Yixiong. Under this agreement, Mr. Lyu Yixiong granted these 3 employees 1,620,000 shares of the Company with no vesting period. In March 2021, these 3 employees entered into an agreement (plan V) with Mr. Lyu Yixiong which is deemed as modification to the terms and conditions of plan IV. Under this agreement, Mr. Lyu Yixiong granted them 3,240,000 shares of the Company with no vesting periods.

In March 2021, 3 employees (including directors) of the Group entered into an agreement (plan V) with Mr. Lyu Yixiong (the controlling shareholder of the Group). Under this agreement, Mr. Lyu Yixiong granted these 3 employees 1,080,000 shares of the Company with no vesting period.

In March 2021, 43 employees of the Group entered into an agreement (plan V) with Mr. Lyu Yixiong (the controlling shareholder of the Group). Under this agreement, Mr. Lyu Yixiong granted these 43 employees 4,176,000 shares of the Company with vesting periods dated from 1 January 2021 to 31 December 2024.

In August 2021, 1 employee of the Group entered into an agreement (plan V) with Mr. Lyu Yixiong (the controlling shareholder of the Group). Under this agreement, Mr. Lyu Yixiong granted this 1 employee 72,000 shares of the Company with vesting periods dated from 1 January 2021 to 31 December 2024.

In August 2021, 3 employees (including directors) of the Group entered into an agreement (plan V) with Mr. Lyu Yixiong (the controlling shareholder of the Group). Under this agreement, Mr. Lyu Yixiong granted these 3 employees 108,000 shares of the Company with vesting periods dated from 1 January 2021 to 31 December 2024.

Shares confer rights on the holders to dividends and to vote at shareholders' meetings.

The following share incentive were outstanding under the "plan I" to "plan V" during the Relevant Periods:

Group and Company

	As at 31 December						As at 30 June	
	2019		2020		2021		2022	
	Weighted average subscription price *RMB per share*	Number of shares	Weighted average subscription price *RMB per share*	Number of shares	Weighted average subscription price *RMB per share*	Number of shares	Weighted average subscription price *RMB per share*	Number of shares
At 1 January	1	4,500,000	1	3,421,800	1	9,363,600	1	14,475,600
Granted during the year	–	–	1	1,620,000	1	5,436,000	–	–
Forfeited during the year	1	(1,078,200)	1	(360,000)	1	(324,000)	1	(252,000)
Exercised during the year	–	–	1	4,681,800	–	–	–	–
At 31 December	1	3,421,800	1	9,363,600	1	14,475,600	1	14,223,600

The fair values of the 5 share incentive schemes were RMB60,323,000, RMB36,618,000, RMB55,025,900, RMB46,819,000 and RMB98,181,000, respectively, of which the Group recognised share-based compensation expenses of RMB9,039,000, RMB53,043,000, RMB41,440,000, RMB31,140,000 and RMB2,327,000 during the years ended 31 December 2019, 2020, 2021 and the six months ended 30 June 2021 and 2022, respectively.

The fair value of the equity-settled share incentive granted through plan I is estimated on the date of grant using the discounted cash flow method, WACC and CAPM, taking into account the terms and conditions of the granted shares. The following table lists the inputs for the model used:

	2016
WACC (%)	13.20
DLOM (%)	21.00

The fair value of the equity-settled share incentive granted through plan II is estimated on the date of grant using the discounted cash flow method, WACC and CAPM and the binary tree model, taking into account the terms and conditions of the granted shares. The following table lists the inputs for the model used:

	2016
WACC (%)	13.20
DLOM (%)	21.00
Risk-free interest rate (%)	2.41
Expected volatility (%)	51.39
Historical volatility (%)	51.39
Turnover rate (%)	10.00

The fair value of the equity-settled stock options granted through plan III is estimated on the date of grant using the discounted cash flow method, taking into account the terms and conditions of the granted shares. The following table lists the inputs for the model used:

	2016
Discount rate (%)	2.64
Discount period (year)	4-5

The fair value of the equity-settled share incentive granted through plan IV is estimated on the date of grant using the discounted cash flow method, WACC and CAPM, taking into account the terms and conditions of the granted shares. The following table lists the inputs for the model used:

	2020
WACC (%)	14.30
DLOM (%)	20.00

The fair value of the equity-settled share incentive granted through plan V is estimated on the date of grant using the discounted cash flow method, WACC and CAPM, taking into account the terms and conditions of the granted shares. The following table lists the inputs for the model used:

	2021
WACC (%)	13.80
DLOM (%)	18.00

32. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity of the Historical Financial Information.

Share-based payment reserve

The share-based payment reserve represents reserve arisen from share incentive schemes. Details of the movements in the share-based payment reserve are set out in the consolidated statements of changes in equity of the Historical Financial Information.

Statutory reserve

In accordance with the Company Law of the People's Republic of China, each company in the PRC is required to allocate 10% of the statutory after tax profits to the statutory reserve until the cumulative total of the reserve reaches 50% of the company's registered capital. Subject to approval from the relevant PRC authorities, the statutory reserve may be used to offset any accumulated losses or increase the registered capital of the company. The statutory reserve is not available for dividend distribution to shareholders of the PRC subsidiaries.

Capital reserve

The capital reserve of the Group represents the contribution from the ultimate holding company and shareholder, business combinations under the common control and the excess of the consideration over the carrying amount of the non-controlling interests acquired. Details of the movements in capital reserve are set out in the consolidated statements of changes in equity of the Historical Financial Information.

The Company's shareholders approved a resolution on 31 December 2020 to convert the Company's capital reserve into share capital. After the conversion, the share capital of the Company became RMB360,000,000 divided into 360,000,000 shares of RMB1.00 each.

Exchange fluctuation reserve

The exchange fluctuation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the Group's presentation currency.

Company

	Share capital	Share-based payment reserve*	Capital reserve	Statutory reserve funds	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2019	180,000	91,447	–	8,123	(168,411)	111,159
Profit for the year	–	–	–	–	77,145	77,145
Total comprehensive income for the year	–	–	–	–	77,145	77,145
Acquisition of a subsidiary	–	–	(1,766)	–	–	(1,766)
Equity-settled share-based compensation	–	9,039	–	–	–	9,039
Transfer from retained profits	–	–	–	7,714	(7,714)	–
At 31 December 2019	180,000	100,486	(1,766)	15,837	(98,980)	195,577

Company

	Share capital	Share-based payment reserve	Capital reserve	Statutory reserve funds	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2020	180,000	100,486	(1,766)	15,837	(98,980)	195,577
Profit for the year	–	–	–	–	98,332	98,332
Total comprehensive income for the year	–	–	–	–	98,332	98,332
Equity-settled share-based compensation	–	53,043	–	–	–	53,043
Deemed capital contribution from the controlling shareholder *(note 28)*	–	–	517,945	–	–	517,945
Conversion into a joint stock Company *(note 29)*	–	–	(225,577)	(15,837)	241,414	–
Transfer capital reserve into share capital	180,000	–	(180,000)	–	–	–
Transfer from statutory reserve funds	–	–	–	11,844	(11,844)	–
At 31 December 2020	360,000	153,529	110,602	11,844	228,922	864,897

Company

	Share capital	Share-based payment reserve	Capital reserve	Statutory reserve funds	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
(Unaudited)						
At 1 January 2021	360,000	153,529	110,602	11,844	228,922	864,897
Loss for the period	–	–	–	–	(15,694)	(15,694)
Total comprehensive income for the period	–	–	–	–	(15,694)	(15,694)
Equity-settled share-based compensation	–	31,140	–	–	–	31,140
At 30 June 2021	360,000	184,669	110,602	11,844	213,228	880,343

	Share capital	Share-based payment reserve	Capital reserve	Statutory reserve funds	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2021	360,000	153,529	110,602	11,844	228,922	864,897
Profit for the year	–	–	–	–	187,116	187,116
Total comprehensive income for the year	–	–	–	–	187,116	187,116
Equity-settled share-based compensation	–	41,440	–	–	–	41,440
Transfer from retained profits	–	–	–	18,712	(18,712)	–
At 31 December 2021	360,000	194,969	110,602	30,556	397,326	1,093,453

Company

	Share capital	Share-based payment reserve	Capital reserve	Statutory reserve funds	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2022	360,000	194,969	110,602	30,556	397,326	1,093,453
Loss for the period	–	–	–	–	(15,650)	(15,650)
Total comprehensive income for the period	–	–	–	–	(15,650)	(15,650)
Equity-settled share-based compensation	–	2,327	–	–	–	2,327
Dividend declared	–	–	–	–	(200,000)	(200,000)
At 30 June 2022	360,000	197,296	110,602	30,556	181,676	880,130

33. DISPOSAL OF SUBSIDIARIES

	2019	2020
	RMB'000	*RMB'000*
Net assets disposed of:		
Property, plant and equipment	18,344	–
Right-of-use assets	2,818	–
Cash and bank balances	3	34
Trade receivables	377	4,186
Prepayments, other receivables and other assets	29	1,486
Inventories	–	15,916
Trade payables	(7,996)	(15,131)
Accruals and other payables	(570)	(921)
Non-controlling interests	–	(2,228)
	13,005	3,342
Gain/(loss) on disposal of subsidiaries	67,472	(654)
	80,477	2,688
Satisfied by:		
Cash	80,477	2,688

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2019	2020
	RMB'000	*RMB'000*
Cash consideration	80,477	2,688
Cash and bank balances disposed of	(3)	(34)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	80,474	2,654

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022, the Group had non-cash additions to right-of-use assets of RMB6,751,000, RMB6,780,000, RMB9,696,000, RMB3,965,000 and RMB2,036,000 and lease liabilities of RMB6,751,000, RMB6,780,000, RMB9,696,000, RMB3,965,000 and RMB2,036,000, respectively, in respect of lease arrangements for office premises and plant.

During the year ended 31 December 2020, the Group had a non-cash addition to capital reserve and a non-cash reduction to other current liabilities of RMB517,945,000 in respect of the repurchases of the shares of the Company by the controlling shareholder as disclosed in note 29.

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings	Lease liabilities	Amounts due to related parties
	RMB'000	*RMB'000*	*RMB'000*
At 31 December 2018 and 1 January 2019	425,841	167,503	63,610
Changes from financing cash flows	81,269	(42,628)	40,145
Changes from operating cash flows	–	–	514
Interest expense	–	9,060	–
New leases	–	6,751	–
Non-cash movement	268	(1,761)	7,586
At 31 December 2019 and 1 January 2020	507,378	138,925	111,855
Changes from financing cash flows	(69,691)	(36,812)	(113,370)
Changes from operating cash flows	–	–	1,299
Interest expense	–	7,330	
New leases	–	6,780	–
Non-cash movement	(2,181)	(7,625)	2,028
At 31 December 2020 and 1 January 2021	435,506	108,598	1,812
Changes from financing cash flows	(140,320)	(13,585)	–
Interest expense	–	3,204	–
New leases	–	3,965	–
Non-cash movement	–	(1,141)	–
At 30 June 2021 (Unaudited)	295,186	101,041	1,812
At 31 December 2020 and 1 January 2021	435,506	108,598	1,812
Changes from financing cash flows	(245,147)	(28,344)	–
Changes from operating cash flows	–	–	(1,812)
Interest expense	–	6,169	–
New leases	–	9,696	–
Non-cash movement	(300)	(1,143)	–
At 31 December 2021 and 1 January 2022	190,059	94,976	–
Changes from financing cash flows	170,850	(15,014)	–
Interest expense	–	2,766	–
New leases	–	2,036	–
Non-cash movement	–	(7)	–
At 30 June 2022	360,909	84,757	–

35. PLEDGE OF ASSETS

Details of the Group's interest-bearing bank loans and other borrowings, which are secured by the assets of the Group, are included in note 28 to the Historical Financial Information.

36. COMMITMENTS

The Group had the following capital commitments at the end of each of the Relevant Periods:

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for				
Property, plant and equipment	206,523	81,086	27,490	16,644
Intangible assets	5,685	105	–	–
	212,208	81,191	27,490	16,644

37. RELATED PARTY TRANSACTIONS

(a) Name and relationship:

Name of related party	*Notes*	**Relationship with the Group**
Mr. Lyu Yixiong ("呂義雄")		The controlling shareholder
Shanghai Qiyu Brand Management Co., Ltd ("上海淇予品牌管理有限公司")		Associate
Hangzhou Qianmei Cosmetics Co., Ltd ("杭州謙美化妝品有限公司")	*(i)*	Associate
Shanghai Shanhe Wuyang E-commerce Co., Ltd ("上海山河無恙電子商務有限公司")	*(ii)*	Associate
Shanghai Misu Cosmetics Co., Ltd ("上海蜜愫化妝品有限公司")	*(iii)*	Associate
Hangzhou Shike Personal Care Products Co., Ltd ("杭州時克個人護理用品有限公司")	*(iv)*	Associate
Yinxi (Shanghai Culture Communication Co., Ltd ("隱溪(上海)文化傳播有限公司")		Entity controlled by Mr. Lyu Yixiong
Shanghai Hongdao Investment Co., Ltd ("上海紅道投資有限公司")		Entity controlled by Mr. Lyu Yixiong
Shanghai Lizi Business Consulting Co., Ltd ("上海黎姿商務諮詢有限公司")		Entity controlled by Mr. Lyu Yixiong
Sichuan Gaorun Business Management Service Co., Ltd ("四川高潤商業管理服務有限公司")	*(v)*	Entity controlled by Mr. Lyu Yixiong
Shanghai Maishang Biotechnology Co., Ltd ("上海麥尚生物科技有限公司")		Entity controlled by Mr. Lyu Yixiong
Shanghai Hongyin Investment Co., Ltd ("上海紅印投資有限公司")		Entity controlled by Mr. Lyu Yixiong
Shanghai Kans Enterprise Management Co., Ltd ("上海韓束企業管理有限公司")		Entity controlled by Mr. Lyu Yixiong
Shanghai Wuzun Investment Management Co., Ltd ("上海吾尊投資管理有限公司")		Entity controlled by Mr. Lyu Yixiong
Shanghai Wuzun E-commerce Co., Ltd ("上海吾尊電子商務有限公司")		Entity controlled by Mr. Lyu Yixiong
Shanghai Xueli E-commerce Co., Ltd ("上海雪黎電子商務有限公司")		Entity controlled by Mr. Lyu Yixiong
Shanghai Sumi E-commerce Co., Ltd ("上海素謎電子商務有限公司")		Entity controlled by Mr. Lyu Yixiong
Shanghai Shengyan Business Management Centre ("上海盛顏商務管理中心")		Entity controlled by Mr. Lyu Yixiong
Suzhou Xiongze Packaging Co., Ltd ("蘇州雄澤包裝有限公司")		Entity controlled by close relatives of Mr. Lyu Yixiong

Notes:

(i) Hangzhou Qianmei Cosmetics Co., Ltd ("杭州謙美化妝品有限公司") was disposed on 30 September 2021.

(ii) Shanghai Shanhe Wuyang E-commerce Co., Ltd ("上海山河無恙電子商務有限公司") was founded on 5 March 2020 and disposed on 26 May 2021.

(iii) Shanghai Misu Cosmetics Co., Ltd ("上海蜜愫化妝品有限公司") was transformed from a subsidiary to an associate on 24 December 2020.

(iv) Hangzhou Shike Personal Care Products Co., Ltd ("杭州時克個人護理用品有限公司") was disposed on 13 August 2020.

(v) Sichuan Gaorun Business Management Service Co., Ltd ("四川高潤商業管理服務有限公司") was deregistered on 12 August 2019.

(b) Related party transactions:

The Group had the following material transactions with related parties during the Relevant Periods:

		Year ended 31 December			**Six months ended 30 June**	
	Notes	**2019**	**2020**	**2021**	**2021**	**2022**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Associates:						
Purchases of products and services	*(i)*	–	13,764	4,287	250	–
Sales of products and services	*(ii)*	9,188	13,366	10,809	5,117	1,831
Loan to an associate	*(iii)*	490	–	–	–	–
The controlling shareholder:						
Loans from Mr. Lyu Yixiong	*(iii)*	40,300	–	–	–	–
Repayment to Mr. Lyu Yixiong	*(iii)*	–	101,185	–	–	–
Interest paid	*(iii)*	–	9,405	–	–	–
Entities controlled by Mr. Lyu Yixiong						
Purchases of products and services	*(i)*	–	159	–	–	–
Sales of products and services	*(ii)*	379	–	–	–	–
Purchases of property, plant and equipment	*(iv)*	116	–	–	–	–
Loans from entities controlled by Mr. Lyu Yixiong	*(iii)*	1,500	–	–	–	–
Repayment from entities controlled by Mr. Lyu Yixiong	*(iii)*	14,132	144,828	490	490	–
Loans to entities controlled by Mr. Lyu Yixiong	*(iii)*	1,440	81,170	–	–	–
Repayment to entities controlled by Mr. Lyu Yixiong	*(iii)*	1,655	2,570	–	–	–
Interest paid	*(iii)*	–	210	–	–	–
Interest received	*(iii)*	–	4,725	–	–	–
Entities controlled by close relatives of Mr. Lyu Yixiong:						
Purchases of products and services	*(i)(v)*	35,209	36,587	44,624	24,876	12,363

Notes:

(i) The purchases of products and services from the related parties were made according to the prices and terms offered by the related parties with reference to the market price.

(ii) The sales of products and services to the related parties were made according to the prices and terms offered by the related parties with reference to the market price.

(iii) The loans to the related parties were paid on demand and made according to the bank loan interest rates, with interest rates between 4.35% and 4.75%. The loans to the related parties were made according to the bank loan interest rates, with interest rates between 4.35% and 4.75%, and the term of these loans are 1-3 years.

(iv) The purchases of property, plant and equipment from the related parties were made according to the prices and terms agreed between the Group and the related parties with reference to the market price.

(v) This related party transaction constitutes continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(c) Guarantees

The Company, the Company's certain directors, the Group and related parties have guaranteed certain bank loans made to the Group up to RMB777,000,000 and RMB747,000,000 and RMB442,000,000 during the years ended 31 December 2019, 2020 and 2021, respectively, as further detailed in note 28 to the Historical Financial Information. All the aforesaid guarantees provided to the Group by the Company's certain directors and related parties have been released at 31 December 2021.

(d) Outstanding balances with related parties

	As at 31 December			**As at 30 June**
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade:				
Associates:				
Trade receivables	6,483	14,920	12,094	6,387
Trade payables	–	2,411	–	–
Entities controlled by Mr. Lyu Yixiong:				
Trade receivables	812	–	–	–
Trade payables	–	179	–	–
Entities controlled by close relatives of Mr. Lyu Yixiong:				
Trade payables	20,816	14,602	18,261	11,058
Non-trade:				
Associates:				
Other receivables	490	490	–	–
Other payables	–	1,812	–	–
The controlling shareholder:				
Other payables	108,771	–	–	–
Entities controlled by Mr. Lyu Yixiong:				
Other receivables	60,946	–	–	–
Prepayments	1,154	–	–	–
Other payables	3,084	–	–	–

(e) Compensation of key management personnel of the Group:

	Year ended 31 December			Six months ended 30 June	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Short-term employee benefits	9,222	6,718	6,496	3,007	2,195
Equity-settled share compensation expense	3,847	47,383	9,753	9,753	–
Total compensation paid to key management personnel	13,069	54,101	16,249	12,760	2,195

Further details of directors' emoluments are included in note 9 to the Historical Financial Information.

38. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Financial assets at amortised cost:				
Trade and bills receivables	386,925	321,480	365,086	285,381
Financial assets included in prepayments, other receivables and other assets	80,706	22,505	21,309	27,371
Pledged deposits	33,652	440	–	11,500
Cash and cash equivalents	132,374	154,195	145,208	114,965
	633,657	498,620	531,603	439,217
Financial assets at fair value through profit or loss:				
Structured deposits	–	–	–	29,000
Financial assets at fair value through other comprehensive income: Debt investments:				
Bills receivable	10,015	19,368	9,788	10,507
Financial liabilities				
Financial liabilities at amortised cost:				
Trade and bills payables	717,900	549,122	565,961	382,990
Financial liabilities included in other payables and accruals	262,956	182,245	144,999	302,993
Interest-bearing bank and other borrowings	507,378	435,506	190,059	360,909
Other liabilities	507,458	–	–	–
	1,995,692	1,166,873	901,019	1,046,892

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	**Significant observable inputs (Level 2)** *RMB'000*	**Significant unobservable inputs (Level 3)** *RMB'000*	**Total** *RMB'000*
As at 31 December 2019				
Debt investments at fair value through other comprehensive income				
Bills receivable	–	10,015	–	10,015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	**Significant observable inputs (Level 2)** *RMB'000*	**Significant unobservable inputs (Level 3)** *RMB'000*	**Total** *RMB'000*
As at 31 December 2020				
Debt investments at fair value through other comprehensive income				
Bills receivable	–	19,368	–	19,368

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	**Significant observable inputs (Level 2)** *RMB'000*	**Significant unobservable inputs (Level 3)** *RMB'000*	**Total** *RMB'000*
As at 31 December 2021				
Debt investments at fair value through other comprehensive income				
Bills receivable	–	9,788	–	9,788

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	**Significant observable inputs (Level 2)** *RMB'000*	**Significant unobservable inputs (Level 3)** *RMB'000*	**Total** *RMB'000*
As at 30 June 2022				
Structured deposit at fair value through profit or loss	–	29,000	–	29,000
Debt investments at fair value through other comprehensive income				
Bills receivable	–	10,507	–	10,507

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

Management has assessed that the fair values of cash and cash equivalents, bills receivable, trade receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, current bank loans, financial liabilities included in other payables and accruals and lease liabilities approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at the end of each of the Relevant Periods were assessed to be insignificant.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the board of directors. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer and also are discussed with the audit committee.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents, lease liabilities, and interest-bearing bank and other borrowings. The main purpose of these financial instruments is to support the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing these risks and they are summarised below.

Foreign currency risk

The Group's major businesses are in Mainland China and the majority of the transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB. The Group does not have material foreign currency risk during the Relevant Periods.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's 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 the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at the end of each of the Relevant Periods.

The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			Total
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bills receivable	10,335	–	–	–	10,335
Trade receivables*	–	–	–	444,479	444,479
Financial assets included in prepayments, other receivables and other assets					
– Normal**	82,977	–	–	–	82,977
Pledged deposits					
– Not yet past due	33,652	–	–	–	33,652
Cash and cash equivalents					
– Not yet past due	132,374	–	–	–	132,374
	259,338	–	–	444,479	703,817

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			Total
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bills receivable	23,847	–	–	–	23,847
Trade receivables*	–	–	–	359,783	359,783
Financial assets included in prepayments, other receivables and other assets					
– Normal**	24,802	–	–	–	24,802
Pledged deposits					
– Not yet past due	440	–	–	–	440
Cash and cash equivalents					
– Not yet past due	154,195	–	–	–	154,195
	203,284	–	–	359,783	563,067

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			Total
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bills receivable	10,288	–	–	–	10,288
Trade receivables*	–	–	–	391,007	391,007
Financial assets included in prepayments, other receivables and other assets					
– Normal**	22,534	–	–	–	22,534
Cash and cash equivalents					
– Not yet past due	145,208	–	–	–	145,208
	178,030	–	–	391,007	569,037

As at 30 June 2022

	12-month ECLs	Lifetime ECLs			Total
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bills receivable	10,507	–	–	–	10,507
Trade receivables*	–	–	–	307,601	307,601
Financial assets included in prepayments, other receivables and other assets					
– Normal**	30,870	–	–	–	30,870
Pledged deposits					
– Not yet past due	11,500	–	–	–	11,500
Cash and cash equivalents					
– Not yet past due	114,965	–	–	–	114,965
	167,842	–	–	307,601	475,443

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 21 to the Historical financial information.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

At 31 December 2019, the Group had certain concentrations of credit risk as 31% and 75% of the Group's trade receivables were due from the Group's largest customer and five largest customers, respectively. At 31 December 2020, the Group had certain concentrations of credit risk as 40% and 72% of the Group's trade receivables were due from the Group's largest customer and five largest customers, respectively. At 31 December 2021, the Group had certain concentrations of credit risk as 31% and 73% of the Group's trade receivables were due from the Group's largest customer and five largest customers, respectively. At 30 June 2022, the Group had certain concentrations of credit risk as 27% and 66% of the Group's trade receivables were due from the Group's largest customer and five largest customers, respectively. The Group does not hold any collateral or other credit enhancement for the balance of trade receivable.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

	Within 1 year	**1 to 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
31 December 2019			
Trade and bills payables	717,900	–	717,900
Financial liabilities included in other payables and accruals	262,956	–	262,956
Interest-bearing bank and other borrowings	364,899	172,777	537,676
Lease liabilities	42,140	132,416	174,556
Other liabilities	507,458	–	507,458
Total	1,895,353	305,193	2,200,546

	Within 1 year	**1 to 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
31 December 2020			
Trade and bills payables	549,122	–	549,122
Financial liabilities included in other payables and accruals	182,245	–	182,245
Interest-bearing bank and other borrowings	285,179	181,639	466,818
Lease liabilities	29,519	102,897	132,416
Total	1,046,065	284,536	1,330,601

	Within 1 year	**1 to 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
31 December 2021			
Trade and bills payables	565,961	–	565,961
Financial liabilities included in other payables and accruals	144,999	–	144,999
Interest-bearing bank and other borrowings	62,299	145,271	207,570
Lease liabilities	29,641	79,849	109,490
Total	802,900	225,120	1,028,020

	Within 1 year	**1 to 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
30 June 2022			
Trade and bills payables	382,990	–	382,990
Financial liabilities included in other payables and accruals	302,993	–	302,993
Interest-bearing bank and other borrowings	277,036	99,566	376,602
Lease liabilities	29,349	66,551	95,900
Total	992,368	166,117	1,158,485

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No change was made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is total debt divided by the total assets. Total debt includes current liabilities and non-current liabilities. Total assets include current assets and non-current assets.

The gearing ratios as at the end of each of the Relevant Periods are as follows:

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total debt	2,517,505	1,639,898	1,319,525	1,314,774
Total assets	2,323,838	2,224,288	2,274,563	2,136,035
Net gearing ratio	108.33%	73.73%	58.01%	61.55%

41. EVENTS AFTER THE RELEVANT PERIODS

There is no material subsequent event undertaken by the Group after 30 June 2022.

42. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2022.

The following information does not form part of the Accountants' Report from Ernst & Young, Certified Public Accountants, Hong Kong, the Company's reporting accountants, as set out in Appendix I to this document, and is included herein for information purposes only. The unaudited pro forma financial information should be read in conjunction with "Financial Information" and the Accountants' Report set out in Appendix I to this document.

(A) UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants for illustration purposes only, and is set out here to illustrate the effect of the [**REDACTED**] on the consolidated net tangible assets of the Group attributable to owners of the parent as of 30 June 2022 as if the [**REDACTED**] had taken place on 30 June 2022.

The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the parent has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the [**REDACTED**] been completed as of 30 June 2022 or at any future date. It is prepared based on our consolidated net tangible assets as of 30 June 2022 as set out in the Accountants' Report as set out in Appendix I to this document and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets do not form part of the Accountants' Report as set out in Appendix I to this document.

	Consolidated net tangible assets attributable to owners of the parent as at 30 June 2022	**Estimated net [REDACTED] from the [REDACTED]**	**Unaudited pro forma adjusted consolidated net tangible assets as at 30 June 2022**	**Unaudited pro forma adjusted consolidated net tangible assets per Share as at 30 June 2022**	
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB)*	*(HK$)*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on an [**REDACTED**] of HK$[**REDACTED**] per Share	791,853	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Based on an [**REDACTED**] of HK$[**REDACTED**] per Share	791,853	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]

Notes:

(1) The consolidated net tangible assets of the Group attributable to owners of the parent as at 30 June 2022 was equal to the consolidated net assets attributable to owners of the parent as at 30 June 2022 of RMB810,900,000 after deducting intangible assets of RMB19,047,000 as at 30 June 2022 set out in the Accountants' Report in Appendix I to this document.

(2) The estimated net [**REDACTED**] from the [**REDACTED**] are based on the [**REDACTED**] of HK$[**REDACTED**] per Share or HK$[**REDACTED**] per Share, after deduction of the [**REDACTED**] fees and other related expenses payable by our Group and does not take into account of any Shares which may be allotted and issued upon the exercise of the [**REDACTED**]. The estimated net [**REDACTED**] from the [**REDACTED**] are converted from Hong Kong dollars into RMB dollar at an exchange rate of RMB0.90687 to HK$1.0.

(3) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per share is arrived at after adjustments referred to notes 2 above and on the basis that [**REDACTED**] shares are in issue and the [**REDACTED**] had been completed on 30 June 2022. However, this does not take into account of any Shares which may be [**REDACTED**] and [**REDACTED**] upon the exercise of the [**REDACTED**].

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share are converted into Hong Kong dollars at an exchange rate of RMB0.90687 to HK$1.00.

(5) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2022.

(6) The Group's property interests as of 30 September 2022 have been valued by AVISTA Valuation Advisory Limited, an independent valuer, and the relevant property valuation report is set out in Appendix III "Property Valuation Report" to this document. The above adjustment does not take into account the surplus arising from the revaluation of the Group's property interests amounting to RMB257.8 million. The revaluation surplus was not incorporated in the consolidated financial statements for the six months ended 30 June 2022. If the valuation surplus was recorded in the consolidated financial statements, an additional annual depreciation expenses of property, plant and equipment, investment properties and amortization charges of right-of-use assets would be increased by approximately RMB11.3 million.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following version is the text of a report, prepared for the purpose of incorporation in this document, received from the Reporting Accountants, Ernst & Young, Certified Public Accountants.

To the Directors of Shanghai Chicmax Cosmetic Co., Ltd

We have completed our assurance engagement to report on the compilation of pro forma financial information of Shanghai Chicmax Cosmetic Co., Ltd (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at 30 June 2022 and related notes as set out on pages II-1 and II-2 of this document dated [**REDACTED**] (the "[**REDACTED**]") issued by the Company (the "Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in II-1 and II-2.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the [**REDACTED**] of shares of the Company on the Group's financial position as at 30 June 2022 as if the transaction had taken place at 30 June 2022. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the period ended 30 June 2022, on which an accountants' report has been published.

Directors' responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline ("AG") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements*, and *Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in this Document is solely to illustrate the impact of the [**REDACTED**] of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

[●]
Certified Public Accountants
Hong Kong
[**REDACTED**]

The following is the text of a letter, a summary of values and valuation certificates prepared for the purpose of incorporation in this document received from [**REDACTED**]*, an independent valuer, in connection with its valuation as at 30 September 2022 of the property interests held by the Group.*

AVISTA Valuation Advisory
艾 華 迪 評 估 諮 詢

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Wan Chai, Hong Kong

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[●] 2022

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

SUMMARY OF VALUES

Group I – Property interests held by the Group for owner-occupied in Japan

No.	Property	Market value in existing state as at 30 September 2022	Interest Attributable to the Group	Market value Attributable to the Group as at 30 September 2022
1.	An industrial complex located at Lot Nos. 50-4, 50-7 & 50-19, Taiheidai, Shoou-cho, Katsuta-gun, Okayama	JPY 1,170,000,000 (equivalent to approximately RMB57,681,000)	100%	JPY 1,170,000,000 (equivalent to approximately RMB57,681,000)
	Sub-total:	**JPY 1,170,000,000 (equivalent to approximately RMB57,681,000)**		**JPY 1,170,000,000 (equivalent to approximately RMB57,681,000)**

Group II – Property interests held by the Group for owner-occupied in the PRC

No.	Property	Market value in existing state as at 30 September 2022	Interest Attributable to the Group	Market value Attributable to the Group as at 30 September 2022
2.	An industrial complex located at Nos. 99 and 385 Xiaoye Road, Fengxian District, Shanghai City, the PRC	RMB591,800,000	100%	RMB591,800,000
	Sub-total:	**RMB591,800,000**		**RMB591,800,000**

Group III – Property interests held by the Group for investment in the PRC

No.	Property	Market value in existing state as at 30 September 2022	Interest Attributable to the Group	Market value Attributable to the Group as at 30 September 2022
3.	An industrial complex located at No. 128 Jinling East Road, Weiting Town, Suzhou Industrial Park, Suzhou City, Jiangsu Province, the PRC	RMB120,500,000	100%	RMB120,500,000
	Sub-total:	**RMB120,500,000**		**RMB120,500,000**
	Grand-total:	**RMB769,981,000**		**RMB769,981,000**

VALUATION CERTIFICATE

Group I – Property interests held by the Group for owner-occupied in Japan

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 September 2022
1.	An industrial complex located at Lot Nos. 50-4, 50-7 & 50-19, Taiheidai, Shoou-cho, Katsuta-gun, Okayama	The property comprises 3 parcels of land with a total site area of approximately 23,578.64 sq.m. together with 10 buildings which were completed between 1990 and 2007. The property has a total gross floor area ("GFA") of approximately 10,749.02 sq.m. including a factory, an office building, 2 machine rooms, a cleansing room, a resting room, 3 storages and a workshop. The property is located at Katsuta-gun, Okayama Prefecture, with approximately 3.3 km to Nishi-Katsumada Station and 52 km to Okayama Airport. The property is held freehold.	As at the valuation date, the property was occupied by the Group for industrial use.	JPY 1,170,000,000 (equivalent to approximately RMB57,681,000) (100% interest attributable to the Group: JPY1,170,000,000 (equivalent to approximately RMB57,681,000))

Notes:

1. The registered owner of the land with a total site area of 23,578.64 sq.m. is Nippon Shuichi Cosmetics Co., Ltd.

2. The registered owner of the buildings with a total gross floor area of 10,749.02 sq.m. is Nippon Shuichi Cosmetics Co., Ltd.

3. The lands and buildings were pledged to the Kanda Branch of Sumitomo Mitsui Banking Corporation (株式會社三井住友銀行神田支店).

4. In our valuation, we have made reference to the transaction price references of land comparables in the subject and nearby development. We have adopted the range of unit rates between JPY 9,000 and JPY 12,000 per sq.m. The unit rates assumed by us are consistent with the said price reference. Due adjustments to the unit rates of those price reference have been considered to reflect factors including but not limited to time, location and size in arriving at the key assumptions.

VALUATION CERTIFICATE

Group II – Property interests held by the Group for owner-occupied in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 September 2022
2.	An industrial complex located at Nos. 99 and 385 Xiaoye Road, Fengxian District, Shanghai City, the PRC	The property comprises 2 parcels of land with a total site area of approximately 100,091.30 sq.m. together with 14 buildings and various structures which were completed between 2017 and 2020. The property has a total gross floor area ("GFA") of approximately 137,021.09 sq.m. including 3 factories, 3 warehouses, an office building, 3 ancillary buildings and 4 guard houses. The property is located at Shanghai City, with approximately 28 km to Shanghai South Train Station and 54 km to Shanghai Pudong International Airport. The land use rights of the property have been granted for a term expiring on 3 March 2065 and 14 August 2067 respectively for industrial use.	As at the valuation date, the property was occupied by the Group for industrial use.	RMB591,800,000 (100% interest attributable to the Group: RMB591,800,000)

Notes:

1. Pursuant to two State-owned Land Use Rights Grant Contracts issued by the Shanghai Fengxian District Planning and Land Administration Bureau (上海市奉賢區規劃和土地管理局), the land use rights of the property with a total site area of 100,091.50 sq.m. have been granted to the Company for a land use right term of 50 years for industrial use at a total land premium of approximately RMB78,160,000 with details as follows:

State-owned Land Use Grant Contracts No.	Date of Contract	Land Premium *(RMB)*	Site Area *(sq.m.)*	Plot Ratio
Hu Feng Gui Tu (2014) Chu Rang He Tong Di No. 71	4 December 2014	22,500,000	33,327.20	2.00
Hu Feng Gui Tu (2018) Chu Rang He Tong Bu Zi Di No. 2	17 January 2018	55,660,000	66,764.30	1.73
Total:		**78,160,000**	**100,091.50**	

2. Pursuant to two Real Estate Ownership Certificates with a total site area of approximately 100,091.30 sq.m. and a total gross floor area of approximately 137,012.09 sq.m., the land use rights and the building ownership of the property have been vested to Shanghai Zhongyi, for a term of approximately 50 years for industrial use and the details are shown as below:

Real Estate Ownership Certificates Number	Site Area *(sq.m.)*	GFA *(sq.m.)*	Date of Issuance	Land Use and Expiry Date
Hu (2017) Feng Zi Bu Dong Chan Quan Di No. 026379	33,327.00	61,697.49	21 December 2017	Industrial: 3 March 2065
Hu (2020) Feng Zi Bu Dong Chan Quan Di No. 020576	66,764.30	75,314.60	23 September 2020	Industrial: 14 August 2067
Total:	**100,091.30**	**137,012.09**		

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, *inter alia*, the following:

   a. The Company has legally and validly obtained both of the land use rights and building ownership of the property; and

   b. The land use rights and buildings of No. 99 Xiaoye Road, Fengxian District, Shanghai City, the PRC were pledged to the Fengxian branch of Shanghai Pudong Development Bank (上海浦東發展銀行股份有限公司奉賢支行). The Company has the right to occupy and use the property legally, but has restricted right to transfer, lease and pledge the property.

4. In our valuation, we have made reference to four transaction price references of land comparables in the subject and nearby development. We have adopted the range of land price unit rates between RMB740 and RMB760 per sq.m. The land price unit rates assumed by us are consistent with the said price reference. Due adjustments to the land price unit rates of those price reference have been made to reflect factors including but not limited to time, location and size in arriving at the key assumptions.

VALUATION CERTIFICATE

Group III – Property interests held by the Group for investment in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 September 2022
3.	An industrial complex located at No. 128 Jinling East Road, Weiting Town, Suzhou Industrial Park, Suzhou City, Jiangsu Province, the PRC	The property comprises a parcel of land with a total site area of approximately 21,785.34 sq.m. together with 6 buildings which were completed between 2007 and 2009. The property has a total gross floor area ("GFA") of approximately 29,913.27 sq.m. including 5 factories and an ancillary building. The property is located at Suzhou City, with approximately 3.6 km to Weiting Railway Station and 53 km to Sunan Shuofang International Airport. The land use rights of the property have been granted for a term expiring on 23 September 2054 for industrial use.	As at the valuation date, the property with total gross floor area of approximately 29,913.27 sq.m. was leased to 蘇州創軒達科技服務有限公司 for a term expiring on 31 July 2031.	RMB120,500,000 (100% interest attributable to the Group: RMB120,500,000)

Notes:

1. Pursuant to the State-owned Land Use Rights Certificate – Su Gong Yuan Guo Yong (2005) Di No. 02253 dated 8 December 2005, the land use rights of the property with a total site area of approximately 21,785.34 sq.m. have been vested to Suzhou Industrial Park Lizi Cosmetic Co., Ltd., for a term of approximately 50 years expiring on 23 September 2054 for industrial use.

2. Pursuant to the Building Ownership Certificate – Su Fang Quan Zheng Yuan Qu Zi Di No. 00274597 dated 19 June 2009, the property with a total gross floor area of approximately 29,913.27 sq.m. is held by Suzhou Industrial Park Lizi Cosmetic Co., Ltd. for non-residential use.

3. Pursuant to the tenancy agreement and supplementary agreement, the property with a total gross floor area of approximately 29,913.27 sq.m. was leased to 蘇州創軒達科技服務有限公司, an independent third party of the company, as an industrial park for a term expiring on 31 July 2031. The monthly rent is approximately RMB681,790.25 as at the valuation date, inclusive of tax.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, *inter alia*, the following:

   a. The Company has legally and validly obtained both of the land use rights and building ownership of the property; and

   b. The land use rights and buildings were pledged to 上海銀行股份有限公司漕河涇支行. The Company has the right to occupy and use the property legally, but has restricted right to transfer, lease and pledge the property.

5. In our valuation, we have made reference to market rental comparables in the subject and nearby development. We have adopted the range of rental unit rates between RMB24 and RMB30 per sq.m. per month. The rental unit rates assumed by us are consistent with the said rental reference. Due adjustments to the rental unit rates of those rental reference have been made to reflect factors including but not limited to time, location and size in arriving at the key assumptions.

TAXATION IN THE PRC

Taxes on Dividend

Individual Investors

According to the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法》) or the Individual Income Tax Law, as implemented on September 10, 1980 and most recently amended on August 31, 2018, and the Implementation Regulations of the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法實施條例》) or the Implementation Regulations of Individual Income Tax Law, as implemented on January 28, 1994 and most recently amended on December 18, 2018 by the State Council, dividends distributed by PRC enterprises are subject to individual income tax levied at a flat rate of 20%. Pursuant to the regulation above, unless otherwise prescribed by the competent financial and taxation departments under the State Council, interest, dividends and bonuses derived from enterprises, public institutions, other organizations and individual residents within the territory of China shall be deemed as income derived from sources within the territory of China regardless of whether the place of payment is within the territory of China. Pursuant to the Notice of the State Taxation Administration on Issues Concerning Taxation and Administration of Individual Income Tax After the Repeal of the Document (Guo Shui Fa [1993] No. 45) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) issued by the SAT on June 28, 2011, domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends to overseas resident individuals in the jurisdiction of the tax treaty, normally withhold individual income tax at the rate of 10%. For the individual holders of H Shares receiving dividends who are citizens of countries that have entered into a tax treaty with the PRC with tax rates lower than 10%, the non-foreign-invested enterprise whose shares are listed in Hong Kong may apply on behalf of such holders for enjoying the lower preferential tax treatments, and, upon approval by the tax authorities, the excessive withholding amount will be refunded. For the individual holders of H Shares receiving dividends who are citizens of countries that have entered into a tax treaty with the PRC with tax rates higher than 10% but lower than 20%, the non-foreign-invested enterprise is required to withhold the tax at the agreed rate under the treaties, and no application procedures will be necessary. For the individual holders of H Shares receiving dividends who are citizens of countries without taxation treaties with the PRC or are under other situations, the non-foreign-invested enterprise is required to withhold the tax at a rate of 20%.

Enterprise Investors

In accordance with the EIT Law and the Implementing Rules of the EIT Law, a non-PRC resident enterprise is generally subject to a 10% enterprise income tax on PRC-sourced income, including dividends received from a PRC resident enterprise whose shares are issued and listed in Hong Kong, if such non-PRC resident enterprise has no office or premises established in China or the income derived or accrued has no de facto relationship with the office or premises established. The aforesaid income tax payable by non-PRC resident enterprises shall be withheld at source, with the payer of the income being the withholding agent. When making such payment or when such payment becomes due and payable, the withholding agent shall withhold the income tax from the payment or the amount due and payable.

Furthermore, according to the Circular of the State Taxation Administration on Promulgating the Administrative Measures for Non-Residents to Enjoy the Treatment under Treaties (國家稅務總局關於發佈<非居民納稅人享受協定待遇管理辦法>的公告) or the Trial Implementation, which was issued by the SAT on October 14, 2019 and became effective on January 1, 2020, any non-resident taxpayer who judge by themselves that they meet the conditions for entitlement to the conventional treatment may obtain the conventional treatment when filing a tax return or making a withholding declaration through a withholding agent, and shall collect and save relevant materials for examination in accordance with the Trial Implementation, subject to the subsequent administration by the tax authorities. According to the Notice on Relevant Issues Relating to the Enforcement of Dividend Provisions in Tax Treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment.

The Circular on Issues Related to the Withholding and Remittance of Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to Overseas Non-resident Enterprises Which Hold H Shares (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) promulgated by the SAT on November 6, 2008, further clarified that, when PRC-resident enterprises pay dividends of 2008 and thereafter, enterprise income tax shall be withheld at the rate of 10% in respect of dividends paid to overseas non-resident enterprise shareholders which hold H shares.

Pursuant to the Double Tax Avoidance Arrangement, the PRC government may impose tax on the dividends paid by a PRC company to Hong Kong residents (including natural persons and legal entities) subject to a maximum of 10% of the gross amount of dividends payable, or 5% for Hong Kong residents directly holding 25% or more of equity interest in such PRC company.

The Fifth Protocol of the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (《<內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排>第五議定書》), which was signed on July 19, 2019 and came into effect on December 6, 2019, adds a criteria for the qualification of entitlement to enjoy treaty benefits. Although there may be other provisions under the Arrangement, the treaty benefits under the criteria shall not be granted in the circumstance where relevant gains, after taking into account all relevant facts and conditions, are reasonably deemed to be one of the main purposes for the arrangement or transactions which will bring any direct or indirect benefits under this Arrangement, except when the grant of benefits under such circumstance is consistent with relevant objective and goal under the Arrangement.

Tax Treaties

Non-resident investors residing in jurisdictions which have entered into treaties or adjustments for the avoidance of double taxation with the PRC might be entitled to a reduction of the Chinese corporate income tax imposed on the dividends received from PRC companies. The PRC currently has entered into Avoidance of Double Taxation Treaties or Arrangements with a number of countries and regions including but not limited to Hong Kong Special Administrative Region, Macau Special Administrative Region, Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Non-PRC resident enterprises entitled to preferential tax rates in accordance with the relevant taxation treaties or arrangements are required to apply to the Chinese tax authorities for a refund of the corporate income tax in excess of the agreed tax rate, and the refund application is subject to approval by the Chinese tax authorities.

Share Transfer-Related Tax

Individual Investors

According to Individual Income Tax Law and Implementation Regulations of Individual Income Tax Law, the gains realized from the disposal of equity interests in PRC resident enterprise is subject to individual income tax rate of 20%.

According to Notice of the Ministry of Finance and the State Taxation Administration concerning the Continued Individual Income Tax Exemption for Individuals' Proceeds from Share Transfers (《財政部、國家稅務總局關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》), which was promulgated and implemented on March 30, 1998 by the MOF and the SAT, from January 1, 1997 onwards, the income from transfer of shares of listed companies by individuals continues to be provisionally exempted from individual income tax.

The Circular of Issues concerning the Individual Income Tax on Individuals' Income from the Transfer of Restricted Shares of Listed Companies (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》) which was jointly promulgated on December 31, 2009 by the MOF, the SAT and the China Securities Regulatory Commission provided that income from the transfer of shares of listed companies on relevant domestic stock exchanges by individuals shall continue to be exempted from income tax, except the relevant restricted shares as defined in Supplemental Circular of Issues concerning the Individual Income Tax on Individuals' Income from the Transfer of Restricted Shares of Listed Companies (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的補充通知》). As of the Latest Practicable Date, aforesaid provisions don't specify whether income tax on transfer of shares of a PRC resident enterprise listed on an overseas stock exchange by non-PRC resident would be levied.

Enterprise Investors

In accordance with the Enterprise Income Tax Law and the Implementation Regulations of Enterprise Income Tax Law, a non-PRC resident enterprise is generally subject to enterprise income tax of 10% on PRC-sourced income (including gains derived from disposal of equity interests in PRC resident enterprise), if such non-PRC resident enterprise has no office or premises established in China or the income derived or accrued has no de facto relationship with the office or premises established.

Value-Added Tax

According to the Interim Regulations on Value-Added Tax of the People's Republic of China and the Implementation Rules for the Interim Regulations on Value-Added Tax of the People's Republic of China, all enterprises and individuals that engage in the sale of goods, the provision of processing, repair and replacement services, sales of service, intangible assets and real estate and the importation of goods within the territory of the PRC shall pay value-added tax at the rate of 0%, 6%, 11% and 17% for the different goods it sells and different services it provides, except when specified otherwise.

Furthermore, in accordance with the Notice on Comprehensively promoting the Pilot Plan of the Conversion of Business Tax to Value-Added Tax, the state started to fully implement the pilot program from business tax to value-added tax since May 1, 2016. All taxpayers of business tax in construction industry, real estate industry, financial industry and living service industry have been included in the scope of the pilot and should pay value-added tax instead of business tax.

According to the Circular of the Ministry of Finance and the State Administration of Taxation on Adjustment of Value-Added Tax Rates, promulgated by the MOF and the SAT on April 4, 2018 and became effective on May 1, 2018, the VAT rates of 17% and 11% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 16% and 10%, respectively.

According to the Announcement on Relevant Policies for Deepening Value-Added Tax Reform, which was promulgated by the MOF, the SAT and the General Administration of Customs on March 20, 2019 and became effective on April 1, 2019, the VAT rates of 16% and 10% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 13% and 9%, respectively.

Stamp Duty

Pursuant to the Stamp Duty Law of the PRC (《中華人民共和國印花稅法》), which was implemented on July 1, 2022, PRC stamp duty applies to specific taxable document executed or received within the PRC, having legally binding force in the PRC and protected under the PRC laws, and the Stamp Duty Law of the PRC also require that all entities and individuals who conclude taxable documents outside the territory of the PRC to be used within the territory of the PRC shall pay stamp duty in accordance with the provisions of this Law, thus the requirements of the stamp duty imposed on the transfer of shares of PRC listed companies shall not apply to the acquisition and disposal of H Shares by non-PRC investors outside of the PRC.

Estate Duty

As of the date of this document, no estate duty has been levied in the PRC under the PRC laws.

FOREIGN EXCHANGE

The lawful currency of the PRC is Renminbi or RMB, which is currently subject to foreign exchange control and cannot be freely converted into foreign currency. The SAFE, with the authorization of the People's Bank of China or the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

The Foreign Exchange Administrative Regulation classifies all international payments and transfers into current items and capital items. Most of the current items are not subject to the approval of foreign exchange administration agencies, while capital items are subject to the approval of foreign exchange administration agencies. The Foreign Exchange Control Regulations were subsequently amended on January 14, 1997 and came into effect on August 5, 2008. According to the latest amendment to the Foreign Exchange Control Regulations, PRC will not impose any restriction on international current payments and transfers under current items.

The Administrative Regulations on Foreign Exchange Settlement, Sales and Payment does not impose any restrictions on convertibility of foreign exchange under current items, while imposing restrictions on foreign exchange transactions under capital account items.

According to the Announcement on Improving the Reform of the Renminbi Exchange Rate Formation Mechanism (《關於完善人民幣匯率形成機制改革的公告》), which was promulgated by the PBOC and implemented on July 21, 2005, the PRC has started to implement a managed floating exchange rate system in which the exchange rate would be determined based on market supply and demand and adjusted with reference to a basket of currencies since July 21, 2005. Therefore, the RMB exchange rate was no longer pegged to the U.S. dollar. PBOC would publish the closing price of the exchange rate of the RMB against trading currencies such as the U.S. dollar in the interbank foreign exchange market after the closing of the market on each working day, as the central parity of the currency against RMB transactions on the following working day.

The Decision of the State Council on Canceling and Adjusting a Group of Administrative Approval Items and Other Matters (《國務院關於取消和調整一批行政審批項目等事項的決定》) was promulgated by the State Council on October 23, 2014, which canceled the administrative approval by the SAFE and its branches for matters concerning the repatriation and settlement of foreign exchange of overseas-raised funds through overseas listing.

Pursuant to the Notice of the State Administration of Foreign Exchange on Issues Concerning the Foreign Exchange Administration of Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》)which was promulgated by the SAFE on December 26, 2014, a domestic company shall, within 15 business days of the date of the end of its overseas listing issuance, register the overseas listing with the SAFE at the place of its establishment; the proceeds from an overseas listing of a domestic company may be remitted to the domestic account or deposited in an overseas account, but the use of the proceeds shall be consistent with the content of the document and other disclosure documents. A domestic company (except for bank financial institutions) shall present its certificate of overseas listing to open a "special account for overseas listing of domestic company" at a local bank for its initial public offering (or follow-on offering) and repurchase business to handle the exchange, remittance and transfer of funds for the business concerned.

According to the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) promulgated by the SAFE on February 13, 2015 and effective on June 1, 2015, two of the administrative examination and approval items, being the confirmation of foreign exchange registration under domestic direct investment and the confirmation of foreign exchange registration under overseas direct investment have been canceled. Instead, banks shall directly examine and handle foreign exchange registration under domestic direct investment and foreign exchange registration under overseas direct investment, and the SAFE and its branch offices shall indirectly regulate the foreign exchange registration of direct investment through banks.

According to the SAFE Circular 16, foreign currency earnings in capital account that relevant policies of willingness exchange settlement have been clearly implemented on (including the recalling of foreign exchange capital, foreign loans and raised capital by overseas listing) may undertake foreign exchange settlement in the banks according to actual business needs of the domestic institutions. The tentative percentage of foreign exchange settlement for foreign currency earnings in capital account of domestic institutions is 100%, subject to adjustment of the SAFE in due time in accordance with international revenue and expenditure situations.

The Notice of the State Administration of Foreign Exchange on Further Promoting the Reform of Foreign Exchange Administration and Improving the Examination of Authenticity and Compliance (《國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知》) which was promulgated by the SAFE on January 26, 2017, further expands the scope of settlement for domestic foreign exchange loans, allows settlement for domestic foreign exchange loans with export background under goods trading, allows repatriation of funds under domestic guaranteed foreign loans for domestic utilization, allows settlement for domestic foreign exchange accounts of foreign institutions operating in the Free Trade Pilot Zones, and adopts the model of full-coverage RMB and foreign currency overseas lending management, where a domestic institution engages in overseas lending, the sum of its outstanding overseas lending in RMB and outstanding overseas lending in foreign currencies shall not exceed 30% of its owner's equity in the audited financial statements of the preceding year.

THE PRC LEGAL SYSTEM

The PRC legal system is based on the Constitution of the People's Republic of China (《中華人民共和國憲法》) or the Constitution and is made up of written laws, administrative regulations, local regulations, separate regulations, autonomous regulations, departmental rules, rules of local governments, international treaties of which the PRC Government is a signatory and other regulatory documents. Court judgments do not constitute legally binding precedents, although they are used for the purposes of judicial reference and guidance.

Pursuant to the Constitution and the Legislation Law of the People's Republic of China (《中華人民共和國立法法》), or the Legislation Law, the National People's Congress or the NPC and the SCNPC exercise the legislative power of the State. The NPC formulates and amends basic laws governing criminal, civil, State organs and other matters. The SCNPC formulates and amends laws other than those required to be enacted by the NPC and to supplement and amend parts of the laws enacted by the NPC during adjournment of the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws.

The State Council is the highest organ of state administration and has the power to formulate administrative regulations based on the Constitution and laws.

The people's congresses of the provinces, autonomous regions and municipalities and their standing committees may formulate local regulations based on the specific circumstances and actual needs of their respective administrative areas, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations.

The people's congresses of cities divided into districts and their respective standing committees may formulate local regulations on aspects such as urban and rural construction and management, environmental protection and historical and cultural protection based on the specific circumstances and actual needs of such cities, provided that such local regulations do not contravene any provision of the Constitution, laws, administrative regulations and local regulations of their respective provinces or autonomous regions. People's congresses of national autonomous areas have the power to enact autonomous regulations and separate regulations in light of the political, economic and cultural characteristics of local ethnic groups. The autonomous regulations and separate regulations of autonomous regions shall come into force after being submitted to the SCNPC for approval. The autonomous regulations and separate regulations of autonomous prefectures or autonomous counties shall come into force after being submitted to the Standing Committee of the People's Congresses of provinces, autonomous regions and municipalities for approval.

The ministries, commissions of the State Council, the PBOC, the National Audit Office and the subordinate institutions with administrative functions directly under the State Council may formulate departmental rules within their respective authority based on the laws and the administrative regulations, decisions and orders of the State Council.

The people's governments of the provinces, autonomous regions, municipalities and cities or autonomous prefectures divided into districts may formulate rules based on the laws, administrative regulations and local regulations of such provinces, autonomous regions or municipalities.

The Constitution has the highest legal effect, and any laws, administrative regulations, local laws and regulations, autonomous regulations as well as separate regulations and rules shall not contravene the Constitution. Laws have higher legal authority than administrative regulations, local regulations and rules. Administrative regulations have higher legal authority than local regulations and rules. Local regulations have higher legal authority than rules of local government at the same level or at a lower level. The rules formulated by the people's governments of provinces or autonomous regions have higher legal authority than those formulated by the people's government of cities divided into districts and autonomous prefectures within the administrative areas of provinces and autonomous regions.

The NPC has the right to alter or revoke inappropriate laws enacted by its Standing Committee, and has the right to revoke any autonomous regulations or separate regulations approved by the SCNPC but contrary to the provisions of the Constitution or the Legislation Law. The SCNPC has the right to revoke administrative regulations that contravene the Constitution and laws, and to revoke local regulations that contravene the Constitution, laws and administrative regulations, as well as to revoke the autonomous regulations and separate regulations approved by the Standing Committee of the People's Congresses of provinces, autonomous regions and municipalities but in violation of the Constitution and the Legislation Law. The State Council has the right to alter or revoke inappropriate department rules and rules of local government. The People's Congresses of provinces, autonomous regions and municipalities have the right to alter or revoke inappropriate local regulations enacted or approved by their Standing Committees. The people's governments of provinces and autonomous regions have the right to alter or revoke inappropriate rules formulated by the people's governments at a lower level.

According to the Constitution, the power to interpret laws is vested in the SCNPC. Pursuant to the Resolution of the Standing Committee of the National People's Congress Providing an Improved Interpretation of the Law (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) effective on June 10, 1981, in cases where the limits of articles of laws and decrees need to be further defined or additional stipulations need to be made, the SCNPC should provide interpretations or make stipulations by means of decrees. Issues related to the specific application of laws and decrees in a court trial and a prosecution process of the procuratorates should be interpreted by the Supreme People's Court and the Supreme People's Procuratorate, respectively. The State Council and the competent departments shall be responsible for the interpretation of the specific application of other laws and decrees that are not in the course of trial and prosecutorial work. Where local regulations need to be further defined or supplemented, the Standing Committee of the People's Congresses of provinces, autonomous regions, or municipalities that formulated the regulations shall interpret or make a provision. Any specific application of local regulations shall be interpreted by the competent departments of the people's governments of provinces, autonomous regions, or municipalities.

THE PRC JUDICIAL SYSTEM

Under the Constitution and the Law of Organization of the People's Courts of the PRC (《中華人民共和國人民法院組織法》), the PRC judicial system is made up of the Supreme People's Court, the local people's courts at all levels and other special people's courts.

The Supreme People's Court is the highest judicial authority. The local people's courts are divided into three levels, namely, the higher people's courts, the intermediate people's courts and the primary people's courts. Special people's courts include, among others, military courts and maritime courts, intellectual property courts, and financial courts. The Supreme People's Court shall supervise the judicial work of the local people's courts at all levels and special people's courts, and people's courts at higher levels shall supervise the judicial work of people's courts at lower levels.

The Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》), or the PRC Civil Procedure Law enacted by the NPC on April 9, 1991 and amended by the SCNPC on October 28, 2007, August 31, 2012, June 27, 2017 and December 24, 2021, respectively, prescribes the conditions for instituting a civil procedure, the jurisdiction of the people's courts, the procedures for conducting the civil procedure, and the procedures for enforcement of a civil judgment or ruling. All parties to a civil procedure conducted within the PRC must abide by the PRC Civil Procedure Law. A civil case is generally heard by the court located in the defendant's place of domicile. The parties to a contract may, by a written agreement, choose a people's court of jurisdiction located at the places directly connected with the disputes, such as the defendant's place of domicile, the place where the contract is executed or signed, the plaintiff's place of domicile or the place where the object is located, provided that such choice may not contravene the provisions of the PRC Civil Procedure Law regarding hierarchical jurisdiction and exclusive jurisdiction.

Generally, foreign nationals or enterprises shall have equal procedural rights and obligations as citizens or enterprises of the PRC. If any party to a civil procedure refuses to abide by a judgment or ruling made by a people's court or an award made by an arbitration tribunal in the PRC, the other party may apply to the people's court for the enforcement of the same within two years.

Where a party applies for enforcement of a legally effective judgement or ruling made by a people's court, and the opposite party or his property is not within the territory of the People's Republic of China, the applicant may directly apply to a foreign court with jurisdiction for recognition and enforcement of the judgement or ruling, or the people's court may, in accordance with the provisions of international treaties to which the PRC is a signatory or in which the PRC is a participant or the principle of reciprocity, request recognition and enforcement by a foreign court.

Where a legally effective judgment or ruling made by a foreign court needs to be recognized and enforced by the people's court of the PRC, the parties involved may directly apply to an intermediate people's court of the PRC with jurisdiction for recognition and enforcement, or the foreign court may, in accordance with the provisions of international treaties entered into or acceded to by that country and the PRC or according to the principle of reciprocity, request the people's court to recognize and enforce it. For a legally effective judgment or ruling made by a foreign court applying for or requesting recognition and enforcement, the people's court shall, after having examined it in accordance with the international treaties entered into or acceded to by the PRC or according to the principle of reciprocity and having arrived at the conclusion that it does not contravene the basic principles of the laws of the PRC nor violate its sovereignty, security or public interests, recognize the validity of such judgment or ruling, and, if required, issue a writ of enforcement and enforce it in accordance with the relevant provisions of the PRC Civil Procedure Law. In the event that the judgment or ruling contravenes the basic principles of the laws of the PRC or violates its sovereignty, security or public interests, such judgment or ruling shall not be recognized or enforced.

According to the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) released by the Supreme People's Court on July 3, 2008 and effective from August 1, 2008, in the case of an enforceable final judgment on the payment amount made between the court of the Mainland and the court of the Hong Kong Special Administrative Region in a civil or commercial case with written jurisdiction agreement, any party concerned may apply to the people's court of the Mainland or the court of the Hong Kong Special Administrative Region for recognition and enforcement based on this arrangement.

THE PRC COMPANY LAW, THE SPECIAL REGULATIONS AND THE MANDATORY PROVISIONS

A joint stock company incorporated in the PRC and listed on the Hong Kong Stock Exchange shall mainly comply with the following three laws and regulations of the PRC:

The PRC Company Law, which was promulgated by the SCNPC on December 29, 1993 and came into force on July 1, 1994, and was revised by the SCNPC on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and October 26, 2018, respectively. The latest revised PRC Company Law has taken effect from October 26, 2018.

The Special Regulations of the State Council on Overseas Share Offering and Listing of Joint Stock Companies (《國務院關於股份有限公司境外募集股份及上市的特別規定》), or the Special Regulations, which were enacted and promulgated by the State Council on August 4, 1994 pursuant to Articles 85 and 155 of the PRC Company Law of (1993 version), and were applicable to the issuance of shares to overseas investors by and overseas listing of joint stock companies.

The Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (《到境外上市公司章程必備條款》), or the Mandatory Provisions, which were jointly promulgated by China Securities Regulatory Commission or the CSRC and the State Commission for Restructuring Economic on August 27, 1994, and set forth the clauses that must be stated in the articles of association of a joint stock limited company seeking an overseas listing. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association of the Company.

Set out below is a summary of the major provisions of the PRC Company Law, the Special Regulations and the Mandatory Provisions.

GENERAL PROVISIONS

A joint stock limited company refers to a corporate legal person incorporated under the PRC Company Law with its registered capital divided into shares of equal nominal value. The shareholders of the joint stock limited company shall bear liability for the company to the extent of the shares they subscribe for, and the joint stock limited company shall bear liability for the debts of the company with all its assets.

INCORPORATION

A joint stock limited company may be incorporated by promotion or subscription.

A company shall have a minimum of two but no more than 200 people as its promoters, and over half of the promoters must be resident within the PRC.

For joint stock limited companies incorporated by way of promotion, the promoters shall subscribe in writing for the shares required to be subscribed for by them and pay up their capital contributions under the articles of association. Procedures relating to the transfer of titles to non-monetary assets shall be duly completed if such assets are to be contributed as capital.

For joint stock limited companies incorporated by way of subscription, after the subscription monies for the share issue have been paid in full, a capital verification institution established under the PRC laws must be engaged to conduct a capital verification and furnish a certificate thereof. The promoters shall preside over and convene an inauguration meeting within 30 days from the date of the full payment of subscription monies. The promoters shall inform the subscribers of or announce the date of the meeting 15 days before the inauguration meeting was convened.

Within 30 days after conclusion of the inauguration meeting, the Board of Directors shall apply to the company registration authority for registration of the establishment of the joint stock limited company. The joint stock limited company is formally established and has the status of a legal person after a business license has been issued by the relevant registration authority.

ISSUE OF SHARES

The issuance of shares of joint stock limited company shall be conducted in accordance with the principles of fairness and justice so that each of the shares of the same class shall carry the same rights. For shares issued at the same time and within the same class, the conditions and price per share must be the same; for the shares subscribed by an entity or an individual, the price per share paid must be the same. The share offering price may be equal to or greater than the nominal value of the share, but may not be less than the nominal value.

A joint stock limited company may [**REDACTED**] to specific and non-specific overseas investors and list its shares overseas upon approval from the securities commission of the State Council. Under the Special Regulations, shares issued to foreign investors by joint stock companies and listed overseas are known as overseas listed foreign shares; while shares issued to domestic investors by joint stock companies that also issue overseas listed foreign shares are known as domestic shares. Upon approval of the CSRC, a Company issuing overseas listed foreign shares within total shares determined by the issuance plan may agree with [**REDACTED**] in the [**REDACTED**] to retain not more than [**REDACTED**] of the number of overseas listed foreign shares proposed to be raised in addition to the [**REDACTED**] amount. The issuance of the retained shares is deemed to be a part of this issuance.

REGISTERED SHARES

Under the PRC Company Law, shareholders may make capital contributions in the form of money or appraised non-monetary assets including real objects, intellectual property and land use right which can be appraised in money and transferred according to laws. Under the Special Regulations, overseas listed foreign shares issued shall be in registered form, denominated in Renminbi and subscribed for in a foreign currency. Domestic shares issued shall be in registered form.

Under the PRC Company Law, a company issuing registered share certificates shall maintain a register of members which sets forth the following matters:

(I) the name and domicile of each shareholder;

(II) the number of shares held by each shareholder;

(III) the serial numbers of shares held by each shareholder; and

(IV) the date on which each shareholder acquired the shares.

INCREASE OF CAPITAL

Under the PRC Company Law, where a company is issuing new shares, resolutions shall be passed at the general meeting in respect of the class and amount of the new shares, the issue price of the new shares, the commencement and end dates for the issue of the new shares and the class and amount of the new shares proposed to be issued to existing shareholders. When a company launches a public issue of new shares to the public upon the approval by the securities regulatory authorities of the State Council, a new share offering prospectus and financial and accounting reports must be announced and a share subscription form must be prepared. After the new shares issued by the company have been paid up, the change must be registered with the company registration authority and a public announcement shall be made.

REDUCTION OF CAPITAL

When reducing its registered capital, the company must prepare a balance sheet and an inventory of property. Within 10 days of the date on which the resolution on reducing registered capital is made, the company shall notify the creditors and within 30 days, the company shall make a public announcement. The creditors of the company may require the company to repay its debts or provide guarantees within 30 days of receipt of the notification or within 45 days of the date of the announcement if he/she/it has not received any notification.

REPURCHASE OF SHARES

Pursuant to the PRC Company Law, a joint stock limited company may not repurchase its own shares other than for one of the following purposes:

(I) reducing the company's registered capital;

(II) merging with another company holding shares in the Company;

(III) to use shares for employee stock ownership plan or equity incentives;

(IV) a shareholder requesting the company to purchase the shares held by him since he objects to a resolution of the shareholders' meeting on the combination or division of the company;

(V) utilizing the shares for conversion of corporate bonds which are convertible into shares issued by a listed company; and

(VI) where it is necessary for a listed company to maintain its corporate value and shareholders' equity.

A resolution of a shareholders' general meeting is required for the repurchase of company's own shares under either of the circumstances stipulated in item (I) or item (II) above; for a company's repurchase of its own shares under any of the circumstances stipulated in item (III), item (V) or item (VI) above, a resolution of a meeting of the Board of Directors shall be made by more than two-thirds of directors attending the meeting according to the provisions of the company's articles of association or as authorized by the shareholders' general meeting. The company's shares acquired under the circumstance stipulated in item (I) hereof shall be deregistered within 10 days from the date of acquisition of shares; the shares shall be assigned or deregistered within six months if the repurchase of company's own shares is made under the circumstances stipulated in either item (II) or item (IV); and the shares of the company held in total by the company after the repurchase of shares under any of the circumstances stipulated in item (III), item (V) or item (VI) shall not exceed 10% of the company's total outstanding shares, and shall be assigned or deregistered within three years.

TRANSFER OF SHARES

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. Under the PRC Company Law, a shareholder should effect a transfer of his shares on a stock exchange established in accordance with laws or by any other means as required by the State Council.

Registered shares may be transferred by endorsement or in any other manner specified by the laws or administrative regulations. After the transfer, the transferee's name and address shall be recorded in the register of members by the company.

According to the Mandatory Provisions, change of the register of members arising from share transfer shall not be registered within 30 days before convening of a shareholders' general meeting or within 5 days prior to the base date on which the company decides to distribute dividends.

Under the PRC Company Law, shares held by promoters may not be transferred within one year of the establishment of the company. Shares of the company issued prior to the public issuance of shares may not be transferred within one year of the date of the shares of the company are listed and traded on a stock exchange. The directors, supervisors and senior management personnel of the company shall report to the company their shareholdings in the company and changes thereof and shall not transfer more than 25% of the total shares held by them in the company per annum during their terms of office; the shares they hold in the company shall not be transferred within one year from the date on which the shares of the company are listed and traded. The shares they held in the company also cannot be transferred within half a year after such persons have left office.

SHAREHOLDERS

Under the PRC Company Law and the Mandatory Provisions, the rights of holders of ordinary shares of a joint stock limited company include:

(I) attend or appoint a proxy to attend shareholders' general meetings, and to exercise corresponding voting rights;

(II) to transfer the shares in accordance with laws, administrative regulations and provisions of the articles of associations;

(III) to inspect the articles of association, register of members, counterfoil of company debentures, minutes of shareholders' general meetings, resolutions of the Board of Directors, resolutions of the Board of Supervisors and financial and accounting reports and to supervise, manage and make suggestions or inquiries in respect of the company's operations;

(IV) if any resolution of the shareholders' general meetings or Board of Directors violates the articles of association, the shareholders shall request the people's court to cancel such resolutions;

(V) to receive dividends and other kinds of benefits distributions as determined by the number of shares held by them;

(VI) to participate in the distribution of the remaining assets of the company based on the number of shares held in the event of the company's dissolution or liquidation; and

(VII) other rights provided for in laws, administrative regulations, other regulatory documents and the articles of association.

The obligations of shareholders include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for and with the method of subscription, to be liable for the company's debts and liabilities to the extent of the amount of his or her subscribed shares and any other shareholder obligation specified in the laws, administrative regulations and the company's articles of association.

SHAREHOLDERS' GENERAL MEETINGS

The shareholders' general meeting of a joint stock limited company is composed by all shareholders. The shareholders' general meeting is the organ of authority of the company, which exercises its functions and powers in accordance with the PRC Company Law.

Under the PRC Company Law and the Mandatory Provisions, the shareholders' general meeting shall exercise the following major functions and powers:

(I) to decide on the company's operational objectives and investment plans;

(II) to elect and replace directors and supervisors which are not appointed as representatives of the employees and to decide on the remuneration of the relevant directors and supervisors;

(III) to examine and approve reports made by the Board of Directors;

(IV) to review and approve the reports of the Board of Supervisors;

(V) to review and approve the company's annual financial budgets and final accounts;

(VI) to review and approve the company's profit distribution proposals and loss recovery proposals;

(VII) to decide on any increase or reduction of the company's registered capital;

(VIII) to decide on the issue of corporate bonds;

(IX) to decide on merger, division, dissolution and liquidation of the company or change of its corporate form;

(X) amendments to the articles of association;

(XI) to decide on the company's engagement, dismissal or discontinuation of the appointment of the accounting firm;

(XII) other functions and powers stipulated by the laws, administrative regulations and the articles of association.

Pursuant to the PRC Company Law, a shareholders' general meeting is required to be held once every year. Under any of the following circumstances, the company shall convene an extraordinary general meeting within 2 months from the date of occurrence:

(I) the number of directors is less than the number stipulated by the laws or less than two thirds of the number specified in the articles of association;

(II) the outstanding losses of the company amounted to one-third of the company's total paid-in share capital;

(III) shareholders who individually or jointly hold above 10% of the shares of the company have requested to convene the meeting;

(IV) the Board of Directors deems it necessary to convene the meeting;

(V) the Board of Supervisors proposes to convene the meeting;

(VI) any other circumstances as provided for in the articles of association.

Pursuant to the PRC Company Law, a shareholders' general meeting shall be convened by the Board of Directors and chaired by the chairman of the Board of Directors. If the chairman of the Board of Directors is unable to perform his/her duties or fails to perform his/her duties, the vice chairman of the Board of Directors shall convene and preside over the shareholders' general meeting; if the vice chairman of the Board of Directors is unable to perform his/her duties or fails to perform his/her duties, more than half of the directors shall jointly recommend a director to convene and preside over the shareholders' general meeting. If the Board of Directors is unable to perform or fails to perform its duties of convening the shareholders' general meeting, the Board of Supervisors shall convene and preside over the meeting in a timely manner; if the Board of Supervisors fails to convene and preside over such meeting, shareholders individually or in aggregate holding more than 10% of the company's shares for more than 90 consecutive days may convene and preside over such meeting by themselves.

Pursuant to the PRC Company Law, notice of shareholders' general meetings stating the time and venue of and matters to be considered at the meeting shall be given to all shareholders 20 days before the meeting; notice of extraordinary general meetings shall be given to all shareholders 15 days before the meeting; in case of meetings for issuance of bearer shares, a notice stating the time and venue of and matters to be considered at the meeting shall be announced 30 days before the meeting.

Pursuant to the Mandatory Provisions, rights conferred to class shareholders may be varied or abrogated upon approval by way of a special resolution at a general meeting and by more than two thirds of the shareholding with voting rights at a separate class meeting convened by the affected class shareholders.

According to the PRC Company Law, shareholders present at shareholders' general meeting shall have one vote for each share they hold, save that the company's shares held by the company are not entitled to any voting rights. An accumulative voting system may be adopted for the election of directors and supervisors at the general meeting pursuant to the provisions of the articles of association or a resolution of the general meeting. Under the accumulative voting system, when the shareholders' general meeting elects directors or supervisors, each share has the same voting rights as the number of directors or supervisors to be elected, and the voting rights owned by shareholders can be used collectively.

Under the PRC Company Law and the Mandatory Provisions, the passing of any resolution of a shareholders' general meeting requires affirmative votes of shareholders representing more than half of the voting rights represented by the shareholders who attend the general meeting. However, the resolutions made by the shareholders' general meeting on the following matters must be passed by more than two-thirds of the voting rights held by the shareholders present at the meeting:

(I) amendments to the articles of association;

(II) the increase or decrease of the registered capital;

(III) the issuance of any class of shares, warrants and other similar securities;

(IV) the issuance of corporate bonds;

(V) merger, division, dissolution and liquidation of the company or change of its corporate form;

(VI) other matters that need to be passed by special resolutions that are determined by ordinary resolution of the shareholders' general meeting to have a significant impact on the company.

Under the PRC Company Law, the shareholders' general meeting shall make minutes of the meeting's decisions on the matters discussed at the meeting, and the chairperson and the directors attending the meeting shall sign the minutes. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

BOARD OF DIRECTORS

According to the PRC Company Law, a joint stock limited company shall have a board of directors which shall consist of 5 to 19 members. Members of the Board of Directors may include staff representatives, who shall be democratically elected by the company's staff at a staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, provided that no term of office shall last for more than three years. A director may be re-elected and re-appointed upon expiry of his/her term of office. Such director shall continue to perform his/her duties as a director in accordance with the laws, administrative regulations and the articles of association until a reelected director of the company takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of directors during his/her term of office results in the number of members of board being less than the quorum.

Under the PRC Company Law and the Mandatory Provisions, the Board of Directors may exercise the following functions and powers:

(I) to convene shareholders' general meetings and report its performance at the shareholders' general meetings;

(II) to execute resolutions of shareholders' general meetings;

(III) to decide on the company's business plans and investment plans;

(IV) to formulate proposal for the company's annual financial budgets and final accounts;

(V) to formulate the company's profit distribution proposals and loss recovery proposals;

(VI) to make plans for the increase or decrease of the registered capital of the company and for the issuance of corporate bonds;

(VII) to formulate proposals for the merger, division or dissolution of the company and change of corporate form;

(VIII) to decide on the internal management setup of the company;

(IX) to resolve on appointment, dismissal and remunerations of the general manager of the company, and as nominated by the general manager, to resolve on appointment, dismissal and remunerations of the company's deputy general managers and chief financial officer;

(X) to formulate the company's basic management system;

(XI) to formulate proposals for any amendment to the articles of association;

(XII) any other functions and powers stipulated in the articles of association.

THE BOARD MEETING

Under the PRC Company Law, meetings of the Board of Directors of a joint stock limited company shall be convened at least twice each year, and the notice of each meeting shall be given to all directors and supervisors 10 days before the meeting. Interim meetings of the Board of Directors may be proposed to be convened by shareholders representing more than one tenth of the voting rights, more than one-third of the directors or the Board of Supervisors. The chairman shall convene the meeting within 10 days of receiving such proposal, and preside over the meetings of the Board of Directors.

Meetings of the Board of Directors shall be held only if more than half of the directors are present. Resolutions of the Board of Directors shall be passed by more than half of all directors. Resolutions of the Board of Directors shall be passed on a "one person one vote" basis. Meetings of the Board of Directors shall be attended by the directors in person. If a director is unable to attend the meeting for a reason, he/she may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf.

The directors shall be responsible for the resolutions of the Board of Directors. If a resolution of the Board of Directors violates the laws, administrative regulations or the articles of association or resolutions of the general meeting, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director shall be relieved from that liability.

CHAIRMAN

Pursuant to the PRC Company Law, the Board of Directors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman shall be elected with approval of more than half of all the directors. The chairman shall convene and preside over meetings of the Board of Directors and review the implementation of resolutions of the Board of Directors. The vice chairman shall assist the chairman to perform his/her duties. If the chairman is unable to perform his/her duties or fails to perform his/her duties, the vice chairman shall perform the duties on behalf of the chairman; if the vice chairman is incapable of performing or not performing his/her duties, a director nominated by more than half of the directors shall perform his duties.

QUALIFICATION OF DIRECTORS

Pursuant to the PRC Company Law and Mandatory Provisions, anyone who is under any of the following circumstances shall not serve as a director in a company:

(I) a person without or with limited capacity for civil conduct;

(II) a person who has been convicted of an offence of corruption, bribery, embezzlement, misappropriation of property or destruction of the socialist economic order, or who has been deprived of his political rights due to his crimes, in each case where less than five years have elapsed since the date of completion of the sentence;

(III) a director, factory director or manager of bankrupt and liquidated companies or enterprises whereby such person was personally liable for the bankruptcy of such companies or enterprises, and three years have not elapsed from which the liquidation of the companies or enterprises was completed;

(IV) a legal representative of companies or enterprises which have had their business licenses revoked and the business of such companies or enterprises were compulsorily closed down due to a violation of laws for which such person was personally liable, and three years have not elapsed from which the business license of the company or enterprise was revoked;

(V) a person who is liable for a relatively large amount of debts that are overdue;

(VI) a person under investigation by judicial authorities for suspected violations of criminal law and the investigation is still ongoing;

(VII) a person cannot assume the position of leader of an enterprise according to laws and administrative regulations;

(VIII) a non-natural person;

(IX) a person has been ruled as violations of the provisions of relevant securities regulations by the competent authority, involving fraud or dishonesty, and five years have not elapsed from the date of the ruling.

BOARD OF SUPERVISORS

According to the PRC Company Law, a joint stock limited company shall have a Board of Supervisors composed of not less than three members. The Board of Supervisors shall consist of representatives of the shareholders and an appropriate proportion of representatives of the company's staff, of which the proportion of representatives of the company's staff shall not be less than one-third, and the actual proportion shall be determined in the articles of association. Representatives of the company's staff at the Board of Supervisors shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise.

Directors and senior management members shall not act concurrently as supervisors.

Each term of office of the supervisors shall be three years, and the supervisors may hold a consecutive term upon re-election. A supervisor shall continue to perform his/her duties as a supervisor in accordance with the laws, administrative regulations and the articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The Board of Supervisors shall have one chairman and may appoint a vice chairman. The chairman and the vice chairman of the Board of Supervisors shall be elected by more than half of the supervisors. The chairman shall convene and preside over meetings of the Board of Supervisors; if the chairman of the Board of Supervisors is unable to perform his/her duties or fails to perform his/her duties, the vice chairman of the Board of Supervisors shall convene and preside over the meetings of the Board of Supervisors; if the vice chairman of the Board of Supervisors is unable to perform his/her duties or fails to perform his/her duties, more than half of the supervisors shall jointly recommend a supervisor to convene and preside over the meetings of the Board of Supervisors.

The Board of Supervisors may exercise its powers:

(I) to check the financial situations of the company;

(II) to supervise the acts of the directors and senior management personnel in performing their duties to the company and propose the removal of those directors and senior management personnel who violate the laws, administrative regulations, the articles of association or resolutions of shareholders' general meetings;

(III) to demand any director or senior management personnel who acts in a manner which is detrimental to the company's interests to rectify such behaviors;

(IV) to propose the convening of extraordinary general meetings and, in case the Board of Directors does not perform the obligations to convene and preside over the shareholders' general meetings in accordance with PRC Company Law, to convene and preside over the shareholders' general meetings;

(V) to propose motions to the shareholders' general meeting;

(VI) to bring actions against the directors and senior management personnel in accordance with Article 151 of the PRC Company Law;

(VII) to exercise other functions and powers as specified in the articles of association.

Supervisors may be present at meetings of the Board of Directors and make inquiries or proposals in respect of the resolutions of the Board of Directors. The Board of Supervisors may investigate any irregularities identified in the operation of the company and, when necessary, may engage an accounting firm to assist its work at the cost of the company.

MEETINGS OF THE BOARD OF SUPERVISORS

Pursuant to the PRC Company Law, the meetings of the Board of Supervisors shall be held at least once every six months. Supervisors may propose to convene an extraordinary meeting of the Board of Supervisors. Resolutions of the Board of Supervisors shall be passed by more than half of the supervisors. The Board of Supervisors shall make minutes of the meeting's decisions on the matters discussed at the meeting, and the supervisors attending the meeting shall sign the minutes.

MANAGER AND SENIOR MANAGEMENT

Pursuant to the PRC Company Law, a joint stock limited company shall have a manager who shall be appointed or removed by the Board of Directors. The manager shall be accountable to the Board of Directors, may exercise the following functions and powers:

(I) to take charge of the management the production, operation and administration of the company and arrange for the implementation of the resolutions of the Board of Directors;

(II) to arrange for the implementation of the company's annual operation plans and investment proposals;

(III) to formulate proposals for the establishment of the company's internal management organs;

(IV) to formulate the fundamental management system of the company;

(V) to formulate the company's specific rules and regulations;

(VI) to recommend the appointment or dismissal of any deputy manager and any financial officer of the company;

(VII) to appoint or dismiss management personnel (other than those required to be appointed or dismissed by the Board of Directors);

(VIII) to exercise other functions and powers granted by the Board of Directors. The manager shall be present at the meetings of the Board of Directors.

According to the PRC Company Law, senior management refers to the manager, deputy manager, financial officer, secretary to the Board of Directors of a listed company and other personnel as stipulated in the articles of association.

OBLIGATIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors, supervisors and senior management are required under the PRC Company Law to comply with the relevant laws, regulations and the articles of association, and carry out their duties of loyalty and diligence. Directors, supervisors and senior management of the company are prohibited from abusing their authority in accepting bribes or other unlawful income and from misappropriating the company's property.

Directors and senior management of the company are prohibited from:

(I) misappropriating company funds;

(II) depositing company funds into accounts under their own names or the names of other individuals to deposit;

(III) loaning company funds to others or providing guarantees in favor of others supported by the company's property in violation of the articles of association or without approval of the shareholders' general meeting or the Board of Directors;

(IV) entering into contracts or transactions with the company in violation of the articles of association or without approval of the shareholders' general meeting;

(V) using their position to procure business opportunities for themselves or others that should have otherwise been available to the company or operating businesses similar to that of the company for their own benefits or on behalf of others without approval of the shareholders' general meeting;

(VI) accepting for their own benefit commissions from other parties dealing with the company;

(VII) unauthorized divulgence of confidential information of the company;

(VIII) other acts in violation of their duty of loyalty to the company.

Income generated by directors or senior management in violation of aforementioned shall be returned to the company. If a director, supervisor or senior management in carrying out his/her duties infringes any law, administrative regulation or the articles of association of the company, which results in damage to the company, that director, supervisor or senior management shall be liable for compensation.

FINANCE AND ACCOUNTING

According to the PRC Company Law, a company shall establish its financial and accounting systems according to the laws, administrative regulations and the regulations of the financial departments of the State Council. A company shall prepare its financial and accounting reports at the end of each fiscal year, which reports shall be audited by accounting firm according to law. The financial and accounting reports shall be prepared in accordance with the laws, administrative regulations and the regulations of the financial departments of the State Council.

Under the PRC Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its financial report 20 days before its shareholders' annual general meeting; a joint stock limited company of which the shares are publicly offered must publish its financial report.

The company shall withdraw 10% of the annual after-tax profits as the statutory reserve fund of the company. Such withdrawal may be stopped when the statutory reserve fund of the company has accumulated to at least 50% of the registered capital of the company. If the statutory reserve fund is insufficient to make up for the losses of the preceding year, the profits of the current year shall first be used to make up for the said losses before any statutory reserve fund is withdrawn as per the preceding paragraph. After statutory reserve fund is withdrawn out of the after-tax profits, discretionary reserve fund may also be withdrawn out of the same as per a resolution made at a shareholders' general meeting. After the joint stock limited company has made up for its losses and made allocations to its discretionary reserve fund, the remaining after-tax profits shall be distributed in proportion to the number of shares held by the shareholders, except for those which are not distributed in a proportionate manner as provided by the articles of association. The company shall not be entitled to any distribution of profits in respect of shares held by it. The reserve fund of a company shall be applied to make up for the company's losses, expand its business operations or transfer to increase its capital. Upon the transfer of the statutory reserve fund into capital, the balance of the fund shall not be less than 25% of the registered capital of the company before such transfer.

Proceeds from shares issued by a joint stock limited company at a price above their nominal value and other revenues required by the financial departments of the State Council to be stated as capital reserve shall be accounted for as the capital reserve fund of the company. However, the capital reserve shall not be used to recover the losses of the company.

The company shall have no accounting books other than the statutory books. The company's assets shall not be deposited in any account opened under the name of an individual.

APPOINTMENT AND DISMISSAL OF ACCOUNTING FIRM

Pursuant to the PRC Company Law, the appointment or dismissal of an accounting firm responsible for the company's auditing shall be determined by shareholders at a shareholders' general meeting or the Board of Directors in accordance with the articles of association. The accounting firm should be allowed to make representations when the shareholders' general meeting or the Board of Directors conduct a vote on the dismissal of the accounting firm.

The company should provide true and complete accounting evidence, accounting books, financial and accounting reports and other accounting information to the engaged accounting firm without any refusal or withholding or falsification of information.

Pursuant to the Mandatory Provisions, an accounting firm appointed by the company shall have the following rights:

(I) to inspect, at any time, the company's account books, records or vouchers, and shall have the right to require the directors, managers or other senior management members to provide relevant data and explanations;

(II) to require the company to take all reasonable measures to obtain documents and explanations from its subsidiaries necessary for the accounting firm to perform its duties;

(III) to attend the shareholders' meetings, get notice of the meetings or other information related to the meetings that any shareholder has the right to receive, and deliver speeches at any shareholders' meeting on matters concerning its role as the accounting firm of the company.

The Special Regulations require a company to engage an independent accounting firm which complies with the relevant national regulations to audit the company's annual reports and to review and check other financial reports of the company. The accounting firm's term of office shall commence from the end of the shareholders' annual general meeting to the end of the next shareholders' annual general meeting.

PROFIT DISTRIBUTION

According to the PRC Company Law, a company shall not distribute profits before losses are covered and the statutory reserve fund is provided.

Pursuant to the Mandatory Provisions, a company shall appoint for holders of overseas listed foreign shares a recipient agent. The recipient agent shall collect on behalf of the shareholders concerned the dividends distributed and other funds payable by the company in respect of the overseas listed foreign shares.

AMENDMENT TO ARTICLES OF ASSOCIATION

Amendments to the articles of association shall be made in accordance with the laws, administrative regulations and procedures stipulated in the articles of association. The amendment to articles of association involving content of the Mandatory Provisions will only be effective upon approval of the department in charge of company examination and approval and the securities regulatory authorities of the State Council, while the amendment to articles of association involving matters of company registration must be registered with the relevant authority in accordance with applicable laws.

DISSOLUTION AND LIQUIDATION

Pursuant to the PRC Company Law, a company shall be dissolved for any of the following reasons:

(I) the term of its operation set out in the articles of association has expired or other events of dissolution specified in the articles of association have occurred;

(II) if the shareholders' general meeting resolves to do so;

(III) the company is dissolved by reason of its merger or division;

(IV) the business license of the company is revoked or the company is ordered to close down or to be dissolved in accordance with the laws;

(V) the company is dissolved by a people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all shareholders of the company, on the grounds that the operation and management of the company has suffered serious difficulties that cannot be resolved through other means, rendering ongoing existence of the company a cause for significant losses to the shareholders.

In the event of item (I) above, the company may carry on its existence by amending its articles of association. The amendments to the articles of association in accordance with the provisions described above shall require the approval of more than two-thirds of voting rights of shareholders attending a shareholders' general meeting.

Where the company is dissolved under the circumstances set forth in items (I), (II), (IV) or (V) above, it should establish a liquidation team to start liquidation within 15 days of the date on which the dissolution matter occurs. The liquidation team of the company shall be composed of directors or any other person determined by a shareholders' general meeting. If no liquidation team is established after the said timeframe, the creditors may apply to the people's court for appointment of relevant persons to establish a liquidation team to commence liquidation. The people's court should accept such application and form a liquidation team to conduct liquidation in a timely manner.

The liquidation team may exercise following powers during the liquidation:

(I) to dispose of the company's property and to prepare a balance sheet and an inventory of property, respectively;

(II) to inform creditors by notice or announcement;

(III) to deal with any outstanding businesses of the company related to liquidation;

(IV) to pay any outstanding tax together with any tax arising during the liquidation process;

(V) to settle the claims and debts;

(VI) to handle the company's remaining property after its debts have been paid off; and

(VII) to represent the company in any civil procedures.

The liquidation team shall notify the creditors within 10 days after its establishment and shall make announcements on newspapers within 60 days. The creditors shall declare their creditor's rights to the liquidation team within 30 days after receipt of the notice or 45 days after announcement if the creditors have not received the notice. During the period of the claim, the creditor shall explain all matters relevant to the creditor's rights he/she has claimed and provide relevant evidential documents. The liquidation team shall register the creditor's rights. The liquidation team shall not make any settlement to creditors during the period of the claim.

Upon disposal of the company's property and preparation of the required balance sheet and inventory of assets, the liquidation team shall draw up a liquidation plan and submit this plan to a shareholders' general meeting or a people's court for endorsement.

The remaining assets of the company, after payment of liquidation expenses, employee wages, social insurance expenses and statutory compensation, outstanding taxes and the company's debts, shall be distributed to shareholders in proportion to shares held by them. The company shall continue to exist during the liquidation period, although it cannot conduct operating activities that are not related to the liquidation. The company's property shall not be distributed to shareholders before repayments are made in accordance with the requirements described above.

Upon liquidation of the company's property and preparation of the required balance sheet and inventory of assets, if the liquidation team becomes aware that the company does not have sufficient assets to meet its liabilities, it must apply to a people's court for a declaration of bankruptcy in accordance with the laws. Following such declaration by the people's court, the liquidation team shall hand over the administration of the liquidation to the people's court.

Upon completion of the liquidation of the company, the liquidation team shall prepare a liquidation report and submit it to the shareholders' general meeting or a people's court for confirmation and the company registration authority to cancel the company's registration, and an announcement of its termination shall be published.

Members of the liquidation team are required to discharge their duties in good faith and perform their obligation of the liquidation in compliance with laws. Members of the liquidation team shall be prohibited from abusing their authority in accepting bribes or other unlawful income and from misappropriating the company's properties. Members of the liquidation team shall assume compensation liability if the company or creditors incur losses as a result of the deliberate or gross default of the said members.

OVERSEAS LISTING

The company should obtain approval from the CSRC prior to listing its shares overseas according to the Special Regulations. Subject to approval of the company's plans to issue overseas listed foreign shares and domestic shares by the CSRC, the Board of Directors of the company may make arrangement to implement such plans for issuance, respectively, within fifteen months from the date of approval by the CSRC. According to the Regulatory Guidelines for the Application Documents and Examination Procedures for the Overseas Share Issuance and Listing by Joint Stock Companies (《關於股份有限公司境外發行股票和上市申報文件及審核程序的監管指引》) promulgated by the CSRC, the approval documents for overseas stock issuance and listing by the company granted by the CSRC shall be valid for a period of 12 months.

SUSPENSION AND TERMINATION OF LISTING

The PRC Company Law has deleted provisions governing suspension and termination of listing. The Securities Law of the People's Republic of China (《中華人民共和國證券法》), or the PRC Securities Law which was promulgated by the SCNPC on December 29, 1998 and took effect on July 1, 1999, and revised on August 28, 2004, October 27, 2005, June 29, 2013, August 31, 2014 and December 28, 2019, respectively, has also deleted provisions regarding suspension of listing. Where listed securities fall under the delisting circumstances stipulated by the stock exchange, the stock exchange shall terminate its listing and trading in accordance with the business rules. Where the stock exchange decides on delisting of securities, it shall promptly announce and file records with the securities regulatory authority of the State Council.

LOSS OF SHARE CERTIFICATES

According to the PRC Company Law, a shareholder may, in accordance with the public notice procedures set out in the PRC Civil Procedure Law, apply to a people's court if his share certificate(s) in registered form is either stolen, lost or destroyed, for a declaration that such certificate(s) will no longer be valid. After the people's court declares that such certificate(s) will no longer be valid, the shareholder may apply to the company for the issue of a replacement certificate(s).

In accordance with the Mandatory Provisions, where shareholders of overseas listed foreign shares lose their shares and apply for re-issuance, the matter may be dealt with in accordance with the laws, the rules of the stock exchange or other relevant provisions of the place where the original register of members of overseas listed foreign shares is kept.

MERGER AND DIVISION

Merger of companies may be conducted by absorption or consolidation. If companies adopt the method of absorption, the absorbed company shall be dissolved. If companies are incorporated in the form of consolidation, the parties to the merger shall be dissolved.

The parties to the merger shall enter into a merger agreement and prepare a balance sheet and a list of properties. Within 10 days of the date on which the resolution on merger is made, the creditors shall be notified by the company and a public announcement shall be made at least third times in the press within 30 days. The creditors may require the company to repay its debts or provide guarantees for covering the debts within 30 days of receipt of the notification or within 45 days of the date of the announcement if he/she/it has not received any notification; and in case of a merger, the credits and debts of the merging parties shall be assumed by the surviving or the new company.

In case of a division, the company's assets shall be divided and a balance sheet and an inventory of assets shall be prepared. Within 10 days of the date on which the resolution on division is made, the creditors shall be notified by the company and a public announcement shall be made at least third times in the press within 30 days. The liabilities of the company which have accrued prior to the division shall be jointly borne by the separated companies, unless otherwise stipulated in the agreement in writing entered into by the company with creditors in respect of the settlement of debts prior to division.

SECURITIES LAWS AND REGULATIONS

The PRC has promulgated a series of regulations that relate to the issue and trading of the shares and disclosure of information. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities related institutions in the PRC and administering the CSRC. The CSRC is the regulatory arm of the Securities Committee and is responsible for the drafting of regulatory provisions governing securities markets, supervising securities companies, regulating public offerings of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking relevant research and analysis. In April 1998, the State Council merged these two departments, thereby reforming the CSRC.

The PRC Securities Law is the first national securities law in China, and the regulatory matters include the issuance and trading of securities, the acquisition of listed companies, information disclosure, obligations and responsibilities of stock exchanges, securities companies and securities regulatory authorities, etc. The PRC Securities Law comprehensively regulates activities in the PRC securities market.

According to the PRC Securities Law, domestic enterprises issuing securities overseas directly or indirectly or listing and trading their securities overseas shall comply with the relevant provisions of the State Council. At present, the issuance and trading of shares (including H shares) issued overseas is mainly regulated by rules and regulations issued by the State Council and the CSRC.

ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

Arbitration Law of the People's Republic of China (《中華人民共和國仲裁法》or the PRC Arbitration Law was promulgated by the Standing Committee of NPC on August 31, 1994, which came into effect on September 1, 1995, and was amended on August 27, 2009 and September 1, 2017. The PRC Arbitration Law provides that an arbitration committee may, before the promulgation of arbitration regulations by the PRC Arbitration Association, formulate interim arbitration rules in accordance with the PRC Arbitration Law and the PRC Civil Procedure Law. Where the parties have agreed to settle disputes by means of arbitration, a people's court will refuse to handle a legal proceeding initiated by one of the parties at such people's court, unless the arbitration agreement is invalid.

According to the Mandatory Provisions, if any disputes or claims in relation to the company's business, with respect to any rights or obligations under the articles of association, the PRC Company Law and other relevant laws and administrative regulations, arise between holders of overseas listed foreign shares and the company, between holders of overseas listed foreign shares and the company's directors, supervisors, managers or other senior management personnel, or between holders of overseas listed foreign shares and holders of domestic shares, the parties concerned shall submit such disputes or claims to arbitration. Disputes with respect to the definition of shareholders and disputes concerning the register of shareholders need not to be resolved by arbitration.

When the aforementioned disputes or claims are submitted to arbitration, such disputes or claims shall be submitted in their entirety, and all persons (being the company, the company's shareholders, directors, supervisors, managers or other senior management personnel) that have a cause of action based on the same grounds or the persons whose participation is necessary for the resolution of such disputes or claims, shall comply with the arbitration.

The applicant for arbitration may choose to be arbitrated either by the China International Economic and Trade Arbitration Commission in accordance with its arbitration rules or the Hong Kong International Arbitration Centre in accordance with its securities arbitration rules. Once the applicant for arbitration submits a dispute or claim to arbitration, the other party must carry out the arbitration at the arbitration institution selected by the applicant. If the arbitration applicant opts for arbitration by the Hong Kong International Arbitration Centre, either party may request arbitration to be conducted in Shenzhen in accordance with the securities arbitration rules of the Hong Kong International Arbitration Centre.

Under the PRC Arbitration Law and PRC Civil Procedure Law, an arbitral award shall be final and binding on the parties involved in the arbitration. If one party fails to implement the award made by an arbitration institution established according to the law, the other party may apply to the people's court having jurisdiction for enforcement.

If the respondent puts forward evidence to prove that the arbitral award is under any of the following circumstances, the award shall not be enforced upon examination and verification by an arbitration tribunal of the people's court:

(I) the parties have no arbitration clause in their contract, nor have subsequently reached a written agreement on arbitration;

(II) the matter to be ruled does not fall within the scope of the arbitration agreement or the arbitration institution has no right to arbitrate;

(III) the composition of the arbitration tribunal or the arbitration procedure violates the legal procedure;

(IV) the evidence on which the award is based is forged;

(V) the other party conceals evidence sufficient to influence the impartial award from the arbitration institution;

(VI) the arbitrators have committed acts of embezzlement, bribery, favoritism and malpractices, or perverting the law in arbitrating the case.

If the people's court determines that the enforcement of the award violates the public interest, the award shall not be enforced.

On December 2, 1986, the SCNPC promulgated the decision on accession to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (《承認及執行外國仲裁裁決公約》), or the New York Convention. The New York Convention provides that all arbitral awards made by a member country of the New York Convention shall be subject to recognition and enforcement by all other member countries of the New York Convention, but in certain circumstances, member countries have the right to refuse enforcement, including recognizing or enforcing the arbitral award is contrary to the public policies of the country.

In the decision on accession to the New York Convention, the SCNPC also stated:

(I) the PRC will only apply the New York Convention to the recognition and enforcement of arbitral awards made in the territory of another contracting state based on the principle of reciprocity;

(II) the PRC will only apply the New York Convention to disputes deemed under PRC law to be arising from contractual or noncontractual mercantile legal relations.

The Arrangements on the Mutual Enforcement of Arbitral Awards between the Mainland and the Hong Kong Special Administrative Region (《關於內地與香港特別行政區相互執行仲裁裁決的安排》), or the Mutual Arrangement were passed at the Judicial Committee meetings of the Supreme People's Court on June 18, 1999, which went into effect on February 1, 2000. Under the Mutual Arrangement, if a party fails to perform the arbitral award rendered in the Chinese Mainland or the Hong Kong Special Administrative Region, the other party may apply for enforcement to the relevant court in the place where the respondent is domiciled or where the property is located.

REGULATIONS ON OVERSEAS INVESTMENT

According to the Measures for the Administration of Overseas Investment of Enterprises (《企業境外投資管理辦法》) promulgated by the NDRC on December 26, 2017 and took effect on March 1, 2018, overseas investment refers to the investment activities in which overseas ownership, control, operation and management rights and other relevant rights and interests are obtained by enterprises in China directly or overseas enterprises controlled by it, in the form of investment in assets, rights and interests or provision of financing and guarantee. When making overseas investment, the investor shall go through the overseas investment project approval, filing and other formalities in accordance with relevant conditions of the overseas investment project.

In accordance with the Administrative Measures for Outbound Investment (《境外投資管理辦法》) issued by the MOFCOM on September 6, 2014 and took effect on October 6, 2014, overseas investment refers to the behavior conducted by an enterprise legally established within the territory of China that owns a non-financial enterprise abroad or obtains the ownership, control, operation and management right and other rights and interests of an existing non-financial enterprise through new establishment, M&A or other means. The MOFCOM and the provincial competent departments of commerce shall be responsible for the administration and supervision of overseas investment. The MOFCOM and the provincial competent departments of commerce shall carry out administration either by record-filing or approval, depending on different circumstances of outbound investment by enterprises. Outbound investment by enterprises that involves sensitive countries and regions or sensitive industries shall be subject to administration by approval. Outbound investment by enterprises that falls under any other circumstances shall be subject to administration by record-filing.

In accordance with the Provisions on the Foreign Exchange Administration of the Overseas Direct Investment of Domestic Institutions (《境內機構境外直接投資外匯管理規定》) promulgated by the SAFE on July 13, 2009 and took effect on August 1, 2009, overseas direct investment means that a domestic institution, approved by the competent overseas direct investment department, establishes enterprises or obtains ownership, control or management rights and other rights and interests of existing enterprises or projects overseas by means of establishment (sole proprietorship, joint venture or cooperation), M&A or equity participation. The SAFE implements the foreign exchange registration and filing system for the overseas direct investment of domestic institutions and the assets and relevant rights and interests thereof.

OVERVIEW

This Appendix contains the summary of the principal provisions of the Articles of Association. The Articles of Association of the Company shall take effect on the date of the H Shares being [**REDACTED**] on the Stock Exchange.

SHARES AND REGISTERED CAPITAL

The Company shall set up ordinary Shares at any time. According to the Company's needs, the Company may create other classes of Shares upon approval from the authorized department of the State Council.

All the shares issued by the Company shall have a par value, which shall be RMB1 for each share.

The Shares of the Company shall be issued in accordance with the principles of openness, fairness and justice. Each share of the same class shall carry the same rights.

Shares of the same class and in the same issue shall be issued on the same conditions and at the same price. Any entity or individual shall pay the same price for each of the Shares it/he/she subscribes for.

INCREASE AND REDUCTION OF CAPITAL AND BUYBACK OF SHARES

Capital Increase

In light of the Company's operational and developmental needs, the Company may increase its capital in accordance with the laws and regulations and subject to relevant requirements of the Article of Association and a resolution of the general meeting, by any of the following methods:

(1) a public offering of shares;

(2) allotment of new shares to existing shareholders;

(3) allotment of bonus shares to existing shareholders;

(4) an offering of new shares to specific investors;

(5) conversion of other reserve to share capital; or

(6) other methods permitted by laws and administrative regulations and approved by relevant competent authorities.

Where the Company increases its capital by issuing new shares upon approval in accordance with the Articles of Association and the listing rules of the place where the Company's shares are listed, it shall be handled in accordance with the procedures stipulated in relevant laws and administrative regulations and the listing rules of the place where the Company's shares are listed.

Reduction of Capital

The Company may reduce its registered capital in accordance with the Articles of Association. If the Company reduces its registered capital, it shall do so by the procedures set forth in the Company Law, other relevant regulations and the Articles of Association.

If the Company is to reduce its registered capital, it must prepare a balance sheet and a list of its property.

The Company shall notify its creditors to reduce its registered capital and publish a public announcement in accordance with the Company Law, and pay its debts or provide a corresponding security for repayment as required by the creditors.

Repurchase of Shares

The Company shall not acquire or sell its shares. However, the Company may, in the following circumstances, buy back its own outstanding shares by the procedures provided for in laws, administrative regulations, departmental rules, the listing rules of the place where the company's shares are listed, and the Articles of Association:

(1) to cancel shares to reduce the registered capital of the Company;

(2) to merge with other companies that hold shares in the Company;

(3) to use the shares for employee shareholding schemes or as share incentives;

(4) to acquire the shares of shareholders (upon their request) who vote against any resolution adopted at any general meetings on the merger or division of the Company;

(5) to use the shares to satisfy the conversion of those corporate bonds convertible into shares issued by the Company;

(6) to safeguard corporate value and shareholders' equity as the Company deems necessary; or

(7) other methods permitted by laws, administrative regulations and listing rules of the stock exchange on which the Company's shares are listed.

Unless the Company is undergoing liquidation, it shall comply with the following provisions in repurchasing its outstanding shares:

(1) for repurchases of shares by the Company at their par value, payment shall be made from the book balance of distributable profit of the Company or from the proceeds of issuance of new shares for that purpose;

(2) where the Company repurchases its shares at a premium to its par value, payment up to the par value shall be made from the book balance of distributable profit of the Company or from the proceeds of issuance of new shares for that purpose. Payment of the portion which is in excess of the par value shall be made as follows:

(i) if the shares being repurchased were issued at par value, payment shall be made from the book balance of distributable profit of the Company;

(ii) if the shares being repurchased were issued at a premium to its par value, payment shall be made from the book balance of distributable profit of the Company and/or the proceeds of issuance of new shares for that purpose, provided that the amount deducted from the proceeds of issuance of new shares shall not exceed the aggregate amount of the premium received by the Company from the issuance of the shares so repurchased, nor shall it exceed the amount in the Company's premium account (or capital reserve fund account) (including premiums on the new share) at the time of such repurchase;

(3) the Company shall make the following payments from the Company's distributable profits:

(i) acquisition of the right to repurchase its own shares;

(ii) modification of any contracts for the repurchase of its shares;

(iii) release from any of its obligations under any repurchase contract; and

(iv) after the aggregate par value of the cancelled shares is deducted from the Company's registered capital in accordance with relevant provisions, the amount deducted from the distributable profit used for the repurchase of the shares at par value shall be credited to the Company's premium account(or capital reserve fund account).

FINANCIAL ASSISTANCE FOR THE PURCHASE OF COMPANY SHARES

Neither the Company nor its subsidiaries shall at any time provide any financial assistance in any form to purchasers or prospective purchasers of shares of the Company. Purchasers of shares of the Company as referred to above shall include persons that directly or indirectly assumes obligations as a result of purchasing shares of the Company.

Neither the Company nor its subsidiaries shall at any time provide any financial assistance in any form to the above obligors in order to reduce or release them from their obligations.

The term "financial assistance" shall include but not be limited to financial assistance in the forms set forth below:

(1) gift;

(2) security (including the assumption of liability or the provision of property by the guarantor to secure the performance of obligations by the obligor), indemnity (excluding, however, indemnity arising from the Company's own fault), release or waiver of any rights;

(3) provision of a loan or conclusion of a contract under which the obligations of the Company are to be fulfilled before the fulfilment of obligations of the other party to the contract, or a change in the parties to, or the assignment of rights under, such loan or contract; and

(4) any other form of financial assistance given by the Company when the Company is insolvent or has no net asset or when its net assets would thereby be reduced to a material extent.

The "assumption of obligations" means the assumption of obligations by way of contract or by way of arrangement (irrespective of whether such contract or arrangement is enforceable or not, and irrespective of whether such obligations are to be borne by the obligor solely or jointly with other persons), or by any other means which results in a change in the obligor's financial condition.

The following acts shall not be prohibited:

(1) the financial assistance provided by the Company is either genuinely for the interests of the Company and the main principal purpose of such financial assistance is not to purchase shares of the Company, or the financial assistance is an incidental part of certain overall plan of the Company;

(2) the lawful distribution of the Company's properties by way of dividends;

(3) the allotment of bonus shares as dividends;

(4) a reduction of registered capital, repurchase of shares or adjustment of the share capital structure effected in accordance with the Articles of Association;

(5) the provision by the Company of a loan within its scope of operation and in the ordinary course of its business (provided that the net assets of the Company are not thereby reduced or that, to the extent that the net assets are thereby reduced, the financial assistance is provided out of its distributable profit);

(6) the provision of funds by the Company for an employee shareholding schemes (provided that the net assets of the Company are not thereby reduced or that, to the extent that the net assets are thereby reduced, the financial assistance is provided out of its distributable profit).

SHARE CERTIFICATES AND REGISTER OF MEMBERS

Share Certificates

The share certificates of the Company shall be in registered form.

The share certificates of the Company shall contain items required by the PRC Company Law and other items required to be specified by the Stock Exchange where the company's shares are listed.

The share certificates shall be signed by the chairman of the Board of Directors of the Company. Where the stock exchange on which the shares of the Company are listed requires the share certificates to be signed by other senior management of the Company, the share certificates shall also be signed by such senior management. The share certificates shall take effect after being affixed or printed with the seal of the Company. The share certificates shall only be affixed with the Company's seal with the authorization of the Board of Directors. The signatures of the chairman of the Board of Directors or other relevant senior management on the share certificates may also be in printed form.

If the Company's shares are issued and traded in paperless form, the regulations of the securities regulator of the place where the shares of the Company are listed shall apply.

Register of Members

The Company shall keep a register of shareholders, in which the following items shall be recorded:

(1) the name (title), address (place of domicile), occupation or nature of business of each shareholder;

(2) the class and number of shares held by each shareholder;

(3) the amount paid-up or payable in respect of shares held by each shareholder;

(4) the serial numbers of the shares held by each shareholder;

(5) the date on which each shareholder was registered as a shareholder;

(6) the date on which any shareholder ceased to be a shareholder.

Unless there is evidence to the contrary, the register of members shall be the sufficient evidence of the shareholders' shareholding in the Company.

The Company may, in accordance with the mutual understanding and agreements made between the CSRC and overseas securities regulatory authorities, keep its register of holders of overseas listed foreign shares outside of the PRC and appoint overseas agent(s) to manage such register. The original register of holders of H shares shall be maintained in Hong Kong.

The Company shall maintain a duplicate of the register of holders of overseas listed foreign shares at its place of domicile. The designated overseas agent(s) shall ensure consistency between the original version and the duplicate register of holders of overseas listed foreign shares at all times. If there is any inconsistency between the original and the duplicate register of holders of overseas listed foreign shares, the original version shall prevail.

The Company shall maintain a complete register of members. The register of members shall include the following parts:

(1) the register of members which is maintained at the Company's place of domicile (other than those share registers which are described in paragraphs (2) and (3) of this Article);

(2) the register of members in respect of the holders of overseas listed foreign shares of the Company which is maintained at the place where the overseas stock exchange on which the shares are listed is located;

(3) the register of members which is maintained in such other place as the Board of Directors may consider necessary for the purpose of listing of the Company's shares.

Different parts of the register of members shall not overlap one another. No transfer of the shares registered in any part of the register shall, during the existence of that registration, be registered in any other part of the register of members.

Alteration or rectification of each part of the register of members shall be made in accordance with the laws of the place where that part of the register of members is maintained.

Within 30 days before the convening of shareholders' general meeting or within 5 days before the benchmark date of the company's decision to distribute dividends, registration of changes to the register of members due to share transfers shall be suspended, unless applicable laws, administrative regulations, department rules, regulatory documents, and relevant stock exchange or regulatory agency of where the Company's shares are listed otherwise specified.

When the Company intends to convene a shareholders' general meeting, distribute dividends, enter into liquidation and engage in other activities that require determination of shareholdings, the Board of Directors shall determine a specific date as equity determination date, registered shareholders at the end of which shall be the shareholders entitled to the relevant rights and interests.

The Hong Kong branch register of shareholders must be available for inspection by shareholders, but the company may be allowed to suspend the registration of shareholders on terms equivalent to section 632 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). Any person who challenges the register of members and requests to have his/her name (title) included in or removed from the register of members may apply to the court having jurisdiction for rectification of the register of members.

Any shareholder who is registered in, or any person who requests to have his name (title) entered into, the register of members may apply to the Company for issuance of a replacement share certificate in respect of such shares if his/her share certificate (the original share certificate) is lost.

The Company shall not have any obligation to indemnify any person for any damage suffered thereby arising out of the cancellation of the original share certificate or the issuance of a replacement share certificate, unless such person concerned can prove fraud on the part of the Company.

RIGHTS AND OBLIGATIONS OF THE SHAREHOLDERS

A shareholder of the Company is a person who lawfully holds shares of the Company and whose name (title) is recorded in the register of members.

A shareholder shall enjoy relevant rights and assume relevant obligations in accordance with the class and number of shares he/she holds. Shareholders holding the same class of shares shall have the same rights and assume the same obligations.

Holders of the ordinary shares of the Company shall enjoy the following rights:

(1) the right to dividends and other distributions in proportion to the number of shares held;

(2) the right to apply for, convene, preside, attend or appoint proxies to attend general meetings and to exercise the corresponding right to speak and vote;

(3) the right to supervise, present proposals or raise enquiries in respect of the Company's business operations;

(4) the right to transfer, give as a gift or pledge the shares it holds in accordance with laws, administrative regulations, the Listing Rules of the Stock Exchange and the Articles of Association;

(5) the right to obtain relevant information in accordance with the Articles of Association, including:

(i) The right to obtain a copy of the Articles of Association, subject to payment of the cost;

(ii) The right to inspect for free and subject to a payment of a reasonable fee, to copy:

A. All parts of the register of members;

B. Personal information of each of the Company's directors, supervisors and senior management, including:

a. present and former name or alias;

b. principal address (place of domicile);

c. nationality;

d. full-time and all other part-time occupations and positions;

e. identity document and its number.

C. the report of the Company's issued share capital;

D. reports showing the aggregate par value, quantity, the maximum and minimum prices paid in respect of each class of shares repurchased by the Company since the end of the last financial year, and the aggregate amount paid by the Company for this purpose(domestic shares and overseas listed foreign shares respectively);

E. corporate bond stubs of the Company, resolutions of the Board of Directors and Board of Supervisors;

F. most recent audited financial statements of the Company, and reports of the Board of Directors, auditors and Board of Supervisors;

G. previous year's annual report/annual return of the Company that has been submitted to the State Administration for Market Regulation or other competent authorities;

H. minutes of general meetings (only the Company's shareholders are entitled to inspect) and special resolutions of the Company.

The Company shall keep the above documents other than those set out in paragraphs B and E at its address in Hong Kong in accordance with the requirements of the Hong Kong Listing Rules, and make such documents available for inspection by the public and the overseas listed foreign shareholders free of charge.

If the contents accessed and copied involve trade secrets, inside information of the Company and personal privacy of relevant personnel, the Company may refuse to provide them.

(6) in the event of the termination or liquidation of the Company, the right to participate in the distribution of the remaining property of the Company in proportion to the number of shares held;

(7) shareholders who object to resolutions of merger or division made by the shareholders' general meeting of may request the Company to purchase their shares;

(8) shareholders who individually or collectively hold more than three (3%) percent of the Company's shares may have the right to propose an interim proposal in writing within 10 days before the shareholders' general meeting and submit it to the Board of Directors;

(9) such other rights conferred by laws, administrative regulations, department rules, Listing Rules of the Stock Exchange and the Articles of Association.

Shareholders of common shares of the Company shall have the following obligations:

(1) to abide by laws, administrative regulations, Listing Rules of the Stock Exchange and the Articles of Association;

(2) to pay the share subscription price based on the shares subscribed for by them and the method of acquiring such shares;

(3) not to abuse shareholders' rights to infringe upon the interests of the Company or other shareholders; not to abuse the Company's status as an independent legal person or the limited liability of shareholders to harm the interests of the Company's creditors;

Any shareholder who abuses shareholders' rights and causes the Company or other shareholders to suffer a loss shall be liable for making compensation in accordance with the law;

Any shareholder who abuses the status of the Company as an independent legal entity or the limited liability of shareholders to evade debts and severely harm the interests of the Company's creditors shall assume joint and several liability for the Company's debts;

(4) to assume other obligations required by laws, administrative regulations, department rules, Listing Rules of the Stock Exchange and the Articles of Association.

Shareholders shall not be liable to make any further contributions to the share capital other than according to the terms agreed by the subscribers at the time of share subscription.

RESTRICTION ON RIGHTS OF THE CONTROLLING SHAREHOLDERS

In addition to obligations imposed by laws, administrative regulations and regulations or required by the Listing Rules of the Stock Exchange, a controlling shareholder of the Company exercises his/her right as a shareholder, he/she shall not exercise his/her voting rights in respect of the following matters in a manner prejudicial to the interests of all or part of the shareholders of the Company:

(1) to waive a director or supervisor of his responsibility to act honestly in the best interests of the Company;

(2) to approve the expropriation by a director or supervisor (for his/her own benefits or for the benefits of another person), in any way, of the Company's properties, including but not limited to any opportunities beneficial to the Company;

(3) to approve the expropriation by a director or supervisor (for his own benefits or for the benefits of another person) of personal rights of other shareholders, including but not limited to rights to distributions and voting rights save pursuant to a corporate restructuring passed at a general meeting in accordance with the Articles of Association.

GENERAL MEETING

General Rules for Convening a General Meeting

The general meeting is the organ of the highest authority of the Company and shall exercise the following functions and powers:

(1) to decide on the operating policies and investment plans of the Company;

(2) to elect and replace directors; and to decide on matters relating to their remuneration;

(3) to elect and replace supervisors who are not employee representatives; and to decide on matters relating to their remuneration;

(4) to review and approve reports of the Board of Directors;

(5) to review and approve reports of the Board of Supervisors;

(6) to review and approve the annual financial budgets and final accounts of the Company;

(7) to review and approve the profit distribution plans and loss recovery plans of the Company;

(8) to adopt resolutions on increasing or reducing the registered capital of the Company;

(9) to adopt resolutions on the issuance of corporate bonds, other securities and their listing;

(10) to adopt resolutions on the merger, division, dissolution, liquidation or change in corporate form of the Company;

(11) to adopt resolutions on the engagement, renewal or non-renewal, or dismissal of the engagement of accounting firms by the Company;

(12) to amend the Articles of Association, the rules of procedures of the general meeting, the Board of Directors and the Board of Supervisors;

(13) to review and approve the purchase or the sale of major assets by the Company, and the provision of guarantee within one year, the amount of which exceeds 30% of the latest audited total assets of the Company (except for guarantees provided to consolidated subsidiaries);

(14) to review proposals raised by a shareholder alone or shareholders jointly holding no less than 3% of the voting shares of the Company;

(15) to review any transactions where the applicable percentage ratios calculated by the Company pursuant to the percentage ratios requirement under Rule 14.07 of the Hong Kong Listing Rules amount to twenty-five percent (25%) or more (including one-off transactions and a series of transactions requiring a combined percentage ratio) or any connected transactions where the applicable percentage rate reaches five percent (5%) or more (including one-off transactions and a series of transactions requiring a combined percentage rate);

(16) to review the Company's equity incentive scheme;

(17) to view other matters that required to be resolved by the general meeting as prescribed by the law, regulations, the Listing Rules of the Stock Exchange and the Articles of Association.

The Company shall not conclude any contract with any person other than a director, a supervisor, senior management whereby such person is put in charge of the management of all or a substantial part of the Company's business without the prior approval of the general meeting.

General meetings include annual general meetings and extraordinary general meetings. In general, general meetings shall be convened by the Board of Directors. Annual general meetings shall be convened once every financial year and within six months after the end of the preceding fiscal year.

The Company shall convene an extraordinary general meeting within two months from the date of the occurrence of any of the following circumstances:

(1) the number of directors is less than the number provided for in the Company Law or less than two-thirds of the number prescribed in the Articles of Association;

(2) the losses of the Company that have not been made up reach one-third of its total paid in share capital;

(3) such is requested in writing by a shareholder alone or shareholders jointly holding no less than 10% of the Company's outstanding voting shares(The number of shares held is calculated based on the number of shares held at the close of the market on the day when the shareholder made a written request. If the day of the written request is a non-trading day, it will be the previous trading day.);

(4) the Board of Directors considers it necessary;

(5) the Board of Supervisors proposes that such a meeting shall be held;

(6) two or more independent non-executive directors propose that such a meeting shall be held;

(7) other circumstances as specified by laws, administrative regulations, department rules and the Listing Rules of the Stock Exchange and the Articles of Association.

A shareholder alone or shareholders jointly holding no less than 10% of the Company's shares on the one-share-one vote basis shall have the right to make a request to the Board of Directors in writing to convene an extraordinary general meeting. If the Board of Directors fails to issue a notice calling the general meeting within 30 days after the receipt of the request, the shareholder alone or shareholders jointly holding no less than 10% of the Company's shares shall have the right to propose to the Board of Supervisors in writing to convene an extraordinary general meeting. If the Board of Supervisors fails to issue a notice calling the general meeting within 30 days, a shareholder who alone or shareholders who jointly holding no less than 10% of the shares of the Company for at least 90 days in succession may within four months after the Board of Directors receive the request himself/herself/themselves convene and preside over such meeting.

Proposals of General Meetings

A shareholder alone or shareholders jointly holding no less than 3% of the voting shares of the Company may submit extempore motions in writing to the convenor 10 days prior to the date of general meeting. The convenor shall issue a supplemental notice of general meeting within 2 days after receipt of the motion, and submit such extempore motion to the general meeting for consideration. The contents of such an extempore motion shall fall within the authority of general meetings.

Except as provided in the preceding paragraph, the convenor, after issuing the notice of the general meeting, shall neither modify the proposals stated in the notice of general meetings nor add new proposals.

Notices of General Meetings

Where a general meeting is convened by the Company, it shall issue a written notice 20 business days prior to the convening of the annual general meeting or 15/10 business days (whichever is longer) prior to the convening of the extraordinary general meeting to notify shareholders. When calculating the starting date, the date of the meeting and issuance of notice shall be excluded. The notice shall include date, time and venue of the meeting and matters to be considered at the meeting and a statement indicating that shareholders is entitled to appoint proxies to attend and vote at such meeting on his/her behalf in writing.

Notice of general meeting shall be served to any shareholder (whether has voting right on general meeting or not) either by hand or by post in a prepaid mail, addressed to such shareholder at his/her/its registered address as shown in the register of members. For holders of domestic shares, the notice of a general meeting may also be given by public announcement.

Convening of General Meetings

Any shareholder entitled to attend and vote at a general meeting shall have the right to appoint 1 or more persons (who may not be a shareholder) as his/her proxies to attend and vote on his/her behalf. Such proxies may exercise the following rights as entrusted by the shareholder. Where a shareholder is a corporation, it may appoint a proxy to attend a shareholders' general meeting. And if a shareholder has appointed a proxy to attend any meeting, he shall be deemed to be present in person:

(1) the shareholder's right to speak at the general meeting;

(2) the right to demand by himself or jointly with others, to vote by way of poll;

(3) the right to vote by show of hands or on a poll, except that if a shareholder has appointed more than 1 proxy, such proxies may only exercise their voting rights on a poll.

Shareholders shall appoint their proxies by written instruments, which shall be signed by the principals or their agents appointed in writing. If the principal is a legal person, the instrument shall be under the seal of the legal person or signed by its director(s) or duly authorized agent(s). Where such shareholder is a Recognized Clearing House (or its nominee) within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), it may authorize one or more persons as it deems fit to act as its representative(s) at any shareholders' general meeting or any class meeting, provided that, if more than one person is so authorized, the power of attorney shall specify the number and class of shares in respect to which person is so authorized. The person so authorized may exercise the rights on behalf of the Recognized Clearing House (or its nominees) as if such person were an individual shareholder of the Company.

The instrument appointing a voting proxy shall be placed at the domicile of the Company or at such other place as specified in the notice of the meeting at least 24 hours before the commencement of the relevant meeting at which the proxy is authorized to vote or 24 hours before the specified time of the vote.

If a general meeting is convened by the board of directors, the chairman of the Board of Directors shall serve as host and preside over the meeting. If the chairman of the Board of Directors fails or is unable to perform his or her duties, the meeting shall be presided over by the director designated by the Board of Directors. If the host of the meeting is not designated, the shareholders attending the meeting may elect one person to serve as the host; if for any reason, the shareholders are unable to elect the host, the shareholder holding the most voting shares (including the shareholder proxies) present at the meeting shall serve as the host of the meeting.

Voting and Resolutions of General Meeting

Resolutions of the general meeting include ordinary resolutions and special resolutions. Ordinary resolution at a general meeting shall be adopted by shareholders in attendance (including proxies) holding more than half of the voting rights. Special resolution at a general meeting shall be adopted by shareholders in attendance (including proxies) holding at least two-thirds of the voting rights.

Shareholders (including proxies) shall exercise their voting rights according to the number of voting shares they represent, with one vote for each share. Shares in the Company which are held by the Company do not carry any voting rights, and shall not be counted in the total number of voting shares represented by shareholders present at a general meeting.

When a poll is taken at a meeting, a shareholder (including his proxy) who has the right to 2 or more votes need not cast all his votes in the same way. When the number of votes for and against a resolution is equal, whether the vote is taken by a show of hands or on a poll, the chairman of the meeting shall be entitled to one additional vote.

Decisions of the general meeting on any of the following matters shall be adopted by special resolution:

(1) the increase or reduction of the registered capital and issuance of any class of shares, warrants or other similar securities by the Company;

(2) the issuance of corporate bonds;

(3) the division, merger, dissolution and liquidation or change in the corporate form of the Company;

(4) the amendment to the Articles of Association;

(5) to review and approve the purchase or the sale of major assets by the Company, and the provision of guarantee within one year, the amount of which exceeds 30% of the latest audited total assets of the Company;

(6) other matters which the laws, administrative regulations or the Articles of Association require to be adopted by special resolutions and which the general meeting considers will have a material impact on the Company and therefore require, by an ordinary resolution, to be adopted by special resolution.

Procedures for Voting by Class Shareholders

Shareholders that hold different classes of shares shall be class shareholders. Class shareholders shall enjoy rights and assume obligations in accordance with the laws, administrative regulations, the listing rules of the place where the Company's shares are listed and the Articles of Association.

The Company shall not proceed to change or abrogate the rights of class shareholders unless such proposed change or abrogation has been approved by way of a special resolution at a general meeting and by a separate shareholder meeting convened by the class shareholders so affected in accordance with the Articles of Association.

The rights of shareholders of a certain class shall be deemed to have been changed or abrogated in the following circumstances:

(1) An increase or decrease in the number of shares of such class or an increase or decrease in the number of shares of a class having voting rights, distribution rights or other privileges equal or superior to those of the shares of such class;

(2) a conversion of all or part of the shares of such class into shares of another class, a conversion of all or part of the shares of another class into shares of such class or the grant of the right to such conversion;

(3) a removal or reduction of rights to accrued dividends or cumulative dividends attached to shares of such class;

(4) a reduction or removal of a dividend preference or property distribution preference during liquidation of the Company, attached to shares of such class;

(5) an addition, removal or reduction of share conversion rights, options, voting rights, transfer rights, pre-emptive rights to rights issues or rights to acquire securities of the Company attached to shares of such class;

(6) a removal or reduction of rights to receive amounts payable by the Company in a particular currency attached to shares of such class;

(7) a creation of a new class of shares with voting rights, distribution rights or other privileges equal or superior to those of the shares of that class;

(8) an imposition of restrictions or additional restrictions on the transfer or ownership of shares of such class;

(9) an issuance of rights to subscribe for, or convert into, shares of such class or another class;

(10) an increase in the rights and privileges of shares of another class;

(11) restructuring of the Company which causes shareholders of different classes to bear liability to different extents during the restructuring;

(12) any amendment or abrogation of the provisions of this section.

Shareholders of the affected class, whether or not having the right to vote at general meeting, shall have the right to vote at class meetings in respect of matters referred to in above paragraphs (2) to (8) and (11) to (12), except that interested shareholders shall not have the right to vote at class meetings.

The term "interested shareholders" in the preceding paragraph shall have the following meanings:

(1) if the Company has made a buyback offer to all shareholders in the same proportion or has bought back its own shares through open market transactions on a stock exchange in accordance with Article 29 of the Articles of Association, the controlling shareholders as defined in the Articles of Association shall be "interested shareholders";

(2) if the Company has bought back its own shares by an agreement outside of a stock exchange in accordance with Article 29 of the Articles of Association, holders of shares in relation to such agreement shall be "interested shareholders";

(3) under a restructuring proposal of the Company, shareholders who will bear liability in a proportion smaller than that of the liability borne by other shareholders of the same class, or shareholders who have an interest in a restructuring proposal of the Company that is different from the interest in such restructuring proposal of other shareholders of the same class shall be "interested shareholders".

The quorum of a class meeting to change or abrogate rights of shareholders of a certain class shall be holder(s) of no less than one-third of the issued shares of such class. Resolutions of a class meeting may be passed only by shareholders present at the class meeting representing no less than two-thirds of the voting rights in accordance with relevant provisions in the Articles of Associations.

When convening a class meeting, the Company shall issue a written notice 15 or 10 business days prior to the convening of the class meeting to notify shareholders. If the regulations where the Company is listed regulates otherwise, such regulations shall prevail.

The procedure according to which class shareholders' meetings are held shall, to the extent possible, be identical to the procedure according to which general meetings are held. Provisions of the Articles of Association relevant to procedures for the holding of general meetings shall be applicable to class shareholders' meetings.

The special procedure for voting by class shareholders shall not apply under the following circumstances:

(1) where the Company issues domestic shares and overseas listed foreign shares, upon approval by a special resolution of the general meeting, either concurrently or separately once every 12 months, and the quantity of domestic investment shares and overseas listed foreign shares intended to be issued does not exceed 20% of the outstanding shares of the respective classes;

(2) where the Company's plan to issue domestic shares and overseas listed foreign shares upon its incorporation is implemented within 15 months from the date of approval by the securities regulatory authorities under the State Council;

(3) where, as approved by the securities regulatory authorities under the State Council and Hong Kong Stock Exchange, the transfer of domestic shares to foreign investors, the conversion of domestic shares of the Company into foreign shares and the listing and trading of such shares on an overseas stock exchange.

DIRECTORS AND BOARD OF DIRECTORS

Directors

Directors shall be elected or replaced at the general meeting and may be removed before the expiry of the term at the general meeting. Every term of a director is 3 years, and upon expiry of the term, a director shall be eligible for re-election and re-appointment.

Subject to the compliance with the relevant laws and administrative regulations, the general meeting may by ordinary resolution remove any director before the expiration of his term of office without prejudice to the director's right as provided in any contracts to claim for damages arising from his removal.

Board of Directors

The Company shall set up a board of directors. The Board of Directors shall consist of 9 directors, including at least 3 independent non-executive directors and accounting for at least one-third of the members of the Board of Directors. The board of directors shall consist of 1 chairman. The chairman shall be elected and removed by more than one-half of all directors. The term of office of the chairman shall be 3 years, renewable upon re-election.

The Board of Directors is accountable to the general meetings and exercise the following functions and powers:

(1) to convene general meetings and report to the general meetings;

(2) to implement resolutions of the general meetings;

(3) to decide on the Company's business plans and investment plans;

(4) to formulate the annual financial budgets and final accounts of the Company;

(5) to formulate the Company's profit distribution plans and plans on making up losses;

(6) to formulate proposals for the increase or reduction of the Company's registered capital, the issuance of bonds or other securities of the Company and listing of shares of the Company;

(7) to formulate plans for the Company's merger, division, dissolution or change of corporate form;

(8) to decide on establishment of internal management organs of the Company;

(9) to decide on the appointment or dismissal of the Company's general manager and secretary to the Board of Directors, company secretary and their remunerations; and to decide on the appointment or dismissal of the Company's deputy general manager, chief financial officer and their remunerations according to the nomination of the general manager;

(10) to formulate the basic management system of the Company;

(11) to formulate proposals to amend the Articles of Association;

(12) to consider and approve (1) all share transactions (including one-off transactions and a series of transactions requiring a combined percentage ratio) where the percentage ratios calculated pursuant to the percentage ratio requirement under Rule 14.07 of the Hong Kong Listing Rules are less than 5% and the consideration includes the shares to be issued for listing, (2) any discloseable transactions (including one-off transactions and a series of transactions requiring a combined percentage ratio) where the applicable percentage ratios are 5% or more but all are less than 25%, or (3) any partially exempt connected transactions and non-exempt connected transactions (including one-off transactions and a series of transactions requiring a combined percentage ratio) where any one of the percentage ratios (other than the profit ratio) calculated pursuant to the percentage ratio requirement under Rule 14.07 of the Hong Kong Listing Rules amounts to 0.1% or more but less than 5%;

(13) to develop the Company's equity incentive scheme;

(14) to manage information disclosure of the Company;

(15) to propose to the general meeting the appointment or replacement of the accounting firm that provides audit service to the Company;

(16) to decide material matters and administrative matters other than those matters required to be decided by the general meeting of the Company in accordance with the PRC Company Law and the Article of Association;

(17) other functions and powers provided for in laws, administrative regulations, department regulations, Listing Rules of the Stock Exchange and the Articles of Association.

Except for the Board of Directors resolutions in respect of the matters specified in paragraphs (6), (7) and (11) which shall be passed by no less than two-thirds of the directors, the Board of Directors resolutions in respect of all other matters set out in the preceding paragraphs may be passed by more than half of the directors.

Meetings of the board of directors may be held only if more than one half of the directors are present. Vote on Board of Directors resolution shall be carried out on the basis of one person one vote.

If any director is associated with the enterprises that are involved in the matters to be resolved at the meeting of the Board of Directors, he or she shall not exercise his or her voting rights for such matters, nor shall such director exercise voting rights on behalf of other directors. Such meeting of the Board of Directors may be held only if more than one half of the directors without a connected relationship are present, and the resolutions made at such a meeting of the Board of Directors shall be passed by more than one half of the directors without a connected relationship. If the number of non-connected directors present at such meeting is less than three, the matter shall be submitted to the general meeting for consideration.

SECRETARY OF THE BOARD

The Company shall have a secretary to the Board of Directors. The secretary to the Board of Directors is a member of the senior management of the Company.

The secretary to the Board of Directors of the Company shall be a natural person with the requisite professional knowledge and experience and shall be appointed by the Board of Directors.

Any accountant from the accounting firm engaged by the Company shall not concurrently serve as the secretary to the Board of Directors of the Company.

BOARD OF SUPERVISORS

The Company shall establish a Board of Supervisors. The Board of Supervisors shall consist of 3 supervisors, one of which shall be the chairman. The term of office of each supervisor shall be a period of 3 years, renewable upon re-election. Any directors, general managers and other senior management shall not act concurrently as supervisors.The Board of Supervisors consists of shareholders' representative supervisors and employee representative supervisors.

The Board of Supervisors shall be accountable to the general meeting and exercise the following functions and powers in accordance with law:

(1) to examine the Company's financial matters;

(2) to supervise the performance by the directors and senior management of their duties to the Company and propose the dismissal of the directors and senior management who violates laws, administrative regulations, Listing Rules of the Stock Exchange, the Articles of Association of the Company or the resolutions of the general meeting;

(3) to demand rectification from the directors and senior management when the acts of such persons are harmful to the Company's interests;

(4) to verify the financial information such as the financial report, business report and plans for distribution of profits to be submitted by the Board of Directors to the general meetings and, should any queries arise, to engage, in the name of the Company, certified public accountants and practising auditors for a re-examination of the aforesaid information;

(5) to propose the convening of extraordinary general meetings; to convene and preside the general meetings in the event that the Board of Directors fails to perform its duties to convene and preside the general meetings;

(6) to submit motion to the general meetings;

(7) to communicate or sue directors and senior management on behalf of the Company in accordance with the Company Law;

(8) to investigate any abnormal matters during the business operation of the Company; if necessary, to engage professionals such as accounting firms or law firms to assist it in exercising its functions and powers with expenses being borne by the Company;

(9) other functions and powers provided by laws, administrative regulations, and the Articles of Association;

Supervisors may attend as a nonvoting delegate at the meeting of the Board of Directors.

GENERAL MANAGER AND OTHER MEMBERS OF THE SENIOR MANAGEMENT

The Company has one general manager, and may set up several deputy general managers as needed, all of whom shall be appointed or dismissed by the Board of Directors.

The general manager shall be accountable to the Board of Directors and exercise the following functions and powers:

(1) to be in charge of the production, operation and management of the Company, to organize the implementation of the resolutions of the Board of Directors, and to report his/her works to the Board of Directors;

(2) to organize the implementation of the Company's annual business plans and investment plans;

(3) to draft plans for the establishment of the Company's internal management organization;

(4) to draft the Company's basic management system;

(5) to formulate the specific rules and regulations of the Company;

(6) to propose to the Board of Directors appointment or dismissal of deputy general manager and chief financial officer of the Company;

(7) to appoint or dismiss management personnel other than those required to be appointed or dismissed by the Board of Directors;

(8) such other functions and powers conferred by the Articles of Association or the Board of Directors.

BORROWING POWER

The Articles of Association do not contain any specific provision regarding the manner in which the Directors may exercise the right to borrow money or the manner in which such a right is given provided that the Board of Directors shall be entitled to formulate proposals for the Company to issue bonds and to list its shares, and that such bond issues must be approved by the shareholders by a special resolution at the shareholders' general meeting.

FINANCIAL AND ACCOUNTING SYSTEMS

The Company shall formulate its financial and accounting systems in accordance with the laws, administrative regulations, the Listing Rules of the Stock Exchange and the PRC accounting standards formulated by relevant state authorities.

The Company shall prepare financial reports at the end of each fiscal year. Such reports shall be audited by an accounting firm in accordance with the law.

The Company shall publish financial reports twice every fiscal year, namely an interim financial report within 60 days after the end of the first six months of the fiscal year and an annual financial report within 120 days after the end of the fiscal year. Notwithstanding the foregoing, if the Listing Rules of the Stock Exchange on which the Company's shares are listed provide otherwise, such listing rules shall prevail.

The financial reports of the Company shall be made available for inspection by shareholders 20 days prior to the convening of an annual general meeting. Each shareholder of the Company shall have the right to obtain a copy of the financial reports referred to in this Chapter.

The company shall send the Board of Directors' report together with the balance sheet (including every document required by law to be attached to the balance sheet) and the income statement or income and expenditure account, or a summary financial report, to each overseas listed foreign shareholder by postage paid mail at least 21 days prior to the general meeting. The addresses of the recipient shall be registered address as shown on the register of members.

The financial statements of the Company shall be prepared not only in accordance with PRC accounting standards and regulations, but also in accordance with international accounting standards or the accounting standards of the place outside the PRC where shares of the Company are listed. If there are major differences in the financial statements prepared in accordance with these two sets of accounting standards, such differences shall be stated in notes appended to such financial statements.

PROFIT DISTRIBUTIONS

The company may use (or use by more than two forms at the same time) cash, share certificate or other method permitted by laws, administrative regulations, department rules or regulatory rules of the place where shares of the Company are listed for distribution of dividends.

The Company shall appoint receiving agents for holders of overseas listed foreign shares to collect on behalf of the relevant shareholders the dividends distributed and other amount payable by the Company in respect of overseas listed foreign shares.

The receiving agents appointed by the Company shall meet the requirements of the laws of the place or the relevant regulations of the stock exchange where the Company's shares are listed.

The receiving agents appointed by the Company for holders of overseas listed foreign shares listed on the Hong Kong Stock Exchange shall be a trust company registered under the Trustee Ordinance of Hong Kong.

Subject to the laws of the PRC, the Company may exercise power to forfeit unclaimed dividends, provided that it does so only in six years after the declaration of the dividends.

The Company has the power to cease sending dividend warrants by post to a given holder of overseas listed foreign shares, provided that such power shall not be exercised until such dividend warrants have been so left uncashed on two consecutive occasions. However, the Company may exercise such power after the first occasion on which such a warrant is returned undelivered.

The Company shall have the power to sell, in such manner as the Board of Directors thinks fit, any shares of a shareholder of overseas listed foreign shares who is untraceable subject to the following conditions:

(1) the Company has distributed dividends at least three times in respect of such shares within 12 years, but none of such dividends was claimed;

(2) the Company has, after the expiration of a period of 12 years, made an announcement on one or more newspapers in the place in which the Company's shares are listed, stating its intention to sell such shares, and notify the securities regulatory authority of the place in which the Company's shares are listed of such intention.

DISSOLUTION AND LIQUIDATION OF THE COMPANY

The Company shall be dissolved and liquidated in accordance with the law under any of the following circumstances:

(1) the term of business operation expires;

(2) the general meeting resolves to dissolve the Company;

(3) dissolution is necessary as a result of the merger or division of the Company;

(4) the Company is declared bankrupt in accordance with law because it is unable to pay its debts as they fall due;

(5) the Company's business license is revoked or it is ordered to close down or it is deregistered according to laws; or

(6) serious difficulties arise in the operation and management of the Company and its continued existence would cause material loss to the interests of the shareholders and such difficulties cannot be resolved through other means, in which case shareholders holding at least 10% of all shareholders' voting rights of the Company may petition a People's Court to dissolve the Company.

Where the Company is dissolved according to the provisions of sub-paragraphs (1), (2), (5) and (6) of the preceding Article, it shall establish a liquidation committee and liquidation shall commence within 15 days from the date on which the cause for dissolution arose. The liquidation committee shall be determined by an ordinary resolution of general meeting. If the Company fails to establish the liquidation committee and carry out the liquidation within the time limit, its creditors may petition a People's Court to designate relevant persons to form a liquidation committee and carry out the liquidation.

Where the Company is to be dissolved voluntarily by a resolution of the shareholders' general meeting, the resolution shall be passed by at least two-thirds (2/3) of the votes held by the shareholders present at the shareholders' general meeting.

If the Company is to be dissolved pursuant to item (5) of the preceding Article, the People's Court shall, in accordance with the provisions of relevant laws, arrange for the shareholders, relevant authorities and relevant professionals to establish a liquidation committee to carry out liquidation.

If the Board of Directors decides that the Company shall be liquidated (except for the liquidation as a result of the Company's declaration of bankruptcy), the notice of the general meeting convened for such purpose shall include a statement to the effect that the Board of Directors has made full inquiry into the conditions of the Company and that the Board of Directors is of the opinion that the Company can pay its debts in full within 12 months after the commencement of the liquidation. The functions and powers of the Board of Directors of the Company shall terminate immediately after the general meeting has passed the resolution to carry out liquidation.

The liquidation committee shall take instructions from the general meeting and shall make a report to the general meeting on the committee's income and expenditure as well as the business of the Company and the progress of the liquidation at least annually. It shall make a final report to the general meeting when the liquidation is completed. The liquidation committee shall notify creditors within 10 days of its establishment, and make announcements on the newspapers designated by the stock exchange where the Company's shares are listed within 60 days of its establishment. Creditors shall declare their claims to the liquidation committee within 30 days from the date of receipt of the written notice or, if they did not receive a written notice, within 45 days from the date of the announcement. When declaring their claims, creditors shall explain the particulars relevant to their claims and submit supporting documentation. The liquidation committee shall register the claims.

After the liquidation committee has liquidated the Company's property and prepared a balance sheet and property list, it shall formulate a liquidation plan and submit such plan to the general meeting or the People's Court for confirmation. The Company's property remaining after payment of the liquidation expenses, the wages, social insurance premiums and statutory compensation of the employees, the taxes owed and all the Company's debts shall be distributed by the Company to the shareholders in proportion to the shares they hold.

During liquidation, the Company shall continue to exist but may not engage in any business activities unrelated to the liquidation. The Company's property will not be distributed to the shareholders until repayment of its debts in accordance with the preceding paragraph.

If the liquidation committee, having liquidated the Company's property and prepared a balance sheet and property list, discovers that the Company's property is insufficient to pay its debts in full, it shall apply to the People's Court for a declaration of bankruptcy in accordance with the law. After the People's Court has ruled to declare the Company bankrupt, the liquidation committee shall turn over the liquidation matters to the People's Court.

Following the completion of liquidation of the Company, the liquidation committee shall formulate a liquidation report, a revenue and expenditure statement and financial accounts in respect of the liquidation period and, after verification thereof by a certified public accountant in China, submit the same to the general meeting or the People's Court for confirmation. Within 30 days from the date of the general meeting's or the People's Court's confirmation, the liquidation committee shall submit the aforementioned documents to the company registration authority to apply for company deregistration, and announce the Company's termination.

AMENDMENT TO THE ARTICLES OF ASSOCIATION

The Company shall amend the Articles of Association in accordance with the laws, administrative regulations and the Articles of Association. Amendments to the Articles of Association shall perform relevant procedures and finish necessary formalities in accordance with relevant laws, administrative regulations and the provisions of the Articles of Association. If an amendment to the Articles of Association involves a registered item of the Company, registration of the change shall be carried out in accordance with the law.

1. FURTHER INFORMATION ABOUT OUR COMPANY

A. Incorporation

On June 11, 2004, the predecessor of our Company, Shanghai Kaka Cosmetic Co., Ltd. (上海卡卡化妝品有限公司), was established as a limited liability company in Shanghai, the PRC, with a registered capital of RMB0.5 million. On June 8, 2015, our Company was renamed as Shanghai Chicmax Cosmetic Co., Ltd. (上海上美化妝品有限公司). On December 24, 2020, our Company was converted into a joint stock company with limited liability and renamed as Shanghai Chicmax Cosmetic Co., Ltd. (上海上美化妝品股份有限公司), with the promoters being Mr. Lyu Yixiong, Hongyin Investment, Nanyin Investment, Shanghai Kans, Mr. Zhang Huai'an, Youngor Investment, Ximei Investment, Shanghai Yingfu, Shanghai Shengyan and Anxin Zhipu Investment.

We have established a place of business in Hong Kong at 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong, and have been registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on January 17, 2022. Mr. Li Kin Wai (李健威) has been appointed as our authorised representative for the acceptance of services of process and notices on behalf of our Company in Hong Kong. Our address for acceptance of service of process in Hong Kong is the same as the address of our principal place of business in Hong Kong.

As we are incorporated in the PRC, we are subject to the relevant laws and regulations of the PRC. A summary of the relevant aspects of laws and regulations of the PRC and our Articles of Association is set out in "Regulatory Overview" of this Document and Appendices V and VI to this Document.

B. Changes in the Share Capital of our Company

On January 25, 2021, the Company completed the SAMR registration in respect of the increase of its registered capital from RMB180 million to RMB360 million.

Upon completion of the [**REDACTED**], without taking into account any H Shares which may be issued pursuant to the [**REDACTED**], our registered share capital will be increased to RMB[**REDACTED**], comprising [**REDACTED**] Domestic Shares and [**REDACTED**] H Shares to be issued and sold under the [**REDACTED**], representing approximately [**REDACTED**], and [**REDACTED**] of our registered capital, respectively.

Save as disclosed above, there has been no alteration in the share capital of our Company during the two years immediately preceding the date of this Document.

C. Resolutions of the Shareholders of our Company dated December 21, 2021

On December 21, 2021, the shareholders of our Company passed, among other things, the following resolutions:

(a) the issue by the Company of H Shares of nominal value of RMB1 each. The amount of the H Shares is no more than [**REDACTED**] of the total share capital as enlarged immediately following the [**REDACTED**] (before the exercise of the [**REDACTED**]);

(b) the granting of the [**REDACTED**] in respect of no more than [**REDACTED**] of the number of H Shares issued as mentioned above;

(c) subject to the completion of the [**REDACTED**], the Articles of Association have been approved and adopted, which shall only become effective from the [**REDACTED**], and the Board and any person authorized by the Board has been authorized to amend the Articles of Association in accordance with any comments from the Stock Exchange and the relevant PRC regulatory authorities; and

(d) approving the Board and any person authorized by the Board to handle all matters relating to, among other things, the issuer of H Shares and the [**REDACTED**] of H Shares on the Stock Exchange.

D. Conversion

In preparation of the [**REDACTED**], we underwent the Conversion, details of which are set out in "History, Conversion and Corporate Structure – Corporate Development – Subsequent Capital Increase and Equity Transfer – Conversion" in this Document. Our PRC legal advisors, Commerce & Finance Law Offices, has confirmed that the Conversion was legally and duly completed, and that we have obtained all necessary approvals from relevant PRC regulatory authorities required for the Conversion.

E. Subsidiaries of Our Company

(a) Subsidiaries

Certain details of our principal subsidiaries are set forth in the Accountant's Report in Appendix I to this Document.

(b) Changes in the share capital of our subsidiaries

The following changes in the share capital of our subsidiaries took place during the two years immediately preceding the date of this Document:

Nippon Shuichi Cosmetics Co., Ltd. (日本秀一化妝品株式會社)

- On December 31, 2020 the share capital of Nippon Shuichi decreased from JPY434.85 million to JPY80 million.

- On April 15, 2022, the share capital of Nippon Shuichi increased from JPY80 million to JPY475.6 million.

- On December 1, 2022, the share capital of Nippon Shuichi decreased from JPY475.6 million to JPY80 million.

Shanghai Aoye Cosmetic Co., Ltd. (上海澳葉化妝品有限公司)

- On January 11, 2021, the registered share capital of Shanghai Aoye Cosmetic Co., Ltd. (上海澳葉化妝品有限公司) increased from RMB0.6 million to RMB1 million.

Shanghai Maiba Network Technology Co., Ltd. (上海麥叭網絡科技有限公司)

- On April 8, 2021, the registered share capital of Shanghai Maiba Network Technology Co., Ltd. (上海麥叭網絡科技有限公司) increased from RMB0.3 million to RMB1 million.

Shanghai Leading Investment Co., Ltd. (上海潮尚投資有限公司)

- On August 17, 2021, the registered capital of Leading Investment increased from RMB100 million to RMB200 million.

Shanghai Asnami Cosmetic Co., Ltd. (上海安彌兒化妝品有限公司)

- On September 14, 2021, the registered share capital of Shanghai Asnami Cosmetic Co., Ltd. (上海安彌兒化妝品有限公司) increased from RMB5 million to RMB10 million.

Shanghai Qingdao Enterprise Management Co., Ltd. (上海青道企業管理有限公司)

- On November 3, 2021, the registered share capital Shanghai Qingdao Enterprise Management Co., Ltd. (上海青道企業管理有限公司) increased from RMB1 million to RMB15.3 million.

Save as disclosed above, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this Document.

2. FURTHER INFORMATION ABOUT OUR BUSINESS

A. Summary of Our Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years preceding the date of this Document which are or may be material, and a copy of each has been published on the Exchange's website and our Company's own website:

(a) the promoter's agreement dated December 1, 2020 entered into among Mr. Lyu Yixiong (呂義雄), Shanghai Hongyin Investment Co., Ltd. (上海紅印投資有限公司), Shanghai Nanyin Investment Co., Ltd. (上海南印投資有限公司), Shanghai Kans Cosmetics Co., Ltd. (上海韓束化妝品有限公司) (currently renamed as Shanghai Kans Enterprise Management Co., Ltd. (上海韓束企業管理有限公司)), Mr. Zhang Huai'an (張懷安), Youngor Investment Co., Ltd. (雅戈爾投資有限公司), Shanghai Ximei Investment Center (Limited Partnership) (上海希美投資中心(有限合夥)), Shanghai Yingfu Enterprise Management Partnership (Limited Partnership) (上海盈輔企業管理合夥企業(有限合夥)), Shanghai Shengyan Business Management Centre (上海盛顏商務管理中心), and Shenzen Anxin Zhipu Investment Consulting Partnership (Limited Partnership) (深圳安信智普投資諮詢合夥企業(有限合夥)), pursuant to which our Company was converted into a joint stock company with limited liability;

(b) the second supplemental agreement to the capital increase agreement dated May 11, 2021 entered into among Shanghai Ximei Investment Center (Limited Partnership) (上海希美投資中心(有限合夥)), Mr. Lyu Yixiong (呂義雄), Shanghai Kans Cosmetics Co., Ltd. (上海韓束化妝品有限公司) (currently renamed as Shanghai Kans Enterprise Management Co., Ltd. (上海韓束企業管理有限公司)) and our Company, pursuant to which the rights and obligations of our Company under the supplemental agreement to the capital increase agreement shall be terminated immediately upon the signing of the second supplemental agreement to the capital increase agreement;

(c) the third supplemental agreement to the capital increase agreement dated December 10, 2021 entered into among Shanghai Ximei Investment Center (Limited Partnership) (上海希美投資中心(有限合夥)) ("**Ximei Investment**"), Mr. Lyu Yixiong (呂義雄), Shanghai Kans Cosmetics Co., Ltd. (上海韓束化妝品有限公司) (currently renamed as Shanghai Kans Enterprise Management Co., Ltd. (上海韓束企業管理有限公司)) and our Company, pursuant to which the customary special rights granted to Ximei Investment, including but not limited to anti-dilution rights, redemption rights and liquidation preferences, shall lapse or be terminated upon the submission of the application documents for the [**REDACTED**] to the China Securities Regulatory Commission and shall become effective immediately in the event that the application for [**REDACTED**] is rejected, denied or refused or approval for [**REDACTED**] is not granted; and

(d) the [**REDACTED**].

B. Intellectual Property Rights

(a) Patents

As of the Latest Practicable Date, our Group has the following patents which are considered by us to be or may be material to our business:

No.	Parent Owner	Type	Patent	Patent No.	Application Date	Grant Date
1	Suzhou Industrial Park Lizi Cosmetic Co., Ltd.	Invention patent	4-(1-phenylethyl)-1,3-dihydroxybenzene liposome and its preparation method (4-(1-苯乙基)-1,3-二羥基苯脂質體及其製備方法)	2009100455129	January 19, 2009	June 22, 2011
2	Shanghai Zhongyi	Invention patent	A composite whitening agent nanostructured lipid carrier and its preparation method (一種複合美白劑納米結構脂質載體及其製備方法)	201310199916X	May 24, 2013	April 9, 2014

No.	Parent Owner	Type	Patent	Patent No.	Application Date	Grant Date
3	Shanghai Zhongyi	Invention patent	A natural flower petal and the cosmetic product using the natural flower petal (一種天然花瓣和採用該天然花瓣的化妝品)	2013101992989	May 24, 2013	May 21, 2014
4	Shanghai Zhongyi	Invention patent	A self-foaming serum and its preparation method (一種自發泡精華液及其製備方法)	2015100919557	March 2, 2015	December 1, 2017
5	Shanghai Zhongyi	Invention patent	A self-foaming sunscreen cream and its preparation method (一種自發泡防曬乳及其製備方法)	2015100921415	March 2, 2015	December 1, 2017
6	Shanghai Zhongyi	Invention patent	A preparation method of compound mystery fruit leaf extract and its application (一種複方神秘果葉提取物的製備方法及其應用)	2015106385074	September 29, 2015	February 22, 2017
7	Shanghai Zhongyi	Invention patent	Astragalus submicron lipid plasmid and its preparation method (紫檀芪亞微米脂質粒及其製備方法)	2014106404070	November 13, 2014	January 12, 2018
8	Shanghai Zhongyi	Invention patent	A self-foaming foundation and its preparation method (一種自發泡粉底及其製備方法)	2015100919542	March 2, 2015	January 5, 2018
9	Shanghai Zhongyi	Invention patent	Soothing and anti-irritant herbal compositions for external use and their preparation method (具有舒敏抗刺激功效的外用中藥組合物及其製備方法)	2015101988145	April 21, 2015	April 3, 2018

No.	Parent Owner	Type	Patent	Patent No.	Application Date	Grant Date
10	Shanghai Zhongyi	Invention patent	A self-foaming cosmetic composition and its preparation method (一種自發泡化妝品組合物及其製備方法)	2015100921608	March 2, 2015	May 4, 2018
11	Shanghai Zhongyi	Invention patent	A self-foaming cream and its preparation method (一種自發泡膏霜及其製備方法)	2015100921970	March 2, 2015	May 4, 2018
12	Shanghai Zhongyi	Invention patent	Mascara containing foaming agent and its preparation method (一種含有發泡劑的睫毛膏及其製備方法)	2015100922530	March 2, 2015	June 19, 2018
13	Shanghai Zhongyi	Invention patent	A composition containing tremella fuciformis extract and its application in personal care products (一種含有銀耳提取物的組合物及在個人護理品中的應用)	201710637437X	July 31, 2017	June 22, 2018
14	Shanghai Zhongyi	Invention patent	A whitening and brightening combination and its preparation method (一種美白提亮組合及其製備方法)	2017106375160	July 31, 2017	July 10, 2018
15	Shanghai Zhongyi	Invention patent	Bread-type multi-pore polyurethane foam (麵包型多孔聚氨酯泡沫)	2015100518034	January 30, 2015	August 28, 2018
16	Shanghai Zhongyi	Invention patent	An oil-water double-layer makeup remover and its preparation method (一種油水雙層卸妝液及其製備方法)	2018100408447	January 16, 2018	April 5, 2019

No.	Parent Owner	Type	Patent	Patent No.	Application Date	Grant Date
17	Shanghai Zhongyi	Invention patent	A relatively mild, clear soap-based cleansing formulation (一種相對溫和的透明皂基清潔製劑)	2017106495139	August 2, 2017	November 19, 2019
18	Shanghai Zhongyi	Invention patent	A water-in-oil type solid foundation cream and its preparation method (一種油包水型固態粉底膏及其製備方法)	2018102876136	April 3, 2018	May 11, 2021
19	Shanghai Zhongyi	Invention patent	Use of a combined fermentation product of the thermophilic bacterial and yeast (一種嗜熱棲熱菌和酵母組合發酵產物的用途)	2018103583185	April 20, 2018	September 27, 2019
20	Shanghai Zhongyi	Invention patent	A suspension oil bead makeup containing sucrose acetate isobutyrate and its preparation method (一種含有乙酸異丁酸蔗糖酯的懸浮油珠化妝水及其製備方法)	2018105365359	May 30, 2018	May 11, 2021
21	Shanghai Zhongyi	Invention patent	Discoloration inhibiting composition, external preparation for skin and application (抑制變色組合物、皮膚外用製劑及應用)	2018113894405	November 21, 2018	February 11, 2022
22	Shanghai Zhongyi	Invention patent	A cleaning preparation that can stabilize high-concentration adenosine and its preparation method (一種可以穩定高濃度腺苷的清潔製劑及其製備方法)	2019101259336	February 20, 2019	January 7, 2022
23	Shanghai Zhongyi	Invention patent	A cosmetic reagent (一種化妝品試劑)	2019111321155	November 19, 2019	August 19, 2022

No.	Parent Owner	Type	Patent	Patent No.	Application Date	Grant Date
24	Shanghai Zhongyi	Invention patent	A massage ointment and its preparation method (一種按摩油膏及其製備方法)	2020102535529	April 2, 2020	June 14, 2022
25	Shanghai Zhongyi	Invention patent	A pectin mask and its preparation method (一種果膠面膜及其製備方法)	2020111169856	October 19, 2020	August 23, 2022
26	Shanghai Zhongyi	Invention patent (in Japan)	Use of a combined fermentation product of the thermophilic bacterial and yeast (一種嗜熱棲熱菌和酵母菌組合發酵產物的用途)	6793692	August 9, 2018	November 12, 2020

(b) Trademarks

As of the Latest Practicable Date, the following trademarks have been registered in the name of the relevant member of our Group which are considered by us to be or may be material to our business:

No.	Trademark Registrant	Trademark	Registration Number	Place of Registration	Class	Valid Period
1	Shanghai Chicmax	CHICMAX	51599800	PRC	3	August 14, 2021 – August 13, 2031
2	Shanghai Chicmax	上美	16895816	PRC	3	October 28, 2016 – October 27, 2026
3	Shanghai Chicmax	K	26156559	PRC	3	August 21, 2018 – August 20, 2028
4	Shanghai Chicmax	KANS	24855696	PRC	3	June 21, 2018 – June 20, 2028
5	Shanghai Chicmax	KANS 韩束	18499171	PRC	3	January 14, 2017 – January 13, 2027
6	Shanghai Chicmax	韩束	3584042	PRC	3	June 28, 2015 – June 27, 2025
7	Shanghai Chicmax	One leaf	15186300	PRC	3	October 21, 2015 – October 20, 2025

No.	Trademark Registrant	Trademark	Registration Number	Place of Registration	Class	Valid Period
8	Shanghai Chicmax	One leaf 一叶子	18793399	PRC	3	May 21, 2017 – May 20, 2027
9	Shanghai Chicmax	一叶子	15186211	PRC	3	December 7, 2015 – December 6, 2025
10	Shanghai Chicmax	一叶子	26557327	PRC	3	October 21, 2018 – October 20, 2028
11	Shanghai Chicmax	Baby elephant	38190757	PRC	3	April 21, 2020 – April 20, 2030
12	Shanghai Chicmax	Baby elephant	20305714	PRC	3	July 28, 2019 – July 27, 2029
13	Shanghai Chicmax	Baby elephant 红色小象	18516465	PRC	3	November 7, 2017 – November 6, 2027
14	Shanghai Chicmax	BiO-G 高肌能	38802735	PRC	3	February 7, 2021 – February 6, 2031
15	Shanghai Chicmax	KYOCA	23768936	PRC	3	April 14, 2018 – April 13, 2028
16	Shanghai Chicmax	極方	25542599	PRC	3	July 28, 2018 – July 27, 2028
17	Shanghai Chicmax	newpage	50881944	PRC	3	September 7, 2021 – September 6, 2031
18	Shanghai Yiye	一页	15491508	PRC	3	November 28, 2015 – November 27, 2025
19	Shanghai KPC	安敏优	27429177	PRC	3	October 21, 2018 – October 20, 2028
20	Shanghai KPC	ARMIYO 安敏优	45819203	PRC	3	January 7, 2021 – January 6, 2031
21	Shanghai Asnami		27907749	PRC	3	November 14, 2018 – November 13, 2028
22	Shanghai Asnami	安弥儿	30514537	PRC	3	February 14, 2019 – February 13, 2029
23	Shanghai Asnami	asnami	30620275	PRC	3	February 14, 2019 – February 13, 2029
24	Shanghai Chicmax	KanS	302922110	Hong Kong	3	March 12, 2014 – March 11, 2024

No.	Trademark Registrant	Trademark	Registration Number	Place of Registration	Class	Valid Period
25	Shanghai Chicmax	韩束	303216519	Hong Kong	3	November 27, 2014 – November 26, 2024
26	Shanghai Chicmax	One leaf 一叶子	303220749	Hong Kong	3	December 2, 2014 – December 1, 2024
27	Shanghai Chicmax	Baby elephant 红色小象	303501639	Hong Kong	3	August 11, 2015 – August 10, 2025
28	Shanghai Chicmax	CHICMAX	305727088	Hong Kong	3	August 24, 2021 – August 23, 2031
29	Shanghai Chicmax	CHICMAX	305727079	Hong Kong	35	August 24, 2021 – August 23, 2031
30	Shanghai Chicmax	上美	305727105	Hong Kong	3	August 24, 2021 – August 23, 2031
31	Shanghai Chicmax	上美	305727097	Hong Kong	35	August 24, 2021 – August 23, 2031

The class number represents the specifications of products or services which have already been applied for or registered. Detailed specifications of the products or services represented by that class number are set out in the relevant [**REDACTED**] or registration certificates.

(c) Domain Name

As of the Latest Practicable Date, the following domain names have been registered in the name of the relevant member of our Group which are considered by us to be or may be material to our business:

No.	Domain Name	Registered Owner	Effective Period
1	www.chicmaxgroup.com	Shanghai Chicmax	July 22, 2016 – July 22, 2023
2	www.chicmax.net	Shanghai Chicmax	November 4, 2015 – November 4, 2023
3	www.chicmaximage.com	Shanghai Chicmax	July 8, 2021 – July 8, 2023
4	www.kans.cn	Shanghai Chicmax	May 24, 2004 – May 24, 2023
5	www.oneleafchina.com	Shanghai Chicmax	July 22, 2014 – July 22, 2023
6	www.baby-elephant.cn	Shanghai Chicmax	June 26, 2015 – June 26, 2023

No.	Domain Name	Registered Owner	Effective Period
7	www.hondo-china.com	Shanghai Hongdao	January 11, 2019 – January 11, 2023
8	www.hondo-cosmetic.com	Shanghai Hongdao	January 11, 2019 – January 11, 2023
9	www.shuichi.co	Shanghai Zhongyi	June 10, 2020 – June 10, 2023

3. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUPERVISORS

A. Particulars of Directors' and Supervisors' Contracts

Each of the Directors and Supervisors entered into a service contract or appointment letter with our Company. The principal particulars of these service contracts and appointment letters comprise (i) the terms of the service and (ii) termination provisions in accordance with their respective terms. The service contracts and appointment letters may be renewed in accordance with our Articles of Association and the applicable laws, rules and regulations.

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, we have entered into a contract with each of our Directors and Supervisors in respect of, among other things, (i) the compliance of relevant laws and regulations, (ii) compliance with the Articles of Association, and (iii) the provision on arbitration.

Save as disclosed above, none of our Directors or Supervisors has or is proposed to have a service contract with any of our Group (other than contracts expiring or determinable by the relevant employer within one year without the payment of compensation (other than statutory compensation)).

B. Directors' and Supervisors' Remuneration

The aggregate amount of remuneration paid to our Directors and Supervisors (including salaries, allowances and benefits in kind, pension scheme contributions, performance-related bonuses and share-based payment) for each of the years ended December 31, 2019, 2020, 2021, and the six months ended June 30, 2022 were approximately RMB13,067,448.27, RMB54,100,300.97, RMB16,246,940.64, and RMB4,334,663.62, respectively.

For each of the years ended December 31, 2019, 2020, 2021, and the six months ended June 30, 2022 the aggregate amount of salaries, allowances and benefits in kind, pension scheme contributions, performance-related bonuses and share-based payment paid to the five highest-paid individuals of our Group were approximately RMB11,536,591.51, RMB53,143,445.43, RMB30,947,549.51, and RMB3,785,371.48, respectively.

It is estimated that under the arrangements currently in force, the aggregate amounts of remuneration payable by our Company to our Directors and Supervisors for the year ending December 31, 2022 is approximately RMB6,228,568 (excluding any discretionary bonus).

There is no arrangement under which any Director or Supervisor has waived or agreed to waive any remuneration of benefits in kind during the Track Record Period.

4. DISCLOSURE OF INTERESTS

A. Substantial Shareholders

For information on the persons (other than our Directors, Supervisors and chief executive of the Company) who will, immediately following the completion of the **[REDACTED]**, have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at general meetings of our Company, please see below:

			As of the Latest Practicable Date		Immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised)		
Name of Substantial Shareholder	Class of Shares to be held after the [REDACTED]	Nature of Interest	Number of Shares	Approximate percentage in the Company	Number of Shares	Approximate percentage in the relevant class of Shares of the Company	Approximate percentage in the Company
Mr. Lyu Yixiong	Domestic shares	Beneficial interest	147,440,000(L)	40.96%	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
	H shares		–	–	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
	Domestic Shares	Interest in controlled corporation[(2)]	181,112,560(L)	50.31%	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
	H shares		–	–	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Hongyin Investment	Domestic Shares	Beneficial interest	108,000,000(L)	30.00%	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
	H shares		–	–	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Nanyin Investment	Domestic Shares	Beneficial interest	60,880,000(L)	16.91%	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
	H shares		–	–	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

Notes:

(1) (L) denotes long position.

(2) As at the Latest Practicable Date, Mr. Lyu Yixiong holds 93.33% equity interest in Hongyin Investment, 83.74% equity interest in Nanyin Investment, and the entire equity interest in Shanghai Kans and Shanghai Shengyan. Therefore, Mr. Lyu Yixiong is deemed to be interested in the shares held by Hongyin Investment, Nanyin Investment, Shanghai Kans and Shanghai Shengyan.

Save as disclosed above, so far as our Directors, Supervisors, and chief executives of our Company are not aware of any person, not being a Director, Supervisor, and chief executive of our Company, who has an interest or short position in the Shares and underlying Shares of Our Group which, once our H Shares are [**REDACTED**], would have to be disclosed to us under the provisions of Division 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Group.

B. Directors, Supervisors or Chief Executives

Save as disclosed above in "– 4. Disclosure of Interests – A. Substantial Shareholders" in this section, immediately following completion of the [**REDACTED**] (and assuming the [**REDACTED**] is not exercised), none of our Directors, Supervisors or chief executive of the Company has any interest and/or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which has been taken or is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors).

C. Disclaimers

Save as disclosed in this Document:

(a) none of our Directors, Supervisors or chief executive of Our Company has any interests and short positions in the shares, underlying shares and debentures of Our Company or any associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to us and the Stock Exchange, in each case once our Shares are [**REDACTED**]. For this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors;

(b) none of our Directors or Supervisors is a director or employee of a company which is expected to have an interest in the Shares falling to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO once our Shares are [**REDACTED**] on the Stock Exchange;

(c) none of our Directors or Supervisor nor any of the parties listed in "– 6. Other Information – G. Qualification of Experts" of this Appendix is materially interested in any contract or arrangement subsisting at the date of this Document which is significant in relation to our business;

(d) none of our Directors or Supervisor nor any of the parties listed in "– 6. Other Information – G. Qualification of Experts" of this Appendix is interested in our promotion, or in any assets which have, within two years immediately preceding the issue of this Document, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to our Company;

(e) none of the parties listed in the paragraph headed "– 6. Other Information – G. Qualification of Experts" of this Appendix: (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities; and

(f) save as disclosed in the section headed "Business" in this document, none of our Directors or Supervisors or their respective associates or any Shareholders of our Company (who to the knowledge of our Directors owns more than 5% of our issued share capital) has any interest in our five largest suppliers or our five largest customers.

5. EMPLOYEE SHARE OWNERSHIP PLAN

We have established an employee share ownership plan ("**ESOP**") since 2016 to attract and retain the talents, to provide incentives that align the interests of shareholders, the Company and employees, and to facilitate the long-term development of the Company. The terms of the ESOP are not subject to the provisions of Chapter 17 of the Listing Rules. The following is a summary of the principal terms of the ESOP.

As of the Latest Practicable Date, all the Shares underlying the ESOP have been issued and granted, and to the extent that there is any change to the grants under the ESOP after the [**REDACTED**], the Company will comply with the applicable Listing Rules (including the requirements under Chapter 14A of the Listing Rules applicable to grants to connected persons, if any).

(a) ESOP Platforms

There are three employee share ownership platforms (the "**ESOP Platforms**") for the ESOP, namely (i) Hongyin Investment, (ii) Nanyin Investment and (iii) Shanghai Chengyin.

As of the Latest Practicable Date, Hongyin Investment and Nanyin Investment holds 30.00% and 16.91% equity interest in the Company, respectively, and Shanghai Chengyin holds 5% equity interest in Nanyin Investment.

Participants of the ESOP (the "**ESOP Participants**" and each an "**ESOP Participant**") shall indirectly hold equity interest in the Company through holding shares of Hongyin Investment, Nanyin Investment or Shanghai Chengyin transferred by Mr. Lyu Yixiong pursuant to the ESOP.

Set out below is the shareholding structure of the ESOP platforms as of the Latest Practicable Date:

- ***Hongyin Investment**:* Hongyin Investment is a limited liability company incorporated under the laws of the PRC on February 11, 2015 and is an incentive platform for employees of our Group who hold shares in Hongyin Investment. Hongyin Investment is held by (i) Mr. Lyu Yixiong, our executive Director, as to 93.33%, (ii) Ms. Luo Yan (羅燕), our executive Director, as to 1.67%. The remaining 2% and 3% equity interests in Hongyin Investment are held by three employees of the Group and three former employees of the Group, respectively.

- ***Nanyin Investment**:* Nanyin Investment is a limited liability company incorporated in the PRC on February 11, 2015 and is an incentive platform for employees of our Group who hold shares in Nanyin Investment. Nanyin Investment is held by (i) Mr. Lyu Yixiong, our executive Director, as to 83.74%, (ii) Mr. Feng Yifeng (馮一峰), our executive Director, as to 1.77%, (iii) Ms. Song Yang (宋洋), our executive Director, as to 1.77%, (iv) Mr. Li Tao (李濤), Ms. Shi Tenghua (施滕花), Ms. Cao Ying (曹瑛), our Supervisors, as to 0.059%, 0.59% and 0.18%, respectively, and (v) Shanghai Chengyin, another incentive platform, as to 5%. The remaining 3.99%, 1.89% and 1% equity interests in Nanyin Investment are held by 17 employees of the Group, 2 former employees of the Group, and Ms. Lyu Lichun (呂麗純), a sibling of Mr. Lyu Yixiong, respectively.

- ***Shanghai Chengyin**:* Shanghai Chengyin is a limited liability company incorporated in the PRC on February 8, 2021 and is an incentive platform for employees of our Group who hold shares in Shanghai Chengyin. Shanghai Chengyin is held by Mr. Lyu Yixiong, our executive Director, as to 76.34%, and the remaining 22.48% and 1.18% equity interests in Shanghai Chengyin is held by 19 employees of the Group and 1 former employee of the Group, respectively.

The specific terms and conditions of the ESOP for each ESOP Participant is subject to the agreement entered into between (i) the relevant ESOP Platforms (ii) Mr. Lyu Yixiong and (iii) the relevant ESOP Participants.

(b) Shares and Share Price Granted under the ESOP

On July 20, 2016, respective agreements were entered into between Hongyin Investment, Mr. Lyu Yixiong and the relevant ESOP Participants, pursuant to which the relevant equity interest in Hongyin Investment was transferred to eligible grantees in their capacity as employees of the Group. The price per share granted to each ESOP Participant under the ESOP is RMB1.00 and each ESOP Participant shall pay the relevant price to Mr. Lyu Yixiong on the date of transfer. Depending on the clauses of each agreement, some of the ESOP Participants are not allowed to transfer or in any way dispose of the shares for a period of four (4) or five (5) years commencing on the date when the registration of the transfer of equity interest is completed.

Between March 2021 and July 2022, respective agreements were entered into between Nanyin Investment or Shanghai Chengyin (as the case may be), Mr. Lyu Yixiong and the relevant ESOP Participants, pursuant to which the relevant equity interest in Nanyin Investment or Shanghai Chengyin was transferred to eligible grantees in their capacity as employees of the Group. The price per share granted to each ESOP Participant under the ESOP is RMB1.00 and each ESOP Participant shall pay the relevant price to Mr. Lyu Yixiong on the date of transfer of the equity interest. Depending on the clauses of each agreement, some of the ESOP Participants are not allowed to transfer or in any way dispose of the shares for a period of four (4) years commencing on January 1, 2021 or for a period of two and a half (2.5) years or four (4) years commencing on July 1, 2022, respectively.

As all the underlying shares of the ESOP have been issued and held by Hongyin Investment and Nanyin Investment, the ESOP will not cause any dilution of the shareholding of our Shareholders, including Mr. Lyu Yixiong, immediately after the [**REDACTED**]. For further details on the interest of our persons and employees connected granted under the ESOP, see "Statutory and General Information – 5. Employee Share Ownership Plan – (a) ESOP Platforms".

(c) Repurchase of Shares Granted

Under the following circumstances, Mr. Lyu Yixiong has the right to purchase the shares transferred under the ESOP at the grant price of RMB1.00 per share:

(i) the termination of the ESOP Participant's employment relationship with the Company or any of its subsidiaries for any reasons during the share transfer restriction period (if any) as specified in the agreements entered into between the relevant ESOP Platforms, Mr. Lyu Yixiong and the relevant ESOP Participants;

(ii) the transfer, disposal, or pledge of the shares by the ESOP Participant during the share transfer restriction period (if any) as specified in the agreements entered into between the relevant ESOP Platforms, Mr. Lyu Yixiong and the relevant ESOP Participants without the approval of the relevant ESOP Platforms; or

(iii) any violation of law, breach of professional ethics, confidential information leakage, corruption or other malpractices of the ESOP Participant.

6. OTHER INFORMATION

A. Estate Duty

We have been advised that no material liability for estate duty under the PRC law is likely to fall upon our Company or any member of our Group.

B. Litigation

As of the Latest Practicable Date, save as disclosed in this Document, we were not involved in any material litigation, arbitration or administrative proceedings, and so far as our Directors are aware, no such material litigation, arbitration or administrative proceedings are pending or threatened against any member of our Group.

C. Joint Sponsors

Each of the Joint Sponsors has declared its independence pursuant to Rule 3A.07 of the Listing Rules.

The Joint Sponsors have made an application on our behalf to the Listing Committee for [**REDACTED**] of, and [**REDACTED**] to deal in, our H Shares, including any [**REDACTED**] which may be issued pursuant to the exercise of the [**REDACTED**]. All necessary arrangements have been made to enable the H Shares to be admitted into CCASS.

We have entered into an engagement agreement with the Joint Sponsors, pursuant to which we agreed to pay a total amount of US$500,000 to each of the Joint Sponsors for acting as a sponsor to our Company in the [**REDACTED**].

D. Compliance Adviser

We have appointed Maxa Capital Limited as our compliance adviser in compliance with Rule 3A.19 of the Listing Rules.

E. Preliminary Expenses

As of the Latest Practicable Date, our Company has not incurred material preliminary expenses.

F. Promoters

The promoters of our Company are Mr. Lyu Yixiong, Hongyin Investment, Nanyin Investment, Shanghai Kans, Mr. Zhang Huai'an, Youngor Investment, Ximei Investment, Shanghai Yingfu, Shanghai Shengyan and Anxin Zhipu Investment. For details of our promoters, see "History, Conversion and Corporate Structure" of this document.

Save as disclosed in this Document, within the two years immediately preceding the date of this Document, no cash, securities or other interest have been paid, allotted or given to the above promoters in connection with the [**REDACTED**] or related transactions in this Document.

G. Qualification of Experts

The qualifications of the experts, as defined under the Listing Rules, who have given their opinions or advice in this Document, are as follows:

Name	Qualification
J.P. Morgan Securities (Far East) Limited	Type 1 (Dealing in securities), Type 4 (Advising on securities) and Type 6 (Advising on corporate finance) of the regulated activities as defined under the SFO
China International Capital Corporation Hong Kong Securities Limited	Type 1 (Dealing in securities), Type 2 (Dealing in futures contracts), Type 4 (Advising on securities), Type 5 (Advising on futures contracts) and Type 6 (Advising on Corporate Finance) of the regulated activities as defined under the SFO
CLSA Capital Markets Limited	Type 4 (Advising on securities) and Type 6 (Advising on Corporate Finance) of the regulated activities as defined under the SFO
Ernst & Young	Certified Public Accountants under Professional Accountants Ordinance (Cap. 50 of the Laws of Hong Kong) Registered Public Interest Entity Auditor under Accounting and Financial Reporting Council Ordinance (Cap. 588 of the Laws of Hong Kong)
Commerce & Finance Law Offices	PRC Legal advisors

Name	Qualification
Frost & Sullivan (Beijing) Inc.	Independent industry consultant
Avista Valuation Advisory Limited	Property Valuer

H. Consents of Experts

Each of the experts as referred to in "Statutory and General Information – 6. Other Information – G. Qualification of Experts" has given, and has not withdrawn, its respective written consents to the issue of this Document with the inclusion of its reports and/or letter and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

As of the Latest Practicable Date, none of the experts named above has any shareholding interests in any member of our Group or the right (other than the penal provisions) of sections 44A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

I. Taxation of Holders of H Shares

The sale, purchase and transfer of H shares are subject to Hong Kong stamp duty if such sale, purchase and transfer are effected on the H share register of members of our Company, including in circumstances where such transaction is effected on the Stock Exchange. The current rate of Hong Kong stamp duty for such sale, purchase and transfer is a total of HK$2.60 for every HK$1,000 (or part thereof) of the consideration or, if higher, the fair value of the H shares being sold or transferred. For further information in relation to taxation, see "Appendix IV – Taxation and Foreign Exchange" in this Document.

J. No Material Adverse Change

Save as disclosed in this Document, our Directors confirm that there has been no material adverse change in our financial or operational position since June 30, 2022 and up to the Latest Practicable Date.

K. Binding effect

This Document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

L. Related Party Transactions

Within the two years immediately preceding the date of this Document, we have entered into the related party transactions as described in Note 37 to the financial information in the Accountant's Report set out in Appendix I.

M. Agency Fees or Commissions Paid or Payable

Save as disclosed in this Document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of any member of our Group within the two years preceding the date of this Document.

N. Miscellaneous

Save as disclosed in this Document:

(a) within the two years immediately preceding the date of this Document, we have not issued or agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash;

(b) no share or loan capital of our Group, if any, is under option or is agreed conditionally or unconditionally to be put under option;

(c) we have not issued or agreed to issue any founder shares, management shares or deferred shares;

(d) our Company has no outstanding convertible debt securities or debentures;

(e) there are no restrictions affecting the remittance of profits or repatriation of capital by us into Hong Kong from outside Hong Kong;

(f) within the two years immediately preceding the date of this Document, no commission, discount, brokerage or other special term has been granted in connection with the issue or sale of any capital of our Company;

(g) there is no arrangement under which future dividends are waived or agreed to be waived;

(h) there has been no interruption in our business which may have or have had a significant effect on the financial position in the last 12 months;

(i) none of the equity and debt securities of our Company, if any, is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and

(j) the Company currently does not intend to apply for the status of a sino-foreign investment joint stock limited liability company and does not expect to be subject to the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》).

O. Bilingual Document

The English language and Chinese language versions of this Document are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

(a) copies of the [**REDACTED**];

(b) a copy of each of the material contracts referred to in the section headed "Statutory and General Information – 2. Further Information about Our Business – A. Summary of Our Material Contracts" in Appendix VII to this document; and

(c) the written consents referred to under the paragraph headed "Statutory and General Information – 6. Other Information – H. Consents of experts" in Appendix VII to this document.

2. DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be published on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **http://www.chicmaxgroup.com** up to and including the date which is 14 days from the date of this document:

(a) the Articles of Association;

(b) the Accountants' Report of our Group prepared by Ernst & Young, the text of which is set out in Appendix I to this document;

(c) the audited consolidated financial statements of our Group for the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2022;

(d) the report on the unaudited pro forma financial information of our Group prepared by Ernst & Young, the text of which is set out in Appendix II to this document;

(e) the service contracts referred to in the paragraph headed "Statutory and General Information – 3. Further Information about our Directors and Supervisors – A. Particulars of Directors' and Supervisors' Contracts" in Appendix VII to this document;

(f) a copy of each of the material contracts referred to in the section headed "Statutory and General Information – 2. Further Information about Our Business – A. Summary of Material Contracts" in Appendix VII to this document;

(g) the written consents referred to under the paragraph headed "Statutory and General Information – 6. Other Information – H. Consents of experts" in Appendix VII to this document;

(h) the legal opinions issued by Commerce & Finance Law Offices, our PRC Legal Advisor, in respect of, among other things, the general corporate matters and the property interests of our Group under PRC law;

(i) the industry report issued by Frost & Sullivan (Beijing) Inc., the summary of which is set forth in the section headed "Industry Overview" in this Document;

(j) the property valuation report prepared by AVISTA Valuation Advisory Limited, the texts of which are set out in Appendix III to this document; and

(k) the PRC Company Law, the Mandatory Provisions and the Special Regulations together with their unofficial English translations.