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OVERVIEW

Our business operations consist of two segments, namely (i) new retail segment, which we primarily develop and sell health management products and skincare products, and (ii) IP creation and operation segment, which we create unique celebrity IPs by providing planning and other project management services to media contents, acting as event planning service provider and/or investor in large-scale concerts featuring celebrities and other events, together with designing and licensing of proprietary celebrity IPs. Each segment can be a source of revenue of its own, while our IP creation and operation segment can also create a synergy effect by acting as one of our marketing tools to promote our new retail products.

Our new retail business

In respect of our new retail business, we focus on development and sale of low-carb health management products, as well as skincare products. We (1) develop and introduce suitable products to the market; (2) establish extensive sales channels, including extensive distributorship network and e-commerce channels; and (3) utilise our celebrity IPs and associate IP contents for the marketing and promotion of our products, along with other sales and marketing strategies and activities.

During the Track Record Period, a majority of our revenue for new retail business derived from sales of *MODONG* coffee, of which we started the nationwide distribution in April 2019. *MODONG* coffee is a type of bulletproof drink that is a high-fat and adequate-protein beverage specially designed for low-carbohydrate diet plan to meet the plan’s fat/energy ratio. In 2021, we were the largest company in China’s bulletproof drink market in terms of GMV, with a market share of 25.6%. The China bulletproof drink market is the market of bulletproof beverages including but not limited to bulletproof coffee, bulletproof milk tea, bulletproof coca and bulletproof coconut milk, and consisted 0.6% market share of China’s entire beverage market in 2021.

Leveraging our success with *MODONG* coffee, we launched a number of other low-carb drinks and food under the *MODONG* sub-brand that further exemplify our strategy to offer our end consumers a portfolio of complementary low-carb health management products. In addition, we launched multiple product sub-brands in the skincare market, including *Dr.mg* and *Chaxiaojie*. The products under the *Dr.mg* sub-brand are designed to address various skin problems caused by skin aging which target aging population, whereas the products under *Chaxiaojie* sub-brand target younger generation. We will continue to develop and launch new products for our new retail business from time to time.

As our sales of products consist of a combination of online commerce elements (e.g. our products are sold through various channels, including primarily social e-commerce channels, such as WeChat and *Douyin*) and offline commerce elements (e.g. our distributors are able to interact with end-consumers through participation of offline meetings, such as annual events, conferences and/or face-to-face sales at distributors salon meetings), we consider our sales of products as a new retail business.

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During the Track Record Period, we generated a substantial portion of revenue from sale of our products through a network of distributors and sub-distributors. We primarily adopt a community-based social e-commerce model, where our distributors and the sub-distributors procured by them mainly promote and sell our products through their PDT through various social e-commerce channels. Most of our distributors and sub-distributors are also consumers of our products and some of them have further developed into KOCs of our products, who can actively promote our products in their respective PDT through word-of-mouth by invoking their personal experience and exerting their personal influence over their followers and effectively extend our consumer reach. Apart from our use of KOCs who share their personal experience with our products through their PDT, we also collaborate with KOLs, who are famous persons and/influencers trusted and followed by the public audiences, to promote our products through sharing, posts and/or e-commerce livestreaming sessions on online platforms.

Our IP creation and operation business

Our IP creation and operation business include IP creations, media content creation, and event planning. In 2019 and 2020, most of our proprietary celebrity IP were centered around Mr. Jay Chou, a superstar that has been well-known in Chinese-speaking communities for over 20 years. Through IP creation and operation, we created bespoke brands and associated IP contents based on our proprietary unique celebrity IPs, including *ChouMate*, for our health management products, and we promote and sell such products through social e-commerce channels such as WeChat. *ChouMate* and its related elements have been registered as a series of trademarks, which are jointly owned by us and JVR Music.

In media content creation, we mainly provide organizing, planning and other project management services to the production of programs. For example, we are the lead creator and own the IPs of *J-Style Trip*, season one of which is a 12-episode reality show starring Mr. Jay Chou with cameo appearance by various well-known public personas for each episode, which was aired on Zhejiang Satellite TV as well as Netflix and MGTV (芒果TV) in March 2020. *J-Style Trip* season one was well-received by TV audience. The average viewership rating of all 12 episodes ranked first among all TV programs broadcasted during the same timeslot from March to June 2020, according to publicly available rating data. In event planning, we generally act as an event planning service provider, an investor and/or sub-contractor for large scale music concerts and other events. For example, we initiated and acted as a planning service provider to Zhanjiang Superstar Concert (湛江超級巨星演唱會) in August 2019 and initiated and acted as a planning service provider and an investor to Ningbo Superstar Performance Mega Night (寧波巨星行動超級夜) in January 2020. Through our experience and management’s networking in the Chinese entertainment industry, we are able to gather different units to organize the creation of programs, media content for e-platforms as well as music concerts and other events.

Since 2021, we have diversified our portfolio of celebrities and expand our IP repertoire by creating IPs that are related to other celebrities. For example, we were involved in the planning and creation of a popular music talk show, namely *You Can Run But You Can’t Hide* (既來之則樂之) that was centered around Mr. Harlem Yu and a variety show, that was centered around Mr. Liu. We also created celebrity IP by conceiving contents and presentation of livestream sessions,

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online short videos and/or offline performance. For example, we entered into cooperative agreements with third party brand owners to promote their respective products, through various contents created and performance of Mr. Liu, in order to create promotional effect for the respective brand owners’ products. We consider our proprietary celebrity IPs, by way of media content creation, event planning or the creation of other IPs, such as nijigen-style personality, is one of our major assets and a source of revenue for our IP creation and operation business, as well as one of our marketing tools for our products under our new retails business.

Synergy between our new retail business and our IP creation and operation business

Empowerment of our new retail business by our unique celebrity IPs is achieved through creating promotional effect at multiple complementary venues and platforms rather than a simple brand name association, which we believe lends credibility and marketability to our products and maintains the trust and confidence of our distributors and customers. For example, for the year ended December 31, 2020, we promoted *MODONG* coffee in *J-Style Trip* season one by means of advertisement, spot cut and discrete product placement. We also promoted healthy eating and lifestyle through live-streaming sessions of Mr. Liu and promote our products, such as Matcha powder and *MODONG* light brewed coffee during e-commerce livestreaming sessions conducted via our *Douyin* account under the name of “劉畊宏肥油咔咔掉” since July 2022 where Ms. Vivi Wang appeared therein. We believe such multiple venues of promotion in connection with our unique celebrity IPs and the related media content increased the exposure and enhanced the brand recognition of our products.

The judicious use of celebrity IP and our sales channels, including its distribution network, enabled us to achieve overall financial growth during the year ended 31 December 2020. Between 2019 and 2020, our adjusted net profit (non-HKFRS measure) increased from RMB22.7 million to RMB80.4 million, representing an increase by 254.2%. We believe the increase in adjusted net profit (non-HKFRS measure) between 2019 and 2020 was mainly attributable to the revenue generated from sales of *MODONG* coffee, which in turn was significantly boosted by the product promotion in *J-Style Trip* season one, as well as the launch of a special edition of *MODONG* coffee with illustration of *ChouMate* on the packaging thereof (“**ChouMate Edition**”) since March 2020. Since late 2021, we commenced our cooperation with Mr. Liu and Ms. Vivi Wang to promote healthy eating and lifestyle and our products through online short video platforms. In 2022, we also started to used nijigen-style personalities of Mr. Liu and Ms. Vivi Wang, namely “Coach Liu (劉教練)” and “Vivi” in the promotion of our products.

We plan to continue to create more media programs and concerts, which may empower our new retail business through creating promotional effect to promote our products. We believe each of our business components, namely product development, distribution network and consumer procurement, is designed not just to complement each other, but to enhance, or empower each other. With our capability experience in using the strengths of these different business components in an effective and efficient manner to create synergy effect, we believe we would be able to sustain our business and achieve growth in our business going forward.

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OUR COMPETITIVE STRENGTHS

A new retail operator empowered by proprietary celebrity IPs that achieved rapid and significant growth

We are a relatively new market entrant that quickly became the largest new retail company in China’s bulletproof drink market in terms of GMV in 2021 with a market share of 25.6%.

We believe we achieved our leading market position in the developing bulletproof drink market in China by leveraging our unique celebrity IPs. Through our IP creation and operation business, we quickly broke the entry barrier and ramped up operation scale. We believe our IP creation and operation business grants us mass consumer reach and significant consumers and distributors retention power on social media. We focus on sales and marketing for our new retail business through PDT, which refers to private-controlled net traffic flow through private channels such as WeChat where users with similar interests or buying habit participate in group chat. Apart from marketing through PDT, we may use our unique celebrity IPs to empower our products for new retails business by creating a promotional effect, as well as other sales and marketing activities, such as traditional advertisements, providing trial samples and packaged gifts, hosting various events, conference and meeting, etc..

Empowerment on our product branding

Our unique celebrity IPs empowers our product branding. We have created and operated a portfolio of various forms of proprietary IPs. We officially launched our *MODONG* coffee, which is a type of bulletproof drink, nationwide in April 2019 and promoted such products with the empowerment of Mr. Jay Chou-related IPs, in particular through featuring our product on *J-Style Trip* season one in the first half of 2020. We designed the nijigen (二次元)-style personification of Mr. Jay Chou that is registered as part of the *ChouMate* trademarks in mainland China, and which we have used as one of the means to market *MODONG* coffee, in addition to the product placement of *MODONG* coffee in *J-Style Trip* season one. We believe the association with Mr. Jay Chou instantly appeals to the existing fans and lends credibility to new consumers for the product and promotes our brand awareness, which help us achieve significant sales growth since its nationwide launch in April 2019. With successful promotion of *MODONG* coffee through the empowerment of Mr. Jay Chou-related IPs during the Track Record Period, we have become a leader in the bulletproof coffee market in the PRC and *MODONG* coffee has become a well-known brand in the PRC by virtue of the specification of the product.

We believe we can leverage the experience in our success with *MODONG* coffee and adapt the growth strategies to product launch and the promotion of other products, including health management and skincare products launched after *MODONG* coffee. We have diversified our IPs portfolio by creating IPs that are related to other celebrities since 2021, namely *You Can Run But You Can’t Hide* (既來之則樂之), that was centered around Mr. Harlem Yu, and a variety show that was centered around Mr. Liu. Since December 2021, we have further expanded our distribution channels to e-commerce livestreaming on *Douyin*, which is directly linked to our *Douyin* stores, and conducted marketing and promotion activities through, among other things, product placement in livestream broadcasting sessions of Mr. Liu on *Douyin*. In addition, since

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July 2022, we have commenced increase in the frequency in the organization of e-commerce livestreaming sessions to two to four e-commerce livestreaming sessions each month in general in collaboration with Ms. Vivi Wang and other KOLs to promote our products, such as Matcha powder, light brewed coffee, and high protein milk tea.

With (a) the Group’s historical success in IP creation and operation, by way of either media content creation, event planning and the creation of celebrity IPs, such as nijigen-style personality; (b) the management’s extensive network/experience in the Chinese entertainment industry, in particular Ms. Ma, Hsin-Ting and Mr. Chang, Chih-Peng; and (c) the Group’s exposure to different opportunities to get in touch with various celebrities by being involved in creation of TV programs and music concerts in the PRC, we believe we will be able to continue to create different celebrity IPs by cooperating with different celebrities. As at the Latest Practicable, we entered into the Liu-related Nijigen-style Personality(ies) Cooperation Agreement with Mr. Liu and Ms. Vivi Wang, and we were also under negotiation with several well-known Chinese celebrities regarding collaboration for creation of celebrity IPs. For further details, please refer to the paragraph headed “Cooperation relationship with Mr. Jay Chou – Whether Mr. Jay Chou has been and will remain significant to our business operation – Collaboration with other celebrities to diversify our portfolio of celebrities and IP repertoire” in this document.

Empowerment on our distribution network and consumer retention

Our unique celebrity IPs also empowers our distribution network expansion and consumer procurement through multiple venues and platforms. For example, Mr. Jay Chou is personally involved in various venues and platforms of our IP creation and operation business through the appearances in events and programs that we planned. Mr. Jay Chou also made contribution to the IP creation process. We believe such involvement has empowered our product distribution and consumer retention, and has enabled us not only to quickly procure end consumers in mass without having to incur significant sales and marketing expenses, in particular within a short period of time after a launch of a new product, but also to maintain high consumer loyalty for our products.

At the same time, we also generated service fee and/or investment returns from our celebrity IPs, such as events and shows. For example, we are the lead creator and own the trademark of *J-Style Trip*, the season one of which is a 12-episode reality show starring Mr. Jay Chou with cameo appearance by various well-known public personas for each episode, and provided planning and other project management services to its production. We made product placement of *MODONG* coffee in *J-Style Trip* season one which we believe directly contributed to the quick ramping-up of their sales in 2020. In addition, we were also able to promote our products through a combination of activities in concerts, including printed advertisement at concert venue, product exhibition and gift giving, without incurring significant marketing expenses.

With the ever changing available platforms for celebrities to perform, we have also expanded our celebrity IPs offerings under celebrity IP creation and licensing by conceiving contents and presentation of livestreaming sessions of celebrities since 2021, including Mr. Liu

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and Ms. Vivi Wang. Through livestreaming sessions, celebrities have been able to interact with existing fans, attract more new fans as well as promote products (if necessary). We believe by using our proprietary celebrity IPs to empower our products for new retail business by creating a promotional effect, we are able to combine the strengths of our Group in a coordinated, effective and efficient fashion, which allows us to create a synergy effect. We believe our IP creation and operation business has granted us access to a mass of targeted audience through such concerts, TV programs and livestreaming sessions without having to incur significant sales and marketing expenses. We plan to continue to leverage our IP content creation and event planning capacity to create more media programs and concerts to empower our new retail business by creating a promotional effect (if appropriate).

Quickly established leading marketing position in China’s bulletproof drink market resulted from our extensive knowledge of the bulletproof drink market and consumer preference in low-carb diet

We derived the concept of *MODONG* coffee, which is a type of bulletproof drink, from a low-carbohydrate diet regime that enjoys global popularity in recent years. We developed the recipe of our product in collaboration with our supplier based on extensive market research, in order to distinguish our products from existing competitive products in consumption experience. We performed data amalgamation and analyses of targeted consumer demography and conducted pilot tests and consumer tastings. Based on such market research, we believe many competing products were rejected by consumers because they demand a stringent diet scheme to accompany the products to be effective. As such, our *MODONG* coffee formula is designed to complement the low-carb diet regime but does not demand consumers to drastically deviate from their routine diet.

As a result, *MODONG* coffee is well received by the market since its launch with a rapid growing consumer base, evidenced by the increase in average monthly sales amount from RMB9.0 million in 2019 to RMB27.7 million in 2020. In addition to consumer acceptance, *MODONG* coffee was also recognized by industry peers and awarded Reputation of Popularity (人氣口碑獎) by PCLADY in 2019 and Annual Popular Bulletproof Coffee Award in 2020 Rayli Fashion List (瑞麗潮流大番榜年度暢銷防彈咖啡), which is a well-recognized award in the fashion industry.

The health management community-based social e-commerce industry in China increased from RMB9.6 billion in 2016 to RMB26.1 billion in 2021, in terms of GMV. We believe we are well positioned to sustain and further increase our operational scale and revenue. We can leverage our initial success in *MODONG* coffee and further expand our market shares in the health management market. We have a portfolio of newly launched health management products, in addition to our *MODONG* coffee. We believe such new health management product offerings are complementary to our existing product line and further diversify our revenue source.

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Rapid and organic growth of the distribution network with a focus on KOC development and PDT (私域流量) marketing

We believe one of the sales and marketing strategies that distinguishes us from other market participants is our focus on, and ability to, utilize PDT to monetize our unique celebrity IPs model to quickly procure loyal consumers, as the association with a celebrity such as Mr. Jay Chou with our products can enhance visibility and affinity to such products. As such, we are able to grow PDT that is associated with our unique celebrity IPs. Such PDT is sustained by a community of subscribers that share the similar purchase behavior and preference and we could develop such subscribers into consumers of our products by targeted promotion, in particularly by our distributors who become KOC in such PDT.

Many of our distributors and sub-distributors are themselves committed and loyal consumers of our products. For example, certain of our distributors are small business owners of offline shops who used our products before. By converting to our distributors and promoting our products to their customers through online and offline channels, they can increase their revenue source and diversify their distribution channels. Such conversion helps to mitigate the negative impact of e-commerce on owners and employees of small offline businesses and incorporate them into the new “Internet+ (互聯網+)” development. Certain distributors and sub-distributors are motivated by our success and strived to become KOCs in their relevant PDT through voluntary promotion of our products to their respective subscribers. Kunshan Tingshe, our Distribution Agent for Kunshan Tingshe Distributed Products, provides assistance and relevant trainings to such distributors and sub-distributors on sales and marketing techniques. KOCs are able to make personal and regular interactions with the subscribers they command through PDT and promote our products by invoking their personal experience and influence.

We were able to quickly grow our sales for Kunshan Tingshe Distributed Products through the expansion of such tailor-made distribution network designed for our new retail business during the Track Record Period. As of December 31, 2019, 2020, 2021 and 2022, our distribution network consisted of 74, 575, 699 and 742 distributors and 2,719, 16,519, 18,871 and 16,044 sub-distributors, respectively. The increase in the number of distributors and sub-distributors extended our consumer reach both online and in terms of geographic coverage. We believe an expanded distribution network also increases the awareness of our products through community and word-of-mouth promotion, which in turn increases the sales of our products.

Community-based new retail is a relatively new industry. As an early entrant to this new industry with an innovate distribution model, we took active measures to educate distributors and communicate with competent authorities about our business operations. For example, following regulatory reviews of our distribution model, Kunshan AMR published the Inspection Opinions affirming the legitimacy of our distribution model for *MODONG* coffee. Subsequently, we were treated by Kunshan AMR as a social e-commerce pilot enterprise to participate in the Kunshan Pilot Program. For more details, please refer to the paragraph headed “Distribution network – Distribution Agent Assisted Distribution Model – Regulations relating to pyramid selling – The Temporary Suspension of Bank Accounts due to alleged pyramid selling” in this

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section. We believe such recognition of our Group by the government authority could have long-term benefits on our business development.

Multi-facet IP creation and operation business that provides critical empowerment for our new retail business through creating promotional effect to promote our products and diversifies our revenue source

Our IP creation and operation capacity includes IP creation, media content creation, event planning and IP licensing. To maximize the potential of our unique proprietary celebrity IP assets, we developed the capacity and expertise to create three distinctive types of IPs, namely, unique celebrity IPs such as *ChouMate*, product brand IPs such as *LA DEW* and media content IPs such as *J-Style Trip* season one. Such multi-facet capacity enables us to operate with an innovative product distribution model in which we market our branded products in association with our unique celebrity IPs, and our content IPs that feature our celebrity IPs help disseminate our product promotion on social media as well as e-commerce channels to our distributors, the sub-distributors and end consumers.

Nijigen-style personality

We designed, developed and co-owned the *ChouMate* nijigen in collaboration with JVR Music, Mr. Jay Chou’s artiste management company. The *ChouMate* nijigen is instantly recognizable as artistical personifications of Mr. Jay Chou. The *ChouMate* trademarks are jointly owned by us and JVR Music. We market certain products, including *MODONG* coffee, in association with the *ChouMate* nijigen, in order to empower our product branding and distribution network and enhance consumer loyalty. Apart from creation of nijigen-style personality for Mr. Jay Chou, we are continuously exploring feasibility of designing and creating nijigen-style personality for other celebrities as well. We entered into the Liu-related Nijigen-style Personality(ies) Cooperation Agreement with Mr. Liu and Ms. Vivi Wang regarding the creation and design of nijigen-style personality(ies) inspired by them. We have also entered into cooperation agreements with Mr. Fang and his artiste management company regarding (i) the creation and design of nijigen-style personalities inspired by him; and (ii) the licensing of his existing nijigen-style personality. Please refer to the paragraphs headed “Cooperation with Mr. Liu and Ms. Vivi Wang” and “Cooperation with Mr. Fang” in this section for details. We expect we would be able to apply the same business model that we use on *ChouMate* with other celebrity-inspired nijigen-style personality(ies).

Events, concerts and TV programs

In our media content creation segment, our ability to create and plan events and concerts helps us to maintain cooperation with celebrities and provides us a certain extent of control in advertisement and product promotion. We created and owned the trademark of *J-Style Trip* season one, which was aired on Zhejiang Satellite TV as well as Netflix and MGTV (芒果TV) in March 2020. *J-Style Trip* season two is currently under production. We also have other media contents in the pipeline, including a weekly online one-hour music talk show program scheduled to be launched in the second half of 2023. The weekly show is based on a popular music talk

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show called *You Can Run But You Can't Hide* (既來之則樂之) that we planned and was aired on *Kuaishou* during the Chinese New Year in 2021, which received over 100 million views when it was first aired, according to *Kuaishou*. We also initiated and acted as a planning service provider in Zhanjiang Superstar Concert in August 2019 and initiated and acted as a planning service provider and investor in Ningbo Superstar Performance Mega Night in January 2020.

Livestreaming broadcast

Leveraging on the experience in celebrity IP creation of our management team, we have also been involved in the strategic planning and development of Mr. Liu's public image and profile on social media platform since November 2021. In particular, we are involved in selecting the target audience and conceiving the contents and presentation of his livestream broadcast, such as development of ideas and production of content of the livestream session that links the different brands to their respective target audience in order to create promotional effect. Given livestreaming is a consumer-interaction focused promotional tool, our Directors believe our involvement in conceiving the contents and presentation of Mr. Liu's livestream broadcast sessions is an important contributing factor to Mr. Liu's increased popularity in 2022. Our contribution to the contents and presentation of the livestream broadcast includes, among others, advise or planning on how livestreaming sessions are broadcasted, including Mr. Liu's outfit, the guest(s) to be invited, how the rhythm of livestream sessions are controlled, and how Mr. Liu and his guest(s) interact with audiences of livestream sessions, all of which are very critical in catching the attention of audiences (also being target consumers) and conveying the appropriate messages to them (e.g. promotion of the relevant products).

By appearing in Mr. Liu's livestreaming sessions, Ms. Vivi Wang has gained popularity and attracted close to 4 million followers from April 2022 to June 2022, reaching approximately 4.2 million as of December 31, 2022. Having considered Ms. Vivi Wang's increasing popularity, we have started cooperating with Ms. Vivi Wang since July 2022. In around December 2021 to January 2022, we organized e-commerce livestreaming sessions for our *MODONG* high protein milk tea through Mr. Liu's *Douyin* account on a trial basis and achieved satisfactory results. Since July 2022, we have commenced organizing two to four e-commerce livestreaming sessions each month in general in collaboration with Ms. Vivi Wang and other KOLs on our *Douyin* account under the name of “劉畊宏肥油咔咔掉” to promote our products, such as Matcha powder and *MODONG* light brewed coffee. For further details, please refer to the paragraph headed “Cooperation with Mr. Liu and Ms. Vivi Wang” in this section below.

We believe that we would be able to apply similar business model of celebrity IPs empowerment in respect of *ChouMate* to our other celebrity IPs. We would also continue to explore opportunities in media content creation, such as program or event planning that is associated with Mr. Liu, Ms. Vivi Wang or IPs related to either one of them or both of them. Our Group, as the provider of planning and management services to Mr. Liu and Ms. Vivi Wang, is entitled to sharing of any income generated from the performance of Mr. Liu and Ms. Vivi Wang on different platforms in the PRC. We believe our IP creation and operation business will continue to provide critical empowerment for our new retail business.

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Visionary management with decades of relevant industrial experience and continued support from Mr. Jay Chou

We owe our success to the visionary strategic planning of our senior management, which was key to our Group’s quick expansion into the market within a short period of operations. Our Founder, Ms. Ma, Hsin-Ting, has over 20 years of experience in cultural, media and financial industries. Our chief executive officer, Dr. Qian, Sam Zhongshan has over 20 years of experience as senior management of companies in various industries, including enterprise that engaged in online marketing. The head of our event planning team and our chief program officer, Mr. Chang, Chih-Peng, has rich experience in entertainment program production and execution, was the producer of reality shows. The head of our IP licensing department, Ms. Zhou, Peimin, has more than 10 years’ experience in IP licensing and e-commerce, and is responsible for developing our IP strategies.

In addition, we receive support and direction from Mr. Jay Chou, in particular in our IP creation and operation segment. We have entered into the IP Authorization Agreement with JVR Music, whereby JVR Music has granted us an exclusive right in relation to the development of projects related to *ChouMate* and non-exclusive priority right to invest in certain types of projects related to Mr. Jay Chou, including but not limited to the creation of other virtual idols centered on Mr. Jay Chou’s image in anime and movies projects and to design, create, plan, invest and launch certain shows (including variety shows designed and developed by Mr. Jay Chou).

OUR STRATEGIES AND FUTURE PLANS

Our goal

We believe the empowerment of our new retail business by our unique celebrity IPs is what sets up apart from our competitors and led to our success with *MODONG* coffee. Going forward, our goal is to solidify and replicate the success of our unique IP-empowerment business model with additional core products and IP contents, by leveraging the experiences that we gained from *MODONG* coffee. We will continue to implement our strategies to offer our consumers with products for their low-carb life style. Towards that end, we will continue to leverage our IP creation and operation capacity to build and expand the fan base of our unique celebrity IPs and offer our consumers an increasing variety of core products. In particular, we aim to diversify our product offerings that complement our low-carb diet regime through enhanced research and development, and strengthen our control in research and procurement of key ingredients in our health management and skincare products.

Further diversify our product portfolio through product development

We plan to leverage our experience with *MODONG* coffee to expand in the health management and skincare markets by diversifying our product offerings to the existing and potential consumers.

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During the Track Record Period, we focused on measures that help us break into the health management market with *MODONG* coffee as our core product, including research and development of the recipe and formula for the product and expansion of its distribution network. We quickly followed the initial success of *MODONG* coffee and offered various additional complementary low-carb food and drinks. Going forward, we believe it is critical for us to increase our focus on product research and development with differentiated development strategies. We believe that in order to further strengthen our growth, our product offerings shall be diversified to appeal to a broadening demographic of end consumers and distribution channels.

During the Track Record Period, we mainly developed our products through or in collaboration with our suppliers. We incurred expenses of approximately RMB2.6 million, RMB9.2 million and RMB12.6 million in the year ended December 31, 2020, 2021 and 2022, respectively on research and development, which were primarily salaries and benefits paid to our internal research and development team. Going forward, it is our initiative to focus on the development of innovative, functional and/or science-based health management and skincare products with higher requirements on the formulas and ingredients used. Such transformation would require a larger and stronger internal product development team and collaboration with external expert on product ideas, designs, plans and manufacturing processes. Therefore, we expect to increase our expenses and efforts in research and development upon [REDACTED]. In particular, we plan to:

Continue to diversify product offerings through research and development to offer the low-carb series of popular food and drinks to our consumers: we plan to continue to conduct research and development to offer the low-carb series of popular food and drinks to our consumers through a combination of in-house development and cooperation with third party research institute or suppliers. We believe such strategy will solidify our market position and realize our vision to offer a holistic low-carb diet regime to our consumers.

Strengthen control over core ingredients for skincare products: we believe the functionality and quality of key ingredients of skincare products is critical to differentiate the products and gain wide consumer acceptance in the highly segmented market. For example, certain of our skincare products under *Dr.mg* sub-brand use a type of collagen produced through the recombinant method, which provides an ample and reliable source of pure variants of collagen. Going forward, we plan to strengthen our control over key ingredients for our skincare product, through cooperation with well-known research institutes and OEMs such as universities, cosmetics and beauty solution providers and testing organizations in relation to research and development of formulas and testing of cosmetics and beauty products.

Towards that end, we may also explore opportunities to acquire businesses that are in possession of critical technologies or formulas, such as companies specializing in technology and research, and having extensive capabilities in developing formulas for new products with know-hows for mass production of innovative key ingredients for skincare products, to quickly ramp up our competitive advantages in the market. As of the Latest Practicable Date, we were yet to identify a viable acquisition target or enter into substantive negotiation with any potential target for acquisition.

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More health management products and skincare products

With the expansion in our research and development capabilities and collaboration with third party institutes, we plan to further launch no fewer than 30 food and beverages and 30 skincare products in the three years ending December 31, 2025, after taking into account the facts that (i) the market size of China's health management community-based social e-commerce industry, in terms of GMV, is expected to grow from RMB26.1 billion in 2021 and reach RMB38.5 billion in 2026; and (ii) the market size of China's beauty and personal care segment in the community-based social e-commerce industry, in terms of GMV, is expected to continuously grow from RMB136.8 billion in 2016 to RMB410.4 billion in 2026, which demonstrates that there is significant growth potential in these markets.

We intend to use approximately HK\$[REDACTED] million of the [REDACTED] from the [REDACTED] in the research and development of food and beverages products and HK\$[REDACTED] million of the [REDACTED] from the [REDACTED] in the research and development of skincare products in the three years ending December 31, 2025.

Other product lines

We plan to develop other product lines in addition to health management products and skincare products. For example, we are looking into possibilities to develop a line of pet food, pet toy and early child education products. In recent years, more households in the PRC own pets and such population is gradually becoming younger. The younger generation generally pays more attention to the health and appearance of their pets, and are willing to spend more on pet products and food. We intend to use approximately HK\$[REDACTED] million of the [REDACTED] from the [REDACTED] on the research and development of the new product lines. On the other hand, benefitted from the large population base and the loosening of one-child policy, early child education products which are leisure in nature are expected to be more popular. Leveraging our IP creation and operation capabilities and relationship with celebrities who have a positive influence, we plan to seek licensing and cooperation opportunities with book companies and educational devices production companies to develop products. We believe the expansion of our product offerings will help us enhance our brand recognition and reach out to our potential customers. In addition, we plan to explore collaboration opportunities with other well-known companies to jointly offer new products that feature our proprietary IPs, in order to expand our market reach and further reduce customer procurement cost. We plan to utilise approximately HK\$[REDACTED] million of the [REDACTED] from the [REDACTED] on the research and development products associated with our proprietary IPs.

Further, we have set forth plans to enhance the demand for our existing and upcoming products, including expanding our e-commerce channel through collaboration with well-known KOLs and e-commerce platforms, creating new IP contents to empower and promote the sale of our products and further increase our sales and marketing efforts. We believe that such plans would further boost market demand for our existing and upcoming products.

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At the current stage, we plan to utilize approximately HK\$[REDACTED] million, or [REDACTED] of the [REDACTED] from the [REDACTED] in the diversification of product portfolio. For more details, please refer to the section headed “Future plans and use of [REDACTED]” in this document.

Increase our brand exposure and product sales through online platforms

During the Track Record Period, we emphasized product promotion on social e-commerce channels by KOC distributors. Going forward, we plan to increase our brand exposure and product sales through MCN, including product sales on livestream broadcast on social e-commerce channels and online short video platforms, such as *Douyin*. We could either host our own livestream broadcast or cooperate with selected KOLs on their livestream broadcast, and the contents of the broadcast will center around our unique celebrity IPs such as *ChouMate* and associated contents we create in our IP creation and operation business, to empower the sales of our products.

Livestream social e-commerce is a type of platform where KOLs wield significant power of influence and can reach a large audience and potential consumers through their PDT. Livestream e-commerce experienced significant growth in recent years, and we believe it is another social e-commerce channel we can tap into for product promotion. In particular, we plan to increase our brand exposure and product sales online platforms which involves a combination of methods, including:

- *Enter into cooperation with selected well-known KOLs and social e-commerce platforms to promote our products:* Our ownership of unique celebrity IPs, including those associated with different celebrities (such as Mr. Liu and Ms. Vivi Wang) lend us credibility in the new retail industry, which in turn could give well-known KOLs and social e-commerce platforms incentives to cooperate with us in a mutually beneficiary and cost-effective manner. For example, they can use their influence on livestream e-commerce channels to promote products for us, and in return we can grant them license to use our unique celebrity IPs such as *ChouMate* and/or opportunities to promote their channels in association with the celebrities we collaborate with to help them sustain their popularity and procure more followers. Towards that end, we plan to cooperate with selected well-known KOLs and/or place in such KOLs’ livestream broadcast advertisement. The fee of which is based on product sales volume.
- *Cultivate our own KOLs and develop livestream accounts and programs to promote and sell our products:* We will continue to leverage our experience and resources to foster core online communities for our unique celebrity IPs and cultivate our distributor KOCs to expand our social media influence and consumer reach, and give them incentive to eventually become KOLs. We could host our own livestream broadcast featuring such KOCs and KOLs cultivated by us to promote and sell our products. Towards that end, we plan to develop our own livestream accounts and

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programs, including operating livestream accounts on social media platforms such as *Kuaishou* and creating livestreaming contents. We will also cultivate KOLs and KOCs for the purpose of product promotion.

During the Track Record Period, we successfully developed Mr. Liu and Ms. Vivi Wang into famous KOLs on the online short videos platforms, such as *Douyin*. In 2022, our IP creation and operation business was substantially contributed by their celebrity IPs and our new retail business was also empowered by their celebrity IPs via e-commerce livestreaming sessions. For details, please refer to the paragraph headed “Cooperation with Mr. Liu and Ms. Vivi Wang” in this section below.

We plan to collaborate with Mr. Liu and Ms. Vivi Wang in the promotion of certain health management products, such as low-carb beverages, protein powder and sports related health management products to be launched by us. We believe that we would be able to continue to make use of the celebrity IPs of Mr. Liu and Ms. Vivi Wang to further empower the sale of our products under the new retail business.

Going forward, we will continue to identify other celebrities or KOLs to collaborate with us in different formats. We believe that, with our ability and experience in adopting the IP-empowered marketing strategy, we would be able to maintain the sustainability of our business.

At the current stage, we plan to utilize approximately HK\$[REDACTED] million, or [REDACTED] of the [REDACTED] from the [REDACTED] to expand our product and brand exposure in such additional social e-commerce channel and other media platforms. For more details, please refer to the section headed “Future plans and use of [REDACTED]” in this document.

Continue to create high-quality and unique new IP contents to, among others, empower our new retail business

We plan to strengthen our core competitive advantage and continue to invest in the creation of high-quality and unique new IPs and associated IP contents, which we can offer to our consumers, either directly or through dissemination by our distributors and the sub-distributors, to empower our sales and marketing initiatives and new product launches. Such IPs could be offered by either traditional ways, such as on TV, or ways that would be considered to be increasingly popular amongst consumers from time to time, such as virtually on metaverse.

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Towards that end, we plan to develop our IP creation and operation in the following areas:

IP content creation

We plan to continue to create additional IP contents, in particularly those in association with our unique celebrity IPs, to expand our success in promoting our products and consumer procurement through the empowerment with our IP contents. The IP content that we plan to create include:

- *New IP contents associated with our unique celebrity IPs:* we plan to continue to create traditional and social media contents such as music shows and programs, including future seasons and episodes of *J-Style Trip*. We plan to make product placement in the program to offer consumers the opportunities to make purchase during the running time of the show. We have other comparable variety program in our incubation plan for TV channels as well as social media platforms; and
- *Large-scale concerts:* we will continue to plan large-scale physical and/or virtual concerts featuring celebrities we collaborate with to promote our products and brands through printed advertisement at concert venue, product exhibition, gift giving or other activities.

Based on our prior experience with involvement in different programs, such as *J-Style Trip* season one, and other events, such as concert, such program and events typically require significant initial investment but we can expect to recoup the majority portion of our investment or generate net profit in the form of service or licensing fees and/or invest return from advertisement revenue.

Celebrity IP and other IP creation

We plan to actively explore strategic collaboration opportunities with selected celebrities and create and register bespoke unique celebrity IPs. Should we succeed in such efforts, we believe we can effectively increase our unique celebrity IP portfolio generate income for our IP creation and operations business, and further empower our new retail business based on the expertise and nature of fan base of such celebrities. For example, we entered into cooperation arrangements with (i) Mr. Liu and Ms. Vivi Wang; and (ii) Mr. Fang to expand our celebrity IP portfolio. We plan to create unique celebrity IPs centered around these celebrities, including but not limited to, nijigen-style personality. In addition, we also plan to create nijigen-style personalities for members of Nan Quan Mama as at the Latest Practicable Date. We expect we would be able to apply the same business model that we use on *ChouMate* with other celebrity-inspired nijigen-style personality(ies). For further details, please refer to the paragraphs headed "Our business – IP creation and operation – Historical IPs and IPs pipeline" and "Cooperation relationship with Mr. Jay Chou – Whether Mr. Jay Chou has been and will remain significant to our business operation – Collaboration with other celebrities to diversify our portfolio of celebrities and IP repertoire" in this section.

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In addition to our unique celebrity IPs, we plan to further expand our product IP portfolio, such as the recently launched sub-brands, *Dr.mg* and *Chaxiaojie*, for distinctive produce lines. Moreover, we may also explore cooperation opportunities with the selected third parties to create additional IPs that can be quickly commercialized for the promotion of our products.

To effectively execute our IP creation and operation strategies, we also plan to hire additional qualified professionals to strengthen our IP creation capacity.

At the current stage, we plan to utilize approximately HK\$[REDACTED] million, or [REDACTED] of the [REDACTED] from the [REDACTED] in our IP creation and operation operations. For more details, please refer to the section headed “Future plans and use of [REDACTED]” in this document.

Increase our sales and marketing efforts

During the Track Record Period, we did not incur significant sales and marketing expenses on the sales and marketing events or advertisements. Instead, we mainly relied on promoting our products through PDT which heavily relies on word-of-mouth of consumers, traditional sales and marketing activities (such as TV advertisements/sponsorships, providing trial samples and packaged gifts, hosting various events, conferences and meetings, etc.), as well as in association with IP contents and large scale events that we planned. Going forward, we plan to prudently increase our sales and marketing efforts on online and traditional sales and marketing channels to increase public exposure of our existing and new products. We plan to host mid- and large-scale promotional events, both online and offline, and purchase advertisement slots in TV programs and online programs.

Such expense is expected to be satisfied by our internal resources or external financing (if necessary).

Upgrade our IT infrastructure and increase investment in IT research and development

As part of our investment in research and development, we plan to upgrade our IT infrastructure and increase investment in IT research and development, to support software development and research in social e-commerce channels. An upgrade in our IT infrastructure and crucial business and financial software such as an advanced ERP system will also help to enhance our internal control and financial reporting.

At the current stage, we plan to utilize approximately HK\$[REDACTED] million, or [REDACTED] of the [REDACTED] from the [REDACTED] to upgrade our IT infrastructure and increase investment in IT development. For details, please refer to the section headed “Future plans and use of [REDACTED]” in this document.

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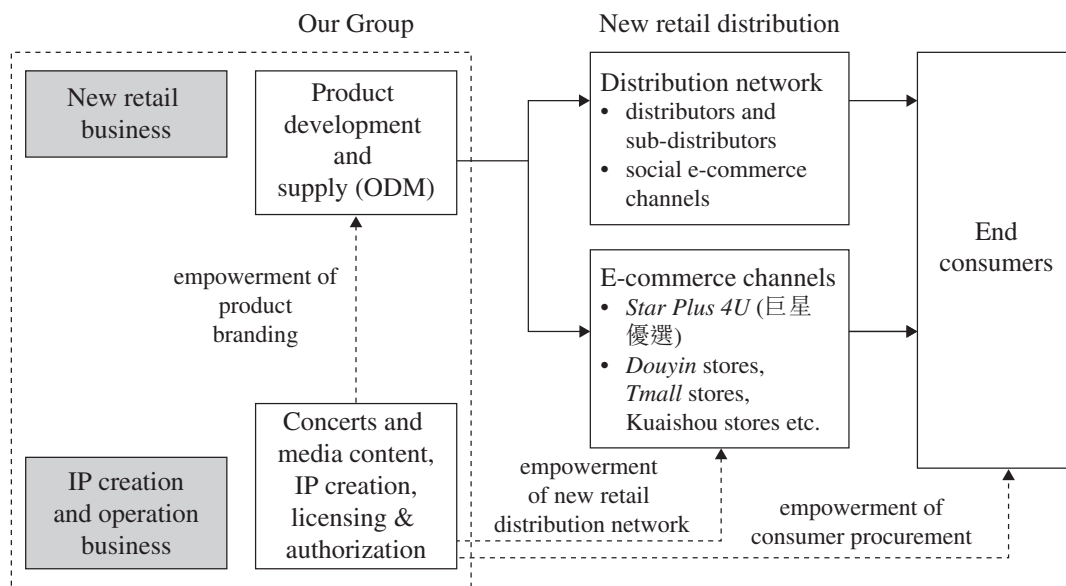
Grow our operational scale and work force in response to our strategic plans

In response to the planned increase in product offerings, distribution operations and IP creation and operation, we may make investment in expanding our operational scale and work force. We plan to hire qualified professionals in our IP content creation and IP operation team. In addition, to further enhance consumer experience, we plan to expand our after-sales service team by hiring additional staff members. To accommodate the increase in our business scale and in anticipation to our transition into a [REDACTED], we also plan to hire management team members to enhance our internal control and financial reporting.

Such expense is expected to be satisfied by our internal resources or external financing (if necessary).

SUMMARY OF BUSINESS MODEL

Our Group uses a multi-prong approach for the development and implementation of its business. The diagram below illustrates our business model:



We generate sales revenue from the sales of our products in our new retail operations. We manage various aspects for the sales of products, including:

- **Development:** in collaboration with our suppliers, we conduct research and development on product formula development for key products such as *MODONG* coffee. Our product development department, consisting of eight members as at December 31, 2022, would conduct market research to identify any particular demands in the market towards health management products and skincare products. For details, please refer to the paragraph headed “Our business – New retail business – Product development and pipeline products” in this section below.

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- **Manufacturing:** upon passing of trial testing and production, we would engage our suppliers for mass production thereof. During mass production, we oversee the raw material procurement for the product manufacturing and monitor the product quality; and
- **New retail distribution:** we employ different distribution channels for different products, in particular:
 - *Distribution through distribution network:* we develop a distribution network consisting of distributors and sub-distributors that focus on new retail sales through social e-commerce channels, such as KOC product promotion in PDT on social media platform including WeChat:
 - ◇ For each of the Kunshan Tingshe Distributed Products and skincare products under the sub-brand of *Dr.mg*, we engaged a respective Distribution Agent to develop and manage the distribution network of our distributors and the sub-distributors procured by our distributors; and
 - ◇ For our other health management products and skincare products, we sell the products through the distribution network of our distributors and the sub-distributors without the engagement of a Distribution Agent;
 - *Distribution through e-commerce channels:* we also employ other e-commerce sale channels, such as the *Star Plus 4U* (巨星優選) and other online platforms operated by third parties, such as *Tmall* stores, *Kuaishou* stores and *Douyin* stores (which would normally be linked to e-commerce livestreaming sessions of our celebrity(ies) and/or KOL(s) that promote our products). For our sale under these e-commerce sale channels, we directly sell and deliver our products directly to the end consumers, who would make payments to us directly through the relevant e-commerce platforms.

When considering which marketing and promotion method(s) should be used for a particular product, our Group would consider different factors, including, among others, its target end consumer base, the prevalence of such product in the market, whether our Group will launch relatable IP(s) shortly before or after the launch of such product to create a synergy effect. For further details regarding our marketing initiatives, please refer to the paragraph headed “Marketing initiatives” in this section below.

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Our IP creation and operation business empowers our new retail business with our proprietary celebrity IPs through various complementary venues and platforms including:

- ***Empowerment of product branding:*** we create well-known celebrity IPs that we used, among other things, in the promotion of our products. For example, our Group's brand and *MODONG* coffee were empowered by *J-Style Trip* season one by way of mentioning our brand sponsoring and *MODONG* coffee appeared in the program frequently through product placement. These enhanced the exposure and brand awareness, and we believe the association with such celebrity IPs lends credibility and marketability to our products;
- ***Empowerment of new retail distribution network:*** the social media and in particular PDT provide our distributors and the sub-distributors a platform of product promotion through social connection, community bonding and word-of-mouth sharing of consumer experience. In the course of communication with potential customers of our Group's products, distributors (who are usually KOC in such PDT) and sub-distributors would be able to use our Group's celebrity IPs to create topics, and promote the products that are featured in such celebrity IPs to these potential users. Our Group has established an extensive distribution network of distributors, which our Directors are of the view that it is one of the key contributing factors to the sustainable sales of *MODONG* coffee during the Track Record Period; and
- ***Empowerment of consumer procurement:*** we expand our reach of targeted audience through (i) concerts and TV programs planned by us; and (ii) e-commerce livestreaming sessions that we collaborate with celebrities and KOLs, and we can promote our products and procure potential consumers without having to incur significant sales and marketing expenses. For example, the featuring of *MODONG* coffee during the airing of *J-Style Trip* season one created a material promotional effect on the sales of *MODONG* coffee in 2020, while our health management products, including matcha powder and *MODONG* light brewed coffee which were launched in July 2022, were promoted during e-commerce livestreaming sessions conducted via our *Douyin* account since July 2022.

We operate our IP creation and operation business for the purposes of both empowering our new retail operations by creating a promotional effect, as well as generating revenue in the form of service fees, investment return and licensing fees in such business.

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OUR BUSINESS

The table below sets forth a breakdown of our revenue by business segments:

	Year ended December 31,							
	2019		2020		2021		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
New retail								
Health management products	71,927	83.0	340,787	74.5	275,261	75.4	216,036	62.8
Skincare products	3,450	4.0	20,422	4.5	21,274	5.8	16,272	4.7
Others	5,420	6.3	3,966	0.9	4,860	1.3	7,791	2.3
Subtotal	80,797	93.3	365,175	79.9	301,395	82.5	240,099	69.8
IP creation and operation								
Event planning and								
IP programs	4,761	5.5	86,567	19.0	54,399	14.9	95,026	27.6
Licensing fee and sales of								
cultural and creative products	1,027	1.2	5,202	1.1	9,551	2.6	9,032	2.6
Subtotal	5,788	6.7	91,769	20.1	63,950	17.5	104,058	30.2
Total	86,585	100.0	456,944	100.0	365,345	100.0	344,157	100.0

New retail business

During the Track Record Period, the products that we sold in our new retail business included (a) health management products, which primarily included *MODONG* coffee, other products under *MODONG* brand, and products under *Dr. INYOU* brand; and (b) skincare products under *LA DEW* brand, *Dr.mg* sub-brand and *Chaxiaojie* sub-brand. We generated the substantial majority of our sale revenue for our new retail business from health management product, in particular *MODONG* coffee, during the Track Record Period.

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Health management products

We launched multiple health management products mainly under *MODONG* brand and *Dr. INYOU* brand. We may design sub-brand(s) for our health management products to capture different target consumers, if necessary. The table below illustrates the main health management products that we launched during the Track Record Period and up to the Latest Practicable Date:

Products	Launch Time	Image	Product feature
<i>MODONG coffee</i> (魔胴咖啡)	April 2019		Low-carb, weight management beverage
<i>Molitone prebiotic gummy</i> (魔力通益生元軟糖)	January 2020		Prebiotic gummy that helps maintain normal intestinal function and assists low-carb diet
<i>MODONG Pastry</i> (魔胴糕點)	April 2021		Low-carb pastry with high dietary fibre
<i>MODONG probiotics lyophilized powder</i> (魔胴益生菌凍乾粉)	October 2021		Probiotics lyophilized powder that helps correct imbalances in digestive system
<i>MODONG herb beverage</i> (魔胴本草飲)	October 2021		Drink with Chinese edible medicinal herbs and plant enzymes as its main ingredient

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Products	Launch Time	Image	Product feature
<i>MODONG high protein milk tea</i> (魔胴高蛋白奶茶)	October 2021		Low-carb drink with high protein content
<i>MODONG MCT coffee</i> (魔胴MCT咖啡)	December 2021		High medium-chain triglyceride (MCT) content beverage
<i>Dr. INYOU collagen peptide beverage</i> (盈养博士胶原蛋白肽飲品)	December 2021		Beverage contains combination of collagen peptides
<i>Dr. INYOU nicotinamide lyophilized yeast powdered drink</i> (盈养博士烟酰胺酵母凍乾粉飲品)	December 2021		A powdered drink with nicotinamide lyophilized yeast extracts
<i>Matcha powder (抹茶粉)</i>	July 2022		Finely grounded powder of tea leaves after multiple procedures including steaming, which contains amino acids and dietary fiber, and can be used as an ingredient in pastries or directly consumed as matcha after adding water

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<u>Products</u>	<u>Launch Time</u>	<u>Image</u>	<u>Product feature</u>
<i>MODONG Light Brewed Coffee (魔胴輕萃咖啡)</i>	July 2022		Light roasted coffee containing a variety of vitamins and high-purity medium-chain triglyceride (MCT) oil which can be easily absorbed with the aim to control carbohydrate intake and provide energy to users

After consulting with an health expert, the abovementioned products focus on the concept of ketogenic diet, where these products are regarded as health management food and beverages (健康食品) as they can be consumed:

- (i) as meal replacements for consumers who are on low-carb diets; and
- (ii) for weight management and as skin care supplements, as their ingredients consists of healthy elements such as ketogenic, low-carb, high-protein, high dietary fibers, vitamins, and prebiotics.

By consuming these products in long-term, they would have certain health care effect on the consumers, as compared with consuming other traditional food and beverages products.

MODONG coffee (魔胴咖啡)

We started the nationwide distribution of *MODONG* coffee in April 2019, after approximately one year of product development, tasting, pre-marketing and soft launch. Sale revenue from *MODONG* coffee was RMB71.9 million, RMB332.9 million, RMB227.8 million and RMB150.9 million in 2019, 2020, 2021, and 2022 respectively, representing 83.0%, 72.8%, 62.3% and 43.8% of our total revenue of the same periods.

Our *MODONG* coffee is a type of bulletproof drink that is a product concept derived from the “ketogenesis” health management regime, a metabolic state where the body elects to burn fat in the absence of carbohydrates. *MODONG* coffee was developed from the original bulletproof coffee recipe and primarily made of freeze-dried coffee, virgin coconut oil, grass-fed butter and medium-chain triglyceride (MCT) oil. *MODONG* coffee is our first low-carb health management product and is a weight management beverage specially designed for *MODONG* low-carb diet plan.

We collaborated with our main supplier, Hengmei Group, to develop *MODONG* coffee. For more details, please refer to the paragraph headed “Suppliers – Selection and management of

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supplier – Hengmei Group” in this section below. Compared with other bulletproof coffee products, we improved the recipe by including high-quality raw materials and developed our proprietary formula aiming to attract the mass population. Our *MODONG* coffee is one of the few bulletproof coffees that contain white kidney beans, which can block starch decomposition and reduce glucose absorption and fat accumulation. In terms of nutritional ingredients, our *MODONG* coffee also contains dietary fiber in order to improve satiety, promote intestinal peristalsis and facilitate defecation. Each box of *MODONG* coffee contains seven packages.

We engaged Kunshan Huaxing, a qualified Independent Third Party to operate the mobile App “*MODONG* Health (魔胴健康)” to help monitor the progress of the accompanying low-carb diet plan of our end-customers. Our *MODONG* Health App offers users a *MODONG* low-carb diet plan to substitute nutrition and energy intake of carbohydrate such as rice, flour or sugar with fat by drinking *MODONG* coffee as the main nutritional supplement. Our goal is to offer our end consumers a reasonable weight management recipe with which they can “Relax and Enjoy Meat As You Desire (大口吃肉、輕鬆享受)”, in order to differentiate *MODONG* coffee from other competing products in the market.

To further enhance the effectiveness of *MODONG* low-carb diet plan, we also developed a variety of other products to complement *MODONG* coffee. Our strawberry multivitamin effervescent tablets are rich in a variety of vitamin, magnesium and calcium, which can timely replenish water for our end consumers to cultivate their habits of drinking sufficient water and therefore help weight management. Other ancillary products that we offer include body fat management scale, portable coffee cup and tape measures, with which our end consumers can monitor their weight, witness their progress and have better experience when taking the *MODONG* low-carb diet.

Molitone prebiotic gummy (魔力通益生元軟糖)

We launched *Molitone* prebiotic gummy in January 2020. *Molitone* prebiotic gummy is a sugar-free nutritional supplement with mild prebiotics. Its main ingredients are fructo-oligosaccharide (“FOS”) and galacto-oligosaccharide. FOS is a type of dietary fiber that can help maintain normal intestinal function. As ketogenic and low-carb diet requires fibers, and most of the fibers are prebiotics, *Molitone* prebiotic gummy can assist such dietary pattern.

MODONG pastry (魔胴糕點)

Our health management products also include *MODONG* pastry, which is part of our low-carb diet product line. *MODONG* pastry is a kind of high-protein and high-dietary-fiber food which replaces flour in traditional pastries. The key ingredients of *MODONG* pastry include almond powder, coconut oil and microcapsule powder. Almond is rich in vitamins and cellulose. Other than that, coconut oil is more easily hydrolyzed and digested, as compared to other edible oils. As a result, *MODONG* pastry is more suitable for low-carbs dietary pattern than the other pastries in the market, and can achieve weight-losing to increase protein and dietary fibre content.

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MODONG herb beverage (魔胴本草飲)

In October 2021 we launched the *MODONG* herb beverage, which is packaged as a concentrated drink aimed to maintain normal bowel function, and developed based on Chinese edible medicinal herbs and plant enzymes. The ingredients of *MODONG* herb beverage include extracted nutrients, such as plant enzymes in hawthorn (山楂), licorice (甘草), tangerine peel (陳皮), mangosteen (羅漢果) and cassia seeds (決明子).

MODONG probiotics lyophilized powder (魔胴益生菌凍乾粉)

In October 2021, we launched the *MODONG* probiotics lyophilized powder, which is a powdered drink aimed to aid people who adhere to a low-carb diet, and the *MODONG* probiotics lyophilized powder shall increase their intake of probiotics. Probiotics are live bacteria which normally stabilize the bacterial balance in the gastrointestinal tract and thereby improving gastrointestinal health.

MODONG high protein milk tea (魔胴高蛋白奶茶)

We developed and launched the *MODONG* high protein milk tea in October 2021, which is a beverage designed for consumers looking for extra protein which is low in carbohydrates. *MODONG* high protein milk tea is rich in vitamins, protein and collagen peptides, and is regarded as a low-carb beverage. The dietary fiber it contains also increases one’s satiety. As compared with other milk tea in the market, *MODONG* high protein milk tea can reduce carbohydrates and sugar intake of consumers effectively.

MODONG MCT coffee (魔胴MCT咖啡)

We launched the *MODONG* MCT coffee in December 2021, which contains primarily medium-chain triglyceride (MCT) and is low Glycaemic Index (low-GI) in content. MCT is a healthy source of fat which supplies energy and produces ketone bodies quickly to increase thermal effect after meal intake. In addition, as it contains dietary fiber, it increases one’s satiety.

Dr. INYOU collagen peptide beverage (盈養博士膠原蛋白肽飲品)

Dr. INYOU collagen peptide beverage is a beverage we launched under *Dr. INYOU* in December 2021, which contains 6,000 mg of collagen peptide. Collagen is an essential nutrient for skin.

Dr. INYOU nicotinamide lyophilized yeast powdered drink (盈養博士煙酰胺酵母凍乾粉飲品)

Dr. INYOU nicotinamide lyophilized yeast powdered drink is another new product we launched under *Dr. INYOU* in December 2021, which targets female consumers and contains glutathione, niacinamide, grape seed extract, acerola cherry extract, etc..

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Matcha powder (抹茶粉)

Matcha is loaded with catechins that act as natural antioxidants. Antioxidants help preventing cell damage and potentially reducing heart disease risk. In addition, several of the components in matcha, such as caffeine and L-theanine, could enhance brain function, citing faster reaction times and increased attention, while helping to induce relaxation and decrease stress levels. Matcha also increases metabolism and fat burning, both of which aid weight loss.

MODONG Light Brewed Coffee (魔胴輕萃咖啡)

MODONG Light Brewed Coffee is a black coffee powder drink which contains primarily medium-chain triglyceride (MCT) and is low Glycaemic Index (low-GI) in content. The product is designed for fitness population to help maintain carb intake.


Based on the abovementioned effects of each of the aforementioned products, our Directors are of the view that these products are differentiated from traditional beverages and food products.

Skincare products



We offer skincare products under our *LA DEW* core brand line and other sub-brands namely, *Dr.mg* (摩肌博士) and *Chaxiaojie* (茶小姐), which allows us to offer a broader range of products and address different needs of our end consumers in the skincare market.

Revenue generated from the sales of skincare products was RMB3.5 million, RMB20.4 million, RMB21.3 million and RMB16.3 million in 2019, 2020, 2021 and 2022, respectively. Sales of skincare products increased in 2020 and 2021 as we devoted more resources to skincare products after the launch of *MODONG* coffee, and we expect to continue to develop the sales of skincare products going forward.

The table below illustrates the main skincare products or sub-brands that we sold during the Track Record Period and up to the Latest Practicable Date:

<u>Products/Sub-brand</u>	<u>Launch Time</u>	<u>Image</u>
<i>LA DEW</i> Facial Mask (“ <i>LA DEW</i> 煥顏美雕面膜”)	June 2018	

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<u>Products/Sub-brand</u>	<u>Launch Time</u>	<u>Image</u>
<i>Dr.mg</i> (“摩肌博士”)	January 2021	
<i>Chaxiaojie</i> (“茶小姐”)	April 2021	

LA DEW Facial Mask (LA DEW 煥顏美雕面膜)

When we launched the sales of skincare products, all of our products were marketed under the *LA DEW* brand. We sold our peel-off facial masks under the brand of *LA DEW* in a seven or 28-piece package, which contains components such as bioplasma and aquaxyl.

Dr.mg (摩肌博士)

Catering to the increasing demands for refined, diversified and efficient skincare products, we launched a series of skincare products under *Dr.mg* sub-brand in January 2021 that target the aging population. A key ingredient of certain skincare products under our *Dr.mg* sub-brand is recombinant human collagen, a type of protein shown by scientific research paper to have the function of promoting collagen production in skin and accelerating skin damage healing. Products under *Dr.mg* sub-brand include lotions, facial masks and cleansing solutions. Such products are designed to address various skin problems caused by skin aging.

Chaxiaojie (茶小姐)

We launched a series of products under the *Chaxiaojie* sub-brand in April 2021, a skincare brand targeting younger generation. Skincare products under this sub-brand include facial masks, facial cream, facial spray and toiletry products.

Product development and pipeline products

We are continuously developing new products for our new retail business. Our product development department would conduct market research to identify any particular demands in the market towards health management products and skincare products. For instance, our product

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development department identify a potential health management product that (i) the product features of which is in line with the concept of low-carb diet; (ii) has an existing and potential gap between market demand and supply; and (iii) it is feasible for us to procure the manufacturing thereof and be sold by us within a reasonable budget, we would explore how such product should be developed to meet the market demand as well as stand out from similar products. In such context, we would conduct research and develop product formula that includes features as well as tastes that the market will be interested. In addition, we would also design product packaging that may highlight the features of the product in order to enable such product to become more appealed to target consumer. In collaboration with our suppliers, we would trial produce such products and may alter the product formula upon receipt of feedback from our sample testing group to refine the product formula.

During the Track Record Period, we mainly collaborated with external institution for the research and development of our products. We normally engage independent OEM manufacturers in the PRC to co-develop the formula of the potential products by modifying and refining the existing formula to fulfill all our requirements, including (i) the specification thereof to be in line of low-carb product; and (ii) having taste and product features that are satisfactory to us. For example, we would provide our specifications of the product and expected product features to the manufacturer for it to use as a reference for the development of the product. During the trial process of the product, we may (i) require the specification of the potential products to be modified and refined to be in line of low-carb requirement, and/or (ii) have taste and product features that are satisfactory to us. We engage OEM manufacturers, which are all established in the PRC and mainly engaged in the manufacturing and sales of food products and/or beverages, for the supply of these products. For example, we engaged Hengmei Group for the co-development of *MODONG* coffee, *MODONG* pastry, *MODONG* high protein milk tea, matcha powder and *MODONG* light brewed coffee based on the development ideas, concepts and nutritional requirements provided by us.

For details of salient terms of cooperation agreement with OEM manufacturers, please refer to the paragraph headed “Suppliers – Selection and management of supplier” in this section below.

During the Track Record Period, the research and development costs incurred by the Group for each of the main health management products mainly comprised salaries and benefits paid to our internal research and development team, which was insignificant to our general and administrative expenses. Such costs amounted to approximately RMB2.6 million, RMB9.2 million and RMB12.6 million for the year ended December 31, 2020, 2021 and 2022, respectively.

Going forward, we plan to exert more control over our product development and develop our exclusive formulas on foods and beverages and skincare products. We plan to strengthen our capabilities for research and development of new products by expanding our in-house product development team as well as cooperating with external research institutes (including agricultural technology, food science and chemical engineering departments of universities). We also intend to acquire machineries and equipment to be used in research and development of our new

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products, including production machineries for trial production and equipment and temperature and humidity control facilities.

As at the Latest Practicable Date, we had over 30 products in the pipeline which are under planning, research and development, and/or testing which are expected to be officially launched during the year ending December 31, 2023. Our pipeline products mainly include food and beverage for low-carb diet, dietary supplements and skincare products. The following table sets forth information in relation to our major pipeline products as of the Latest Practicable Date:

<u>Expected time of launch</u>	<u>Products</u>	<u>Product Category</u>	<u>Description</u>
First half of 2023	L-carnitine (左旋肉鹼)	Dietary supplements	Supplement promoting fat-burn
	Plant based protein powder (純植物蛋白粉)	Dietary supplements	Protein powder made with plant protein to support protein consumption and suitable for vegans
	Matcha series products (抹茶系列食品)	Healthy diet	A series of products made with Matcha powder, including cakes, bread, chocolate and probiotics
Second half of 2023	Konjac foods (魔芋食品)	Low-carb diet	Foods made of Konjac which are low in carbohydrate
	Protein chips (蛋白薯片)	Low-carb diet	A low-carb snack which has high protein content
	Natural cereal and vegetable powder (天然穀蔬粉)	Wholefood	Convenient dietary supports containing various serving of vegetables and cereal

Our plan for product development and the expected time of launch are subject to and maybe affected by various factors including our resources, market demand, progress of development, feedback from our pre-launch sale, terms of cooperation with suppliers and the overall strategic planning of our new retail business. We may adjust the schedule for product development and release based on the circumstances.

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Sustainability of our MODONG coffee

Our Group's reliance on Mr. Jay Chou-related IPs was material during the Track Record Period

Our reliance on Mr. Jay Chou's related IPs was material during the Track Record Period, in particular, in the first half of 2020. However, our sales of *MODONG* coffee remains sustainable and our Group no longer has an undue reliance on Mr. Jay Chou's related IPs subsequently. Sales of *MODONG* coffee was not material in 2019 as it was only launched in April 2019. With the IP empowerment effect brought by *J-Style Trip* season one and the introduction of special edition of *MODONG* coffee with packages featuring *ChouMate*, the sales of Group's *MODONG* coffee has increased significantly in 2020. Subsequently, the sales of *MODONG* coffee decreased in 2021 return to a normal sustainable level in the absence of sizable promotional activities, while our sales of products in new retail business in 2022 was affected by the outbreak of COVID-19.

Our Directors believe that the decline in its sales revenue in 2021 and 2022 was mainly due to (i) the cessation of material promotional effect of the airing of *J-Style Trip* season one since July 2020; and (ii) the temporary disruptions to, among others, the operation of our logistics and delivery service providers, the organization of offline sales and marketing activities, as a result of the implementation of the strict measures to combat the outbreak of Omicron variant of COVID-19, instead of due to the end of its product life cycle for this product.

Demand for our MODONG coffee remains strong

We believe that the market demand for bulletproof coffee remains strong, based on the following facts:

(i) Market demand for bulletproof coffee in general

The concept of bulletproof coffee was first introduced in 2004 in the U.S. and commercialized in China since 2016. The market size of China's bulletproof drink market increased from RMB0.3 billion to RMB3.2 billion in terms of GMV, at a CAGR of 60.0% from 2016 to 2021. In addition, bulletproof coffee currently constitutes the largest segment in China's bulletproof drinks market which accounted for over 80% of the bulletproof drinks market in 2021.

Despite a five-year increase in market size of bulletproof coffee in the PRC, it only recorded a relatively small growth between 2020 and 2021 where the market size increased from approximately RMB3.1 billion in 2020 to approximately RMB3.2 billion in 2021 due to the implementation of various strict measures in different regions across the PRC, including city-wide static management control measures.

With recent relaxation of restrictions to combat the COVID-19 in the PRC, it is expected that the economy in the PRC will be stabilized and resume to rational growth

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from 2023 onwards. Thus, it is expected that the market size of bulletproof coffee will reach RMB7.6 billion in 2026, at a CAGR of 18.7%.

(ii) Market demand for and our ability to sustain sales of *MODONG* coffee

We believe we have built a brand name of our own in the bulletproof drink market, as evidenced by the fact that we ranked first in China’s bulletproof drink industry in terms of GMV in both 2020 and 2021, with a market share of 25.6% in 2021. With the continuous growth of market size in China’s bulletproof drink industry and our current leading position, our Directors believe that the demand for our product will not deteriorate in the foreseeable future.

Our Directors consider that sales of *MODONG* coffee, similar to any other products in the retail industry, is subject to, among other things, our allocation of resources and the level of sales and marketing activities organized for the product.

Despite the outbreak of COVID-19 which adversely affected the general consumption behavior of consumers in the PRC during 2022, we remained to be the leading industry leader of the bulletproof drink market in the PRC in 2022 since our *MODONG* coffee is perceived by end consumers as a product of good quality and has effective features. Thus, we believe the demand of our *MODONG* coffee will resume back to normal gradually in 2023 and going forward having considered that (i) our Group received the sales order of *MODONG* coffee of approximately 510,000 boxes in the first quarter of 2023, which was higher than the average quarterly sales order of *MODONG* coffee of approximately 330,000 boxes in 2022; and (ii) more offline marketing activities were resumed by Kunshan Tingshe and our distributors during the first quarter of 2023 following the relaxation of restrictions to combat the COVID-19 in the PRC. There were 35 salon distributor meeting organized in the first quarter of 2023, as compared to only seven salon distributor meeting organized in the same period in 2022.

As such, our Directors believe we could remain competitive against our competitors by being the leading industry leader of the bulletproof drink market in the PRC and the overall sales of *MODONG* coffee in foreseeable future is sustainable and there is no apparent sign of decline in demand permanently.

IP creation and operation

Our IP creation and operation segment primarily consists of media content production, event planning, celebrity IP creation and licensing and celebrity IP management.

Our IP creation and operation capabilities empower our new retail business by creating a promotional effect, and are vital to the successful monetization of our IP assets. We have established long-term strategic relationship with Mr. Jay Chou, a superstar that has been well-known in the Chinese-speaking communities for over 20 years, through JVR Music, Mr. Jay Chou’s artiste management company. We jointly developed and own *ChouMate* trademarks, including the nijigen-style personality of Mr. Jay Chou, with JVR Music. We consider Mr. Jay

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Chou’s role in the related programs and events (i.e. *J-Style Trip* season one) was mainly as a performer and Mr. Jay Chou is only the inspiration source for creation of the nijigen-style personality, i.e. *ChouMate*.

We have an experienced in-house program and event planning team with strong IP media production capability. As of December 31, 2022, we had 37 employees in the IP content creation department. Our IP creation and operation team is led by a management team with extensive relevant industrial expertise. The head of our event planning team and our chief program officer, Mr. Chang, Chih-Peng, was a producer of reality shows. The head of our IP Licensing department, Ms. Zhou, Peimin, has more than 10 years’ experience in IP licensing and e-commerce. For details, please refer to the section headed “Directors and senior management – Senior management” in this document. Our Group is responsible for the (i) planning and creation of the related programs and events; (ii) formulation of concepts of and design celebrity IPs that appeal to the target audience; and (iii) engagement of different external companies and units for the creation of each IP.

Revenues from our IP creation and operation business was RMB5.8 million, RMB91.8 million, RMB64.0 million and RMB104.1 million in 2019, 2020, 2021 and 2022, respectively.

Media content production

In general, we enter into program cooperation agreements with our business partners, such as TV broadcasting companies. Subject to the content of program cooperation agreement, we mainly provide organizing, planning and other project management services to the production of TV programs and media contents for e-platforms. In terms of organizing and planning, we are generally responsible for inviting celebrity guests to appear on the relevant shows, creation of contents of the TV programs, and filming, creation and promotion of shows. Depending on scope of services that we are required to deliver in the relevant cooperation agreements, we would carry out certain services by ourselves, such as inviting celebrity guests, or outsource others, such as filming and production of the required content, to our sub-contractors. The following is an example of media content production that we were engaged in during the Track Record Period.

J-Style Trip

We are the lead creator of *J-Style Trip* and commenced the planning of filming of *J-Style Trip* season one in 2017. We registered the copyright of *J-Style Trip* in the PRC in March 2018 and also registered *J-Style Trip* as a trademark since January 2019.

In March 2020, we entered into a program cooperation agreement with Zhejiang Radio and TV Group (浙江廣播電視集團, “**Zhejiang RTG**”) and Beijing Master to co-invest in production of a three-season reality show, *J-Style Trip*. Beijing Master holds 30% of equity interest in Beijing Star Plus Master and Beijing Master is the holder of the license for the TV program production and operation (廣播電視節目製作經營許可證). *J-Style Trip* is a new type of outdoor life and culture reality show, which is starred by Mr. Jay Chou and his friends as regular guests. In *J-Style Trip* season one, Mr. Jay Chou traveled to various cities around the world with his friends and brought travelogue and performances to the audience. Each episode featured a special guest including famous artists, singers and pianist. This is the first outdoor reality show

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fully participated by Mr. Jay Chou, which included diversified highlights in the daily life of Mr. Jay Chou and his friends, and conveyed positive message with songs, catch phrases and performance.

Pursuant to the agreement, Zhejiang RTG is responsible for filing application to the relevant regulatory authorities to obtain approval or complete the registration of *J-Style Trip*. We are responsible for the promotion of *J-Style Trip* and assisting and coordinating with Beijing Master to complete the production of the program, while Beijing Master is responsible for the implementation of *J-Style Trip*'s production. In addition, Zhejiang RTG and us are the co-owner of the copyrights and other related intellectual property rights. We are the sole owner of the *J-Style Trip* trademark and we grant Zhejiang RTG the right to use it for nil consideration during the production and promotion of the show.

During the cooperation period, we are responsible for planning matters related to the development, shooting, production and promotion of *J-Style Trip* and shall bear all the relevant expenses (save for promotion fees for Zhejiang RTG's satellite channels and its related ground surface channels, as well as those initiated by Zhejiang RTG).

Pursuant to the agreement, we are entitled to a certain percentage of the program's total TV advertisement income for each season, which include the sales revenue from product placement advertisements such as title broadcast, special broadcast and sponsored broadcast (and initial-broadcast spot traditional advertisements), as well as income from advertisements during the first re-broadcast of the program, after setting off, amongst others, the operating costs of Zhejiang RTG. The fees paid or payable by Zhejiang RTG shall be paid to Beijing Master and we shall split such amount with Beijing Master, which was engaged by Zhejiang RTG for the provision of production services.

J-Style Trip season one was aired on Zhejiang Satellite TV, as well as Netflix and MGTV (芒果TV) in March 2020. *J-Style Trip* season one was well-received by TV audience. The average viewership rating of all 12 episodes ranked first among all TV programs broadcasted during the same timeslot, according to the publicly available rating data.

We also entered into a license agreement with Netflix Worldwide Entertainment, LLC pursuant to which we granted Netflix the right and license to copy, reproduce, transmit, exhibit, distribute, sublicense and communicate to the public *J-Style Trip* season one for 10 years globally (excluding China) at a fixed fee.

Our *MODONG* coffee was presented in all episodes by means of advertisement, spot cut and discrete product placement. We believe that *J-Style Trip* season one increased exposure and enhanced the brand recognition of our products promoted in connection with the show.

As of the Latest Practicable Date, *J-Style Trip* season two was under production.

Others

In 2021, apart from planning and producing TV programs that were centered around Mr. Jay Chou, we also planned and produced a popular music talk show, namely *You Can Run But*

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You Can't Hide (既來之則樂之), that was centered around Mr. Harlem Yu, and a variety show that was centered around Mr. Liu. Our Group was also involved in the planning and creation of part of the performance in music shows and variety shows, that were either aired on TV or streamed on e-platforms. Such shows featured the performance of Mr. Jay Chou as well as many other celebrities who are popular in the Chinese-speaking communities.

We plan to (i) cooperate with well-known platforms in the market in the future to exert our production strengths; (ii) produce more reality shows going forward; and (iii) create and monetize new social e-commerce retail IP, including celebrity IP, content IP and commodity IP.

Event planning

Similar to our media content production operations, we enter into cooperation/service agreements with our business partners for our event planning operations. We generally act as a planning service provider, an investor and/or a sub-contractor for large scale music concerts and other events, which we generate revenue mainly from service fees. Our scope of services and responsibilities for event planning varies, depending on our role in the relevant project and the content of the relevant agreement. When acting as the planning service provider, we are in charge of the overall planning, investment and execution of the event, including performer procurement, stage design, lighting and sound design, live execution, director programming and costume and makeup design. We generally enter into service agreements with sub-contractors to outsource certain execution works of the event, such as stage design, lighting and sound design, director programming etc. When acting as an investor, we provide fund commitment and will receive revenue from the ticket sales in return. We have established our general policy in respect of investments in concerts and events, pursuant to which, our investments shall only be made (i) with the authorization and approval from the chairperson of our Board; (ii) after taking into consideration the background and portfolio of other investment partners; and (iii) when we have sufficient capital resources as well as resources to appropriate celebrity. During the Track Record Period, we made investment of approximately RMB4.4 million in the Ningbo Superstar Performance Night which was held in 2020.

We believe our long-term cooperation with Mr. Jay Chou and his artiste management companies facilitates our communication with Mr. Jay Chou to invite him to perform at the events invested, planned or serviced by us. In view of our track record of providing sub-contractor services to Mr. Jay Chou's personal concerts in 2017 and 2018 and our relationship with Mr. Jay Chou's artiste management companies, we decided that it would be beneficial to our business development if we were able to participate in other large-scale concerts in association with Mr. Jay Chou and other celebrities. Therefore, we decided to initiate and drive the execution of one-off commercial concerts under our brands and IPs at different locations from time to time by making use of these concerts or large-scale events to advertise and popularize our brands and products, and these concerts can be invested by ourselves or other parties. After procuring investors to provide sponsorship to the concerts (if required), we provided concert planning services to Zhanjiang Superstar Concert in August 2019 and provided concert planning services to and invested in Ningbo Superstar Performance Mega Night in January 2020, at which we promoted our products through a combination of activities, including printed advertisement at concert venue, product exhibition and gift giving, without incurring any

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significant marketing expenses. Our provision of concert planning services at these concerts did not involve any bidding process.

In addition, we participated as a sub-contractor of the world concert tour of Mr. Jay Chou, The Invincible (地表最強), in 2017 and 2018, which consisted of concerts in 25 cities in China.

Apart from investment, planning and/or organizing events that feature Mr. Jay Chou as sole performer or one of the performers, leveraging our management’s experience and network in the Chinese entertainment industry, we believe we would be able to carry out event planning projects that do not involve Mr. Jay Chou in the future. For further details regarding our management’s experience in the Chinese entertainment industry, please refer to the section headed “Directors and senior management – Board of Directors – Executive Directors” in this document.

Celebrity IP creation and licensing

We actively explore strategic collaboration opportunities with selected celebrities and create and register bespoke unique celebrity IPs.

In general, we develop and create celebrity IP on our own or in collaboration with our business partner(s). In the event that we develop and create celebrity IP with our business partner(s), we will enter into an agreement with such business partner(s) to set out the respective rights and obligations of each party, including but not limited to ownership of the celebrity IPs and the trademark registration jurisdiction of such celebrity IPs. Depending on the terms of the agreement, we may either be responsible for creating the design of the celebrity on our own or co-create with our business partner(s). After considering various factors, such as general public reception of the celebrity, influence of such celebrity, target audience of such celebrity IP, we will formulate the basic ideas for such celebrity IP. These basic ideas shall include themes, facial expressions, and poses of such celebrity IP. After finalization of basic ideas of celebrity IP, we may subcontract the design of such celebrity IP. We will arrange trademark registration of such celebrity IP after the design is made. The ownership of the design of such celebrity IP belongs to us and/or our business partner(s) (where applicable), even when we subcontract the design. We will use such celebrity IP for empowerment of our products to creating a promotional effect, and/or license such celebrity IP trademark to our other business partner(s).

During the Track Record Period, we created and licensed our celebrity IPs on nijigen personification and livestreaming of celebrity(ies)/KOL(s) in collaboration with other brand owner(s). We may create other types of virtual celebrity IPs going forward. The following is the example of the celebrity IP that was created by us:

ChouMate (周同學)

ChouMate is our proprietary IP and comprises a series of trademarks associated with Mr. Jay Chou, including a nijigen personification of Mr. Jay Chou and readily identifiable with Mr. Jay Chou himself that are currently registered in the mainland China. Such trademarks (together with the copyright subsisting in the designs of such trademarks) are jointly owned by us and JVR Music, Mr. Jay Chou’s artiste management company.

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In August 2019 and September 2019, we entered into cooperation agreements with JVR Music and agreed, amongst others, to jointly develop and own the *ChouMate* trademarks, and JVR Music has the final right to approve our use of any *ChouMate* trademarks. As advised by the IP Counsel, as the *ChouMate* trademarks originated from the image of Mr. Jay Chou, it is in line with industry norm for the artiste management company of Mr. Jay Chou, to retain such right as the use of the *ChouMate* trademarks may affect Mr. Jay Chou’s reputation and goodwill, which determines the commercial value of an artist. Against this background, the final right of approval is one of the safeguards put in place by JVR Music to ensure Mr. Jay Chou’s reputation and goodwill are preserved and that his interest will not be prejudiced. During the Track Record Period, we never encountered any difficulty in obtaining JVR Music’s consent in our endeavours to use or license the *ChouMate* trademarks.

Since the *ChouMate* trademarks were created, we made efforts to drive the creation and design of various versions of the *ChouMate* trademarks which were subsequently used to design our IP operations plans at the early stages and made the public more familiar about it. We empowered the sales and marketing of our products, such as *MODONG* coffee, by featuring the *ChouMate* trademarks on the package, as we believe the association with Mr. Jay Chou instantly appeals to existing fans and lends credibility to new consumers for the product, which helps us to achieve significant sale growth since its nationwide launch in April 2019.

Licensing of the ChouMate trademarks to non-connected parties

Profits from licensing of the *ChouMate* trademarks to parties not controlled by, subject to, or under common control of JVR Music or us (the “**non-connected parties**”) shall be shared. Neither JVR Music nor us is required to pay any fee to each other when the *ChouMate* trademarks are used by either party or its connected parties for their respective business operations, and either party or its connected parties can retain the benefits arising from such use.

We licensed the *ChouMate* trademarks to non-connected parties including Shanghai Pudong Development Bank and Pop Mart, as well as a leading music streaming service provider in the PRC, and developed derivative products of *ChouMate*, including the “*ChouMate* Little Musician” collection set and a pop toy collection. The revenue contributed to us through the licensing of the *ChouMate* trademarks to non-connected parties were approximately RMB141,000, RMB1.9 million, RMB2.8 million and RMB5.9 million for each of the four years ended December 31, 2022, respectively; and the cost incurred in developing the *ChouMate* trademarks were approximately RMB111,000, RMB2,198,000, RMB702,000 and RMB260,000 for each of the four years ended December 31, 2022, respectively, which mainly comprised fees incurred in relation to the design and registration of such IPs.

On August 30, 2021, we entered into the IP Authorization Agreement with JVR Music. Further details are set out in the paragraph headed “Cooperation relationship with Mr. Jay Chou – IP Authorization Agreement with JVR Music” in this section. Apart from confirming the previous arrangements, for a term of 10 years which can be renewed by us for an additional 10 years, JVR Music agreed that we have the exclusive right to conduct planning, development, investment and other commercial projects based on *ChouMate* globally (the “**ChouMate Projects**”). JVR Music further agreed not to carry out the *ChouMate* Projects with any third parties without our prior approval, and since JVR Music is principally engaged in artiste

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management, our Directors are of the view that chances which JVR Music would exercise its right to carry out the *ChouMate* Projects on its own are remote. Going forward, we have various initiatives under the scope of the *ChouMate* Projects, including the creation of cultural products based on *ChouMate*.

On June 1, 2020, an official account for Mr. Jay Chou labeled *ChouMate* was set up on *Kuaishou*. The account had over 52 million followers as of the Latest Practicable Date.

Our Directors are of the view that Mr. Jay Chou, *ChouMate* and our reputation will be safeguarded as (i) JVR Music and us are committed to maintain and protect the reputation of Mr. Jay Chou and *ChouMate* to protect our common interests; (ii) given that we are the only party authorizing other third parties for *ChouMate* Projects, we will only grant licenses to trusted partners, who shall seek approval from us regarding the scope and manner of use of *ChouMate* trademarks such that we can constantly monitor, supervise and direct the use of any *ChouMate* trademarks; and (iii) it would be easy for us to identify counterfeit goods bearing *ChouMate* trademarks and take suitable enforcement actions to eliminate them from the market.

Even if there is any change in the ownership of JVR Music, as advised by the IP Counsel, our Directors and the Sole Sponsor are of the view that, as a co-owner of the *ChouMate* trademarks, our ownership of and legal entitlement to the exclusive rights to use the *ChouMate* trademarks under the applicable laws and in accordance with the agreements with JVR Music will not be affected. Since our cooperation with JVR Music on *ChouMate* and its related projects precedes the entering of the IP Authorization Agreement, as advised by the IP Counsel, we have the right to use the *ChouMate* trademarks irrespective of the IP Authorization Agreement since our ownership in, and our rights as a co-owner of the *ChouMate* trademarks are perpetual.

Non-Mr. Jay Chou-related nijigen-style personalities

Apart from creation of nijigen-style personality for Mr. Jay Chou, we are continuously exploring feasibility of designing and creating nijigen-style personality for other celebrities as well. We entered into the Liu-related Nijigen-style Personality(ies) Cooperation Agreement with Mr. Liu, Ms. Vivi Wang and W&V regarding creation and design of nijigen-style personalities inspired by them. We also entered into cooperation agreements with Mr. Fang and his artiste management company regarding (i) the creation and design of nijigen-style personalities inspired by him; and (ii) the licensing of his existing nijigen-style personality. As at the Latest Practicable Date, we planned to design and create nijigen-style personalities for members of Nan Quan Mama. In 2022, we entered into cooperation agreements with certain members of Nan Quan Mama and we are in the course of negotiating the terms of the agreement to be entered into with remaining members of Nan Quan Mama. If our collaboration with them materialises, it is expected that we will enter into such agreement directly with them, and their respective artiste management company, if necessary. We expect we would be able to apply the same business model that we use on *ChouMate* with other celebrity-inspired nijigen-style personality(ies). For further details, please refer to the paragraphs headed “Our business – IP creation and operation – Historical IPs and IPs pipeline” and “Cooperation Relationship with Mr. Jay Chou – Whether Mr. Jay Chou has been and will remain significant to our business operation – Collaboration with other celebrities to diversify our portfolio of celebrities and IP repertoire” in this section.

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Others

Apart from nijigen-style personality, we also create celebrity IP on livestreaming of celebrity(ies)/KOL(s) in collaboration with other brand owner(s). We create the livestream session of celebrity(ies)/KOL(s) to be our celebrity IP as we conceive contents and presentation of such livestream session, such as development of ideas and production and content of the livestream session that links the respective brands to its target audience in order to create promotional effect.

In addition, we may collaborate with third party(ies) to diversify our business under the IP creation and operation segment.

Celebrity IP management

We have been expanding our IP creation and operation business by providing celebrity IP management services since late 2021 when we commenced cooperation with Mr. Liu, where we would be responsible for the development of IP through collaboration with celebrities and KOLs. Leveraging on our experience in media content production and celebrity IP creation, we are involved in the planning and development of the public image of celebrities and KOLs in, among others, live-streaming sessions, online short videos and other online and offline performances on social media platforms. We generate our revenue from (i) sponsorship or promotion fees from brand owners or the MNC Company (depending on which party entered into the cooperation agreement with the relevant brand owners) for promotion of goods and services; and (ii) commission from sale of products of third party brand owners, during the livestreaming sessions, online short videos and/or other online and offline performances of the celebrities and KOLs and/or their related IPs managed by us.

We firstly tapped into the celebrity IP management business in late 2021 when we were involved in the development of Mr. Liu into a KOL in the fitness and body-building sector in the PRC. We (through our non-wholly owned subsidiary, namely, Talent Planet) entered into cooperation agreements with Mr. Liu and his artiste company, pursuant to which we shall provide planning and management services in respect of the entertainment and performance business of Mr. Liu in the PRC and we would be entitled to certain percentage of income generated therefrom. For details, please refer to the paragraph headed “Cooperation with Mr. Liu and Ms. Vivi Wang – Cooperation under our IP creation and operation business” in this section.

In addition, we created a *Douyin* account under the name of “劉畊宏肥油咔咔掉” where we cooperate with different celebrities and KOLs to conduct e-commerce livestreaming sessions and promotion of the sale of products of other third party brand owners. In this regard, we would pay commissions to celebrities or KOLs who cooperate with us. We also utilize livestreaming sessions, online short videos and other online and offline performances of the celebrities and KOLs to empower the sales of our products under our new retail business. For details of the sale of our *Douyin* stores, please refer to the paragraph headed “Distribution network – Distribution through other e-commerce channels – Other e-commerce channels” in this section.

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Historical IPs and IPs pipeline

The following table sets out all the events and IP programs that we have launched during the Track Record Period and their corresponding revenue and gross profit:

	Year ended December 31,											
	2019			2020			2021			2022		
	Revenue	Gross profit margin	Gross profit	Revenue	Gross profit margin	Gross profit	Revenue	Gross profit margin	Gross profit	Revenue	Gross profit margin	Gross profit
RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	
Events planning and IP programs												
Zhanjiang Superstar Concert (湛江超級巨星演唱會) ⁽¹⁾	4,001	69.1	538	-	-	-	-	-	-	-	-	-
Ningbo Superstar Performance Mega Night (寧波巨星行動超級夜) ⁽¹⁾	-	-	-	4,505	4.9	76	-	-	-	-	-	-
J-Style Trip season one ⁽²⁾	-	-	-	81,590	88.9	(24,557)	-	-	-	-	-	-
You Can Run But You Can't Hide (原來之則樂之) ⁽³⁾	-	-	-	-	-	-	18,868	29.5	5,262	27.9	-	-
A music award ceremony broadcasted on a music streaming platform in the PRC ⁽⁴⁾	-	-	-	-	-	-	9,974	15.6	2,873	28.8	-	-
A variety show that was centered around Mr. Liu ⁽⁵⁾	-	-	-	-	-	-	8,491	13.3	3,098	36.5	5,660	2,663
A music show broadcasted on a music streaming platform in the PRC ⁽⁴⁾	-	-	-	-	-	-	6,667	10.4	3,096	46.4	-	-
A music TV program ⁽⁴⁾	-	-	-	-	-	-	6,340	9.9	1,811	28.6	-	-
A promotional short video about a multiplayer online battle arena video game ⁽⁶⁾	-	-	-	-	-	-	1,887	3.0	789	41.8	-	-
An online music show (周杰倫線上歌友會) and a promotional video about J-Style Trip season two and new music album on a livestreaming platform in the PRC ⁽²⁾	-	-	-	-	-	-	-	-	-	-	23,894	16,385
618 livestreaming session ⁽⁷⁾	-	-	-	-	-	-	-	-	-	-	7,890	4,824
											23.0	7.6
											68.6	61.1

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	Year ended December 31,														
	2019				2020				2021				2022		
	Revenue	Gross profit margin	Revenue	Gross profit margin	Revenue	Gross profit margin	Revenue	Gross profit margin	Revenue	Gross profit margin	Revenue	Gross profit margin	Revenue	Gross profit margin	
RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%		
A World-cup related variety show (周遊記2世界杯外篇) ⁽⁶⁾	-	-	-	-	-	-	-	-	-	-	-	3,962	3.8	3,461	87.4
A World-cup related online music show (動感世界杯音樂盛典) ⁽⁴⁾	-	-	-	-	-	-	-	-	-	-	-	9,433	9.1	5,030	53.3
Livestreaming sessions, online short videos and other performance(s) that were centered around Mr. Liu and his related IP(s) ⁽⁸⁾	760	13.1	752	99.0	472	0.5	470	99.6	2,172	3.4	1,293	41,708	40.1	31,545	75.6
Others	4,761	82.3	1,290	27.1	86,567	94.3	(24,011)	(27.7)	54,399	85.1	18,222	95,026	91.3	65,497	68.9
Sub-total	1,027	17.7	187	18.2	5,202	5.7	2,312	44.4	9,551	14.9	3,690	9,032	8.7	6,585	72.9
Licensing fee and sales of cultural and creative products	5,788	100.0	1,477	25.5	91,769	100.0	(21,699)	(23.6)	63,950	100.0	21,912	104,058	100.0	72,082	69.3
TOTAL															

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Notes:

1. We initiated and acted as the planning service provider of Zhanjiang Superstar Concert. We also acted as a planning service provider and an investor to the Ningbo Superstar Performance Mega Night. We were responsible for creating the content for such concerts and Mr. Jay Chou performed as one of many guests.
2. We were involved in the planning and/or acted as the lead creator of such programs, which were centered around Mr. Jay Chou.
3. We were involved in the planning of such program. Such program, which was aired on one of the leading online video platform in the PRC was centered around Mr. Harlem Yu who was the host thereof, and Mr. Jay Chou only appeared as one of the many guests.
4. We were responsible for creating Mr. Jay Chou-related content for such programs, which featured many other celebrities as guests.
5. We were involved in the planning of such program. Such program, which was aired on one of the leading online video platform in the PRC was centered around Mr. Liu who was the host thereof.
6. We were involved in the planning of such programs, which were hosted by Mr. Jay Chou.
7. We were engaged by the online platform which produced and broadcasted the relevant program for planning and conceiving Mr. Liu-related contents of such livestreaming session. Such livestreaming session was streamed on Mr. Liu’s *Douyin* account. Our revenue represented the service fees paid by the online platform after excluding the portion entitled by Mr. Liu and W&V.
8. We were involved in conceiving contents and presentation of such livestreaming sessions, online short videos and other online and offline performance, which were streamed on designated live streaming platform or online video platform (where applicable). Brand owners would from time to time engage Mr. Liu to promote their products and/or services through, including but not limited to, product placement during his livestreaming sessions, publication of promotion online short video on Mr. Liu’s related *Douyin* account(s) and/or licensing of the right to broadcast relevant promotion online short video. Pursuant to the relevant agreements between Mr. Liu and us, we are entitled to a portion of such income from the brand owners or the MCN Company as our revenue. For details, please refer to the paragraph headed “Cooperation with Mr. Liu and Ms. Vivi Wang – Cooperation under our IP creation and operation business” in this section.

As demonstrated in the table above, our Group was diversifying types and sources of our IP during the Track Record Period by cooperating with other celebrities, including Mr. Harlem Yu and Mr. Liu.

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Major events and IP programs in the pipeline

Set out below are the major events and IP programs in the pipeline and their respective expected revenue contribution to our Group’s IP creation and operation segment:

TV programs

1) *Yue Lai Yue Kuai Le* (樂來樂快樂)

Such program is a music talk show which is expected to be aired in the second half of 2023. Mr. Harlem Yu will be the lead host who will appear on all 12 episodes of such program, together with different guests to be invited to attend. Each of the guests shall separately appear in different episodes of such program. Apart from Mr. Jay Chou, none of the guests currently invited are artists managed by our Controlling Shareholders, or their respective associates (excluding our Group). As at the Latest Practicable Date, (i) such program was under production, with 10 out of 12 episodes being filmed, (ii) we were in the process of negotiation of sponsorship of such program with several brand owners, and (iii) we had entered into an agreement regarding licensing and title sponsorship of such program. During the year ended December 31, 2022, we entered into an agreement regarding licensing and title sponsorship of such program. The contract amount from such agreement amounts to approximately RMB42.5 million, of which (i) about RMB14.5 million being contributed by the licensing of such show; and (ii) about RMB28.0 million being contributed by sponsorship of such show. Given such program would be aired in the second half of 2023, the revenue derived therefrom has not been recognized during the year ended December 31, 2022. We expect to recognize a revenue of about RMB32.7 million from such agreement (after deducting the profit share of the relevant business partners from the total contract amount) for the year ending December 31, 2023, of which (i) about RMB13.7 million being contributed by the licensing of such show, and (ii) about RMB19.0 million is expected to be sponsorship received from such show with our business partners. The expected costs would be recognized in the financial statements of our Company for the year ending December 31, 2023. Such amount of revenue is estimated based on the information currently available to us and the actual amount of revenue to be recognized by our Group is subject to audit. Up to the Latest Practicable Date, we were in the process of negotiation with more potential sponsors. Thus, we expect, in addition to the above contract amount, more revenue would be recognized from such program upon its airing, which is expected to be in the second half of 2023.

Mr. Harlem Yu is one of the most acclaimed singers and songwriters in Chinese pop music industry. His music achievement was astonishing by the fact that (i) he is the first singer to compose and perform a Chinese rap song (i.e. 報告班長), (ii) he is the first Chinese artist to be invited by MTV to perform at an “Unplugged” concert in London, (iii) he won the Outstanding Singer-Songwriter in Asia from the Billboard Music Awards in 1996, and (iv) he won the Best Male Vocalist – Mandarin from the 13th Golden Melody Awards in 2002. Apart from music achievement, Mr. Harlem Yu was recognized for his variety show-related work. Our Directors believe that the popularity of the host and guests can attract audiences to watch such program,

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hence promoting our products by such IPs can enable us to increase brand and product awareness when there is sponsorship or product placement on the program.

2) *J-Style Trip* season two

Such program is expected to be aired in the summer of 2023. None of the guests currently invited are artists managed by our Controlling Shareholders or their respective associates (excluding our Group). As at the Latest Practicable Date, such program was under production, with 10 out of 12 episodes being filmed and it is expected that such program will be aired in the summer of 2023. In late 2022, we entered into an agreement regarding sponsorship of such program with a contract amount of RMB40.0 million. As at the Latest Practicable Date, (i) we were in the process of negotiation of sponsorship of such program with several brand owners, and (ii) we were in the process of the licensing of such program. The expected revenue and costs with respect to *J-Style Trip* season two would be recognized in the financial statements of our Company for the year ending December 31, 2023.

We were still in the process of negotiating sponsorship and licensing of such program as at the Latest Practicable Date. However, based on track record of *J-Style Trip* season one, where popularity of Mr. Jay Chou and the sponsorship of *J-Style Trip* season one was affected by the outbreak of COVID-19, it is expected that the revenue to be contributed by *J-Style Trip* season two would be of the similar level of the revenue contributed by *J-Style Trip* season one, or even slightly higher. Given (i) we have gained experience from producing *J-Style Trip* season one, we incurred less expenses in relation to the planning for the production of *J-Style Trip* season two; (ii) fewer guests had been invited for *J-Style Trip* season two, as compared to *J-Style Trip* season one; and (iii) the production of *J-Style Trip* season two has been more cost effective as it has been filmed in fewer countries or regions than *J-Style Trip* season one, we expect the costs to be lower than that for *J-Style Trip* season one.

As advised by our PRC Legal Advisors, although our Company is not required to obtain any governmental approval for broadcasting the above IP programs in the PRC, the television channels and/or Internet broadcasting platforms with the license for publication of audio-visual programs (信息網絡傳播視聽節目許可證) that will broadcast these IP programs shall be responsible for reviewing the contents of the programs and filing with the competent radio and television administrative department before such broadcasting according to the relevant PRC laws and regulations. As a result, our Company will liaise and cooperate with the relevant television channel(s) and/or Internet broadcasting platform(s) in reviewing the content of the relevant IP program(s) so to facilitate the relevant television channel(s) and/or Internet broadcasting platform(s) to conduct the necessary filing with the competent radio and television administrative department before broadcasting the relevant IP program(s).

Performance tour

We are planning a fitness-related performance tour that would feature Mr. Liu, Ms. Vivi Wang (spouse of Mr. Liu), together with other celebrities. As at the Latest Practicable Date, our Group was seeking appropriate venue to hold such tour in different cities in the PRC, and we

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expect the first part of the tour will be held in Chongqing in around April to May 2023 and following by Guangzhou, Qingdao and Haikou in the remaining of 2023. Such tour would be subject to confirmation of an appropriate venue(s) and, as advised by our PRC Legal Advisors, approval from the competent department of culture and tourism. We expect to use such tour to promote our products and/or IPs.

SYNERGY BETWEEN OUR IP CREATION AND OPERATION BUSINESS AND OUR NEW RETAIL BUSINESS

We are able to generate revenue directly from our IP creation and operation business. At the same time, we also operate the IP creation and operation business, mainly for the purpose of empowering our new retail business through creating promotional effect to promote our products. For example, Mr. Jay Chou-related IP has created promotional effect to our sales of *MODONG* coffee, as demonstrated in the paragraph headed “Our business – Sustainability of our *MODONG* coffee” in this section above.

In addition to the promotional effect from Mr. Jay Chou-related IPs, we also used other celebrities-related IPs to promote our products during the Track Record Period. For instance, in 2022, our products, such as Matcha powder and *MODONG* light brewed coffee, were promoted during e-commerce livestreaming sessions where Ms. Vivi Wang and/or KOLs whom we collaborated with appeared in.

Based on our track record of the sales of our Group, we are confident that any other celebrities-related promotional activity(ies) conducted by us can bring positive promotional effect to the sales of product(s), where the sales thereof could be boosted to a certain extent.

In the future, we plan to continue explore the possibility of collaborating with other celebrities by the same or different means as mentioned above in order to leverage on the popularity thereof and promote our products.

COOPERATION RELATIONSHIP WITH MR. JAY CHOU

We have established long-term cooperation relationship with Mr. Jay Chou, JVR Music (Mr. Jay Chou’s artiste management company, which Mr. Jay Chou is interested in 40% of its equity interest) and Archstone (Mr. Jay Chou’s representative for business negotiations in respect of one off or project based engagement). Our Founders, Controlling Shareholders and/or Directors include Ms. Yeh (Mr. Jay Chou’s mother) and directors and controlling shareholders of JVR Music or Archstone, namely, Mr. Yang and Mr. Chen (our non-executive Directors), respectively, and these parties have substantial influence over our overall development and business strategies.

During the Track Record Period, we collaborated with Mr. Jay Chou, JVR Music and/or Archstone through various business undertakings which are further elaborated below, and our synergistic relationship with them is expected to continue in the future. Through such collaborations, JVR Music, Archstone and us established a mutually beneficial relationship in

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which we help solidify Mr. Jay Chou's popularity among our consumers and unique celebrity IPs centered around Mr. Jay Chou empower our new retail business through creating promotional effect for our products.

IP Authorization Agreement with JVR Music

To formalize our long cooperation relationship with JVR Music and to ensure the continuity thereof, on August 30, 2021, we entered into the IP Authorization Agreement with JVR Music. Pursuant to the IP Authorization Agreement, for a term of 10 years that can be renewed by us for an additional 10 years, we have secured (a) an exclusive right to the *ChouMate* Projects and (b) a non-exclusive priority right to invest in certain types of projects.

Terms of the IP Authorization Agreement

Set out below is a summary of various rights granted to us by JVR Music under the IP Authorization Agreement:

- | | |
|---|---|
| <i>Exclusive rights</i> | Planning, development, investment and other commercial projects based on <i>ChouMate</i> globally |
| <i>Non-exclusive priority rights</i> ^(Note 1) | <ol style="list-style-type: none">(1) Design, creation, planning, development and investment in virtual idols centered on Mr. Jay Chou's image in anime and movies projects(2) Design, creation, planning, investment and launch of certain shows (including variety shows designed and developed by Mr. Jay Chou, but excluding performances, music awards ceremonies, music magazines etc. where Mr. Jay Chou participates solely in his capacity as a singer and programs within the scope of JVR Music's agency business, including but not limited to Mr. Jay Chou appearing as a guest, mentor, guest host, performing artist or guest interviewee on programs)(3) Investing in JVR Music's and/or Mr. Jay Chou's Hollywood Movies (as defined in the IP Authorization Agreement) |

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Other rights

- (1) Arranging Mr. Jay Chou to participate and attend commercial concerts hosted, invested or sponsored by us, as well as the promotion activities of such concerts
- (2) Investing in Mr. Jay Chou's personal concerts or other concerts where Mr. Jay Chou is the main performer
- (3) Procuring Mr. Jay Chou's participation and/or attendance of events and activities in relation to Star Plus Projects (as defined below)

Note:

1. This refers to our right to invest in projects in these respects which can be proposed by other third parties. For any such projects proposed by a third party and accepted by JVR Music to be carried out by a third party, JVR Music will, to the extent within its power, invite us to co-invest in such projects on a priority basis. For any such projects proposed by us and accepted by JVR Music to be carried out by us, we will be engaged by JVR Music for the development of such projects and enjoy the priority right to decide whether to develop such projects by ourselves or together with other third parties.

Other major terms of the IP Authorization Agreement are summarized as follows:

Procurement of Mr. Jay Chou's participation	On terms not less favorable than those offered by other third parties, JVR Music will make arrangements such that Mr. Jay Chou will be able to participate and attend commercial concerts hosted, invested or sponsored by us, as well as the promotion activities of such concerts, and we can request JVR Music to procure Mr. Jay Chou to participate and/or attend events and activities in relation to projects contemplated under the IP Authorization Agreement (the " Star Plus Projects "), including the ChouMate Projects. For Mr. Jay Chou's personal concerts or other concerts where Mr. Jay Chou is the main performer, JVR Music agreed that we could invest in such concerts as it deems appropriate.
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- Ownership of intellectual property rights
- With respect to projects that needs to combine or utilize JVR Music's or Mr. Jay Chou's works shall be authorized by JVR Music separately, and the ownership of intellectual property rights of such projects will be separately agreed by JVR Music and us;
 - With respect to projects for which we act as the main investor shall be fully owned by us (except for the intellectual property rights generated from Mr. Jay Chou's concerts, the ownership of which will be determined by the relevant concert contracts); and
 - With respect to other projects which are not covered above, the intellectual property rights shall be separately agreed by JVR Music and us on a case-by-case basis.

- Grounds of termination
- The IP Authorization Agreement will be terminated if, among other things:
- (i) a fundamental breach is caused by us, which includes the use of Mr. Jay Chou's image and name in any projects or the execution of any Star Plus Projects without obtaining the prior consent of JVR Music; or
 - (ii) any party continuously or materially breaches any provisions of the agreement and such breach is not remedied after the complying party notifies the breaching party.

Further, the IP Authorization Agreement is subject to an early termination (the "**Early Termination Right**") if we are not [REDACTED] on or before the second anniversary of the date of the IP Authorization Agreement.

Our non-exclusive priority rights in all JVR Music's projects

The above non-exclusive priority rights provide us with the opportunity to participate (whether directly in the development, creation and organization of projects proposed by our Group, or indirectly by way of investment in such projects proposed by other third parties) in all JVR Music's projects in these agreed respects. Our Directors consider it reasonable and natural that any proposal of these projects (whether proposed by our Group or other third parties) will need to be accepted or approved by JVR Music, as (i) the projects will utilize Mr. Jay Chou's related IP and therefore, JVR Music should have the right to accept or approve the projects on behalf of Mr. Jay Chou; (ii) JVR Music shall select suitable projects which can benefit Mr. Jay Chou or his career development, while enhancing his popularity, reputation and commercial value; and (iii) JVR Music needs to ensure that the proposed projects would not, among others,

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be derogatory to Mr. Jay Chou's health, reputation and/or image, or result in any breach of pre-existing contracts or commitments. We believe it is also an industry norm for artiste management companies to have similar approval right in respect of any projects involving its artists and/or the artist's image, publicity rights or intellectual property rights for the above reasons. During the Track Record Period and up to the Latest Practicable Date, there was no occasion of us being rejected by JVR Music in relation to any projects associated with Mr. Jay Chou, including those which we have non-exclusive priority rights under the IP Authorization Agreement.

Authorization of JVR Music to enter into the IP Authorization Agreement and our rights to use the Relevant IP Rights

JVR Music confirmed that it has obtained all necessary authorizations to enter into the IP Authorization Agreement and is capable of performing its obligations thereunder. Given: (i) the cooperation between JVR Music and Mr. Jay Chou in the past 14 years; (ii) Mr. Jay Chou's shareholding in JVR Music; and (iii) we were advised that JVR Music shall continue to be Mr. Jay Chou's artiste management company at least until 30 December 2031, our Directors do not expect that there will be material change in relationship between JVR Music and Mr. Jay Chou during the term of the IP Authorization Agreement.

Mr. Jay Chou also provided us a confirmation (the "**Confirmation**") that: (i) the authorization given by JVR Music to us under the IP Authorization Agreement (and any other agreements derived therefrom) will not be affected due to any change in the cooperation relationship between JVR Music and him; (ii) in the event that JVR Music is no longer the artiste management company of Mr. Jay Chou, JVR Music would continue to retain the requisite authorization to perform its obligations under pre-existing contracts as approved under the IP Authorization Agreement, including its rights to authorize us to use the relevant publicity rights and other intellectual property of Mr. Jay Chou (the "**Relevant IP Rights**"); and (iii) if JVR Music is unable to authorize us to use the Relevant IP Rights (other than due to the breach of the IP Authorization Agreement by us), Mr. Jay Chou agrees to procure his then duly authorized agent to enter into a new IP authorization agreement with us on terms substantially the same as those of the IP Authorization Agreement. As advised by the IP Counsel, (i) the Confirmation is legally binding and enforceable since the essential elements of a valid and binding contract under Hong Kong law are present; (ii) the Confirmation remains binding and enforceable against Mr. Jay Chou regardless of the governing law of future agreements to be entered into between Mr. Jay Chou and his new artiste management company; and (iii) the Confirmation enables us to continue to enjoy the rights to use the Relevant IP Rights irrespective of the relationship between JVR Music and Mr. Jay Chou. Accordingly, we are of the view, and the Sole Sponsor concurs, that our interests under the IP Authorization Agreement would not be prejudiced and our cooperation with Mr. Jay Chou can be safeguarded, even if another party becomes Mr. Jay Chou's artiste management company during the term of the IP Authorization Agreement.

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Whether JVR Music would exercise the Early Termination Right

Our [REDACTED] provides extra commercial incentive for JVR Music to commit itself for long-term cooperation with our Group by entering into the IP Authorization Agreement, given our [REDACTED] could enhance the financing ability of our Company, as we could raise from the [REDACTED], be open to more financing options through access to capital markets, and apply such funds on our IP creation and operation segment. The Early Termination Right was agreed based on the commercial rationale that we would have more resources to implement the potential cooperation under the IP Authorization Agreement upon our [REDACTED]. In that case, we believe that it is also logical that Mr. Jay Chou and JVR Music would have more incentive to further strengthen their cooperation with us if we have more resources and capacity in creating, organizing and planning sizable events and programs to further enhance his public exposure and raise his popularity, which in turn would be beneficial to the career of Mr. Jay Chou. Please see under the paragraph headed “Mutual beneficial relationship between our Group and Mr. Jay Chou” below for details. As at the Latest Practicable Date, to our best knowledge, given the long-standing relationship between JVR Music and us to cooperate in various projects, we understand that JVR Music would not exercise the Early Termination Right even if we are not [REDACTED] by the second anniversary of the IP Authorization Agreement as long as we remain capable in providing the backing required by JVR Music and possess the relevant resources and connections to execute the Star Plus Projects.

Our recourse if there is negative publicity surrounding Mr. Jay Chou

We do not have the unilateral right to terminate the IP Authorization Agreement in situations where there is negative publicity surrounding Mr. Jay Chou, and such rights are unnecessary because we did not commit ourselves to any potential projects or are required to perform any positive obligations thereunder. In the unlikely event that there is negative publicity surrounding Mr. Jay Chou, we retain the power to decide whether to cooperate with JVR Music on the Star Plus Projects that have not materialized; and for Star Plus Projects that we have committed, we will decide how they should be proceeded based on the separate agreement to be entered for each project which sets out the major terms (typically including back-to-back indemnification clauses where JVR Music would indemnify us in the event Mr. Jay Chou is associated with negative publicity and we would indemnify JVR Music if Mr. Jay Chou’s reputation is tarnished due to acts or omission of our Company, or termination cost (if any)). If we decide to terminate such projects, our operations and results may be adversely affected, please refer to the section headed “Risk factors – Risks relating to our business and industry – We rely on our cooperation with celebrities such as Mr. Jay Chou, Mr. Liu, Ms. Vivi Wang and Mr. Harlem Yu etc. in our businesses, and any negative impact on such celebrities’ reception by or exposure to our consumers may have material adverse effects on our business, financial position and results of operations.” in this document for details.

As advised by the IP Counsel, and our Company and the Sole Sponsor concur, our interest with respect to Mr. Jay Chou’s intellectual property rights under the IP Authorization Agreement will not be affected even if Archstone is able to use Mr. Jay Chou’s intellectual property rights for certain engagements, and our interests are duly safeguarded contractually under the IP

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Authorization Agreement because Archstone's rights of negotiating projects on behalf of Mr. Jay Chou and to use Mr. Jay Chou's publicity rights and intellectual property rights originates from JVR Music. It follows that since JVR Music is required to comply with the terms of the IP Authorization Agreement (including the provisions relating to exclusivity, priority and other rights granted to our Group and the ownership and right to use the related intellectual property), it will not grant any rights to Archstone to such extent that would render it breaching the IP Authorization Agreement.

Long-term, stable and secure relationship through contractual arrangements with Mr. Jay Chou's agent and representative

We believe that we have established a long-term, stable and secure relationship with Mr. Jay Chou through JVR Music and/or Archstone by (a) being engaged in media content production and event planning that were related to him (being part of the IP creation and operation business) when we procured Mr. Jay Chou to perform at concerts planned and/or invested by us, and to appear in *J Style Trip* season one and obtained the right to use Mr. Jay Chou's publicity rights and the right to use Mr. Jay Chou's songs in the show through Archstone, (b) creating synergy between our new retail business and IP creation and operation business by using Mr. Jay Chou-related IPs to create promotional effect to promote our new retail products from time to time since 2019, and (c) through the 10-year IP Authorization Agreement. We believe the rights given to us under the IP Authorization Agreement and its term demonstrates that Mr. Jay Chou will collaborate with us on a long-term basis.

We maintain a long-term cooperation relationship with JVR Music and Archstone. JVR Music is owned by Mr. Yang, Mr. Jay Chou, Mr. Fang and Ms. Yeh as to 45%, 40%, 10% and 5% respectively. While Mr. Yang (our non-executive Director) and Mr. Yeh (mother of Mr. Jay Chou) are our Founders and Controlling Shareholders, Mr. Fang is our chief cultural officer. Mr. Jay Chou is a founder of JVR Music. Archstone is wholly-owned by Mr. Chen who is our Founder, Controlling Shareholder and non-executive Director.

We understand that Mr. Jay Chou has maintained a stable and long-term relationship with Mr. Yang and Mr. Chen (our non-executive Directors) through JVR Music and Archstone, respectively, and we believe such relationship reduces the risk of our reliance on Mr. Jay Chou.

Mr. Jay Chou's relationship with JVR Music and its directors and shareholders

JVR Music is Mr. Jay Chou's agent which possesses the exclusive right to deal with the copyright in all of Mr. Jay Chou's lyrics, music works, audio-visuals and video works and Mr. Jay Chou's publicity rights for and on behalf of Mr. Jay Chou. JVR Music has been and is under Mr. Jay Chou's authorization to use Mr. Jay Chou's publicity rights, and handle Mr. Jay Chou's commercial licensing activities globally.

In the event Mr. Jay Chou's relationship with JVR Music or its directors and shareholders deteriorates, his cooperation with us will not be substantively affected as (i) our cooperation with JVR Music and Mr. Jay Chou under the IP Authorization Agreement will not be affected;

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(ii) we have the proprietary right to use the *ChouMate* trademarks; (iii) we are the co-owner of the copyrights and other related intellectual property rights of *J-Style Trip* created by us; and (iv) Mr. Jay Chou’s publicity rights are personal to him, and he may enter into project-based engagements with us. For details, please see the sub-paragraph headed “Mutual beneficial relationship between our Group and Mr. Jay Chou”.

Mr. Jay Chou’s relationship with Archstone

Archstone represents Mr. Jay Chou in business negotiations in respect of one-off or project-based management under the authorization and consent of JVR Music, such as product endorsements and commercial concerts in the PRC. Archstone does not possess any of Mr. Jay Chou’s intellectual property rights and publicity rights or any rights to deal with the foregoings for and on behalf of Mr. Jay Chou, and it shall enter into one-off authorization agreement(s) with JVR Music on a case by case basis which sets out the specific scope of authorization. Hence, any change in the relationship between Mr. Jay Chou and Mr. Chen or Archstone, would not have any substantive impact on our business activities.

Impact of Mr. Jay Chou’s commercial activities other than those with our Group

Mr. Jay Chou also carries out commercial activities with parties other than us (including his personal concerts, his appearance in programmes not planned by us, or acting as the spokesperson for other brands or products), and such activities may impose restrictive covenants on Mr. Jay Chou. Such restrictive covenants inevitably affects the scope of the Star Plus Projects that can be done between us and Mr. Jay Chou. However, JVR Music ensures that restrictive covenants that Mr. Jay Chou is required to comply does not affect his ongoing cooperations with us, and hence our business activities will not be affected by such covenants. We do not believe that such restrictions poses risk to our business activities because we can always cooperate with other celebrities if we have a concrete business initiative, work on projects with Mr. Jay Chou outside such restrictive covenants and there are still a lot of business opportunities available for exploitation.

Mutual beneficial relationship between our Group and Mr. Jay Chou

Our Directors are of the view that there is a mutual beneficial relationship between our Group and Mr. Jay Chou. Our IP creation capacity was critical to the creation of our IPs, including but not limited to those associated with Mr. Jay Chou, such as *ChouMate* and *J-Style Trip* season one. Our celebrity IPs have empowered our brands, products and distribution network by creating a promotional effect. Licensing of such IPs to third parties raised Mr. Jay Chou’s popularity. For example, *J-Style Trip* season one accumulated significant number of viewings upon airing on various media platforms, which in turn increased public exposure of Mr. Jay Chou and contributed to his continued popularity and commercial value. At the same time, the provision of Mr. Jay Chou’s service and licensing of his IP rights were determined on an arm’s length basis.

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On the other hand, as a leading figure in China’s entertainment industry, Mr. Jay Chou has a large fan base and can attract significant interest to products associated with him, which has empowered our new retail operations. Mr. Jay Chou’s celebrity commands a magnitude and longevity that is hard to replace. Mr. Jay Chou maintained the top 10 ranking in the Forbes Chinese Celebrity List for over ten years and ranked first in terms of income among Chinese-speaking celebrities in the period of 2017 to 2020. With such ranking, we believe the image of Mr. Jay Chou has remained positive, and he has continued to exert positive influence on the public, and we believe Mr. Jay Chou will continue to be a well-regarded celebrity in the near future, thereby continuing to contribute to our operations through the empowerment achieved by his celebrity IP.

In addition, we are of the view that there may only be a handful of celebrities that have a similar level of popularity and influence as compared to Mr. Jay Chou. Notwithstanding the fact that it is rare for artists to enter into long-term and extensive cooperation agreement with business partners in the China market, we were able to secure long-term collaborations with Mr. Jay Chou through the IP Authorization Agreement which has a term of 10 years and can be renewed by us for an additional 10 years. Going forward, we will continue to leverage our long-term cooperative and mutually beneficial relationship with Mr. Jay Chou. Our Directors are of the view that business entities with strong IP development and operating capabilities can implement IP-based marketing well, so as to reduce business risk, achieve a wider brand or product exposure and facilitate business growth.

Mr. Jay Chou’s significance to our business operation

Mr. Jay Chou’s role in our business operations

In respect of IP creation and operation business, as discussed in the paragraph headed “Our business – IP Creation and Operation” in this section, Mr. Jay Chou was only the inspiration source for creation of IPs or one of the performers in our IP contents, while the capability of our Group’s IP creation and operation department has played a more critical roles in creating and operating our IPs.

In respect of new retail business, our Group’s major new retail product, *MODONG* coffee, had used the empowerment of Mr. Jay Chou to create promotional effect, including the use of Mr. Jay Chou-related trademark on the product’s packaging and featuring such product in *J-Style Trip* season one.

Such distinctive contribution by Mr. Jay Chou-related IP, as one of our Group’s sales and marketing means should not, however, diminish the importance of our Group’s other strengths in their contribution to our Group’s success. The sales of *MODONG* coffee in the second half of 2020 and 2021 has maintained a high and sustainable level, primarily by utilizing its extensive distribution network and adopting other marketing and promotion activities. For further details on the sales of *MODONG* coffee and sales and marketing strategies and activities of our Group, please see the paragraphs headed “Cooperation Relationship with Mr. Jay Chou – Whether Mr.

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Jay Chou has been and will remain significant to our business operation – Sustainability of our operation after the broadcast of *J-Style Trip* season 1 in 2020” in this section.

Although we successfully leveraged on Mr. Jay Chou to achieve the significant growth of the Group’s business during the Track Record Period, in particular in the first half of 2020, our Directors consider the empowerment of Mr. Jay Chou-related IPs is not the sole and dominant factor for our Group’s success. The success of *MODONG* coffee, which being similar to any other retail products, de facto depends on a number of other critical factors.

Major collective factors to our success other than Mr. Jay Chou-related IPs

Importance of each business component

As discussed in the paragraph headed “Summary of business model” in this section above, our Group adopts a multi-prong approach in its business model. Each of these interacting components of the business model is equally important contributing factor to the success of our Group during the Track Record Period. In particular:

1. ***Capability in development and introduce suitable products*** – Our management’s abilities and insight in strategic planning and deployment of our products in the new retail segment were key to our quick expansion into the market within a short period of operations, thus helping us become one of the growing new retail operators in China with a focus on the sales of health management and skincare products primarily through social e-commerce channel, without such capability, our Group would not be able to identify bulletproof coffee as a product that the market demand in the first place, and subsequently develop a product recipe and formula that finds favour among target consumers;
2. ***Overseeing raw materials procurement for the product manufacturing*** – Our ability to identify, research and develop, manufacture through contract arrangement and market *MODONG* coffee as our main product, which is well-received by end consumers, was critical to our significant growth during the Track Record Period.

Leveraging our experience in the successful commercialization of *MODONG* coffee, we are able to continue to develop and introduce new products to the market and accordingly diversify our product offerings which will generate new growing points for our business in addition to *MODONG* coffee, such as *MODONG* probiotics lyophilized powder, *MODONG* herb beverage and *MODONG* high protein milk tea, which were introduced in 2021. In July 2022, we also launched two new products, namely Matcha powder and *MODONG* light brewed coffee;

3. ***Establishment of extensive sales channels*** – We were able to quickly establish our distribution network together with Kunshan Tingshe, which remains our strategic and long-term partner in our new retail business. By leveraging KOC’s influence and PDT centered marketing strategies, our distribution network model is tailor-made for the

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new retail business which helps to extend our consumer reach, increase the awareness of our products through community and word-of-mouth promotion, and raise the sales volume of our products in the long term; and

4. *Various sales and marketing means* – the Group promotes *MODONG* coffee: (i) by word-of-mouth through KOCs; (ii) through traditional sales and marketing methods, such as TV sponsorship, providing trial samples and packages, providing after sales services etc.; and (iii) through empowerment of our IP creation and operation business, such as Mr. Jay Chou-related IPs, i.e. using *ChouMate* trademark on packaging and featuring *MODONG* coffee in *J-Style Trip* season one by way of placing advertisement and/or product placement in such TV program.

Our Directors consider each of the above components, in combination, should be regarded as major factors attributable to the success and sustainability of our Group in the past or in the future. Our Group's success is substantially contributed to its products. Without the products themselves, for both its new retail business and IP creation and operations business, our Group would not be able to generate revenue solely or dominantly by the popularity of, or any IP associated with such celebrity, such as Mr. Jay Chou.

Our Group's success lies also with its ability to combine its product portfolio to the use of its distributorship network and creative use and creation of IP and other marketing means for the promotion of its products in ways that save direct advertising costs. Mr. Jay Chou, as the source of one of our Group's important celebrity IPs, is only one of many factors that contribute to our Group's success as aforementioned. Instead of considering our Group relies on Mr. Jay Chou materially in a negative perspective, our Group sees this as an advantage in its arsenal of business development for the expansion and promotion of a diverse product portfolio. Our management is able to utilize and maximize different components in its arsenal of business development in an efficient and effective manner at the same time, which heavily rely on the capability, judgment and experience of our management.

Our Directors consider the aforementioned factors will remain as the major and collective factors to the success and sustainability of our Group, rather than the standalone empowerment of Mr. Jay Chou-related IPs (being a sales and marketing strategy), especially after our Group has become a leader in the bulletproof coffee market in the PRC and its *MODONG* coffee has become well-known in the PRC. Each of the aforementioned factors are indispensable.

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Sustainability of our operation after the broadcast of J-Style Trip season one in 2020

The business of our Group has remained sustainable after the broadcast of *J-Style Trip* season one in 2020. Set forth below is a breakdown of our revenue which was: (i) products under the new retail segment that the promotional activities of which included involvement of Mr. Jay Chou or his related IPs; (ii) products under the new retail segment that promotional activities of which did not include involvement of Mr. Jay Chou or his related IPs; (iii) IP creation and operation that centered around Mr. Jay Chou or involved him as one of the performers; and (iv) IP creation and operation that was not centered around or significantly related to Mr. Jay Chou or his related IPs for the periods indicated:

		Year ended December 31,							
		2019		2020		2021		2022	
		RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
New Retail									
<i>Empowered by Mr. Jay Chou and his related IPs</i>									
– MODONG coffee <i>ChouMate</i> edition ⁽¹⁾	A	–	–	135,195	29.6	110,663	30.3	85,452	24.8
– MODONG coffee traditional edition ⁽¹⁾	A	71,927	83.0	197,673	43.2	117,109	32.1	65,431	19.0
Sub-total		<u>71,927</u>	<u>83.0</u>	<u>332,868</u>	<u>72.8</u>	<u>227,772</u>	<u>62.3</u>	<u>150,883</u>	<u>43.8</u>
– Other health management products	A	–	–	–	–	8,325	2.3	3,527	1.0
– Others	A	–	–	–	–	676	0.2	1,240	0.4
<i>Not empowered by Mr. Jay Chou or his related IPs⁽²⁾</i>									
<i>Health Management Products</i>									
– MODONG probiotics lyophilized powder	B	–	–	–	–	13,076	3.6	11,585	3.4
– MODONG herb beverage	B	–	–	–	–	14,185	3.9	5,829	1.7
– MODONG light brewed coffee		–	–	–	–	–	–	8,628	2.5
– Matcha powder		–	–	–	–	–	–	24,049	7.0
– Products under <i>Dr. INYOU</i> brand	B	–	–	–	–	5,845	1.6	3,367	1.0
– Other health management products	B	–	–	7,919	1.7	6,058	1.7	8,168	2.4
<i>Skincare products</i>									
– <i>LA DEW</i> Facial Mask	B	3,450	4.0	14,347	3.1	5,132	1.4	419	0.1
– Products under <i>Dr.mg</i> sub-brand	B	–	–	6,058	1.3	12,677	3.5	12,540	3.6
– Products under <i>Chaxiaojie</i> sub-brand	B	–	–	17	0.0	3,465	0.9	3,313	1.0
<i>Others</i>	B	<u>5,420</u>	<u>6.3</u>	<u>3,966</u>	<u>0.9</u>	<u>4,184</u>	<u>1.1</u>	<u>6,551</u>	<u>1.9</u>
Sub-total		<u>80,797</u>	<u>93.3</u>	<u>365,175</u>	<u>79.9</u>	<u>301,395</u>	<u>82.5</u>	<u>240,099</u>	<u>69.8</u>

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		Year ended December 31,							
		2019		2020		2021		2022	
		RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
IP Creation and Operation									
<i>Events and programs involving Mr. Jay Chou</i>									
- Centered around Mr. Jay Chou ⁽³⁾	C	-	-	81,590	17.9	-	-	27,856	8.1
- Involved Mr. Jay Chou as one of the performers ⁽⁴⁾	C	4,761	5.5	4,505	1.0	24,867	6.8	9,433	2.7
<i>Licensing fee and sales of cultural and creative products relating to ChouMate⁽⁵⁾</i>									
	C	141	0.2	3,506	0.8	8,270	2.3	8,560	2.5
<i>IP Creation and Operation unrelated to Mr. Jay Chou or his related IPs</i>									
- Events and IP programs ⁽⁶⁾⁽⁷⁾	D	-	-	472	0.1	29,532	8.1	57,737	16.8
- IP products and licensing fees	D	886	1.0	1,696	0.4	1,281	0.3	472	0.1
Sub-total		5,788	6.7	91,769	20.1	63,950	17.5	104,058	30.2
TOTAL		86,585	100.0	456,944	100.0	365,345	100.0	344,157	100.0
New Retail									
<i>Products under the new retail segment that the promotional activities of which included involvement of Mr. Jay Chou or his related IPs</i>									
	A	71,927	83.0	332,868	72.8	236,773	64.8	155,650	45.2
<i>Products under the new retail segment that the promotional activities of which did not include involvement of Mr. Jay Chou or his related IPs</i>									
	B	8,870	10.3	32,307	7.1	64,622	17.7	84,449	24.6
IP Creation and Operation									
<i>IP creation and operation that centered around Mr. Jay Chou or involved him as one of the performers</i>									
	C	4,902	5.7	89,601	19.6	33,137	9.1	45,849	13.3
<i>IP creation and operation that was not centered around or significantly related to Mr. Jay Chou or his related IPs</i>									
	D	886	1.0	2,168	0.5	30,813	8.4	58,209	16.9
TOTAL		86,585	100.0	456,944	100.0	365,345	100.0	344,157	100.0

Notes:

- (1) Our MODONG coffee was firstly launched in April 2019. During 2019, we had not used any celebrity IP in the empowerment of the sale of our MODONG coffee. We promoted our MODONG coffee by means of advertisement, spot cut and discrete product placement within *J-Style Trip* season one, which was aired on Zhejiang Satellite TV from March to June 2020. In March 2020, we also launched a special edition of MODONG coffee with illustration of *ChouMate* being displayed on the packaging thereof (the i.e. the *ChouMate* Edition). Since July 2020, while we have continued to sell part of our MODONG coffee under the *ChouMate* Edition, we had not conducted any event or program with the use of Mr. Jay Chou-related IPs comparable to *J-Style Trip* season one for the empowerment of our MODONG coffee and other products.

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- (2) Some of our health management products and all of our skincare products were not empowered by any celebrity IPs during the Track Record Period.
- (3) Mainly represented our revenue generated from (i) the airing of *J-Style Trip* season one in 2020; and (ii) a World-Cup related program, a promotional video relating to *J-style Trip* season two and a new music album of Mr. Jay Chou and an online music show centered around Mr. Jay Chou broadcasted during the fourth quarter of 2022.
- (4) Represented revenue generated from various events and programs that Mr. Jay Chou appeared as one of many performers or guests (where applicable). Event for 2019 was Zhejiang Superstar Concert. Event for FY2020 was Ningbo Superstar Performance Mega Night. Event and programs for 2021 included (i) a music award ceremony organized by a leading music streaming service provider in the PRC, (ii) a music TV program, (iii) another music show organized by a leading music streaming service provider in the PRC; and (iv) a World-Cup related music show broadcast on an online platform during the year ended December 31, 2022. Despite Mr. Jay Chou was only one of many guests appeared in such events and programs, the Group was only responsible for creating Mr. Jay Chou-related content for these events and programs.
- (5) Represented revenue from licensing of *ChouMate* and sale of related products.
- (6) Represented revenue generated from (i) programs which were centered around celebrities other than Mr. Jay Chou, including *You Can Run But You Can't Hide* (既來之則樂之) that was centered around Mr. Harlem Yu and featured with guests including Mr. Jay Chou, Mayday (五月天), Jam Hsiao (蕭敬騰), Ken Lin (林暉恆, aka 阿Ken), Hank Chen (陳漢典), Funky Tu (杜國璋), Chen Guanlin* (陳冠霖) and Cai Weize* (蔡威澤); and a variety show that was centered around Mr. Liu and with other celebrities including Wu Chun (吳尊), Shawn Zhang (張倫碩), Jiro Gun (汪東城), Mr. Jay Chou, Mr. Fang, Christy Chung (鍾麗緹) etc. making cameo appearance. Apart from appearing as one of the guests, Mr. Jay Chou was not involved in the relevant events and programs; and (ii) other events and/or programs that were totally unrelated to Mr. Jay Chou.
- (7) The increase in our revenue generated from events and IP programs that was unrelated to Mr. Jay Chou or his related IP increased from RMB29.5 million during the year ended December 31, 2021 to RMB57.7 million during the year ended December 31, 2022 was mainly attributable to our cooperation with Mr. Liu since November 2021, including revenue generated from 618 streaming session and other livestreaming sessions that were centered around Mr. Liu.

A. *New retail business:*

a. Health management products:

(i) *MODONG* coffee

Please refer to the paragraph headed “Our business – New retail business – Sustainability of our *MODONG* coffee” in this section above for detailed discussion for the sustainability of the sale of our *MODONG* coffee.

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- b. Skincare products: Even without celebrity IPs' empowerment, our Group recorded a significant growth in its sales of skincare products during the Track Record Period. Revenue derived from skincare products increased by more than 500% between 2019 and 2021, which was mainly attributable to the introduction of new products, namely products under *Dr.mg* sub-brand, which were sold through our distribution network.

With sizeable market size of each of consumer health community-based new retail industry and beauty and personal care products community-based new retail industry, and expected continuous growth in market size for both industries, we believe that there was and will continue to be market demand in our new retail products, including those new health management and skincare products to be launched by our Group in the future.

B. IP creation and operations:

Our Group mainly generated revenue from IPs that centered around Mr. Jay Chou in 2020, with the airing of *J-Style Trip* season one in early 2020. Our Group also generated revenue from events planning and programs with creation and operation that involved Mr. Jay Chou as one of the performers in both 2019 and 2021, and our Group was only responsible for creating Mr. Jay Chou-related content for these events and programs. In 2021, 48.2% of revenue derived from our IP creation and operation business was generated from IP creation and operation that was not centered around or significantly related to Mr. Jay Chou or his related IPs, being IPs that centered around other celebrities, namely Mr. Harlem Yu and Mr. Liu, while the remaining revenue of our IP creation and operation business was attributable to IP creation and operation that was centered around Mr. Jay Chou or involved him as one of the performers. During 2022, most of the revenue derived from our IP creation and operation business was generated from IP creation and operation that was not centered around or significantly related to Mr. Jay Chou or his related IPs, being IPs that centered around Mr. Liu.

Based on the foregoing, our Group is able to conduct and sustain its business without the involvement of Mr. Jay Chou, in particular, (a) the sales of *MODONG* coffee remained sustainable even after the cessation of material promotional effect of *J-Style Trip* season one since July 2020; (b) our revenue generated from new retail products that were not empowered by Mr. Jay Chou or his related IPs increased from RMB32.3 million in 2020 to RMB84.4 million in 2022; and (c) we recorded growth in revenue generated from IPs creation and operation business that was not centered around or significantly related to Mr. Jay Chou or his related IPs from RMB2.2 million in 2020 to RMB58.2 million in 2022.

Collaboration with other celebrities to diversify our portfolio of celebrities and IP repertoire

We have been exploring potential business opportunities with other celebrities who will be working with us to produce different celebrity IPs and media content, which includes popular celebrities or KOLs that have strong influence over their respective influence circles and followers. In 2021, we planned and created a popular music show, namely *You Can Run But You Can't Hide* (既來之則樂之), that was centered around Mr. Harlem Yu, a celebrity that has been popular and active in Chinese speaking comminuting for many years. *You Can Run But You*

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Can't Hide (既來之則樂之) featured various celebrities, including Mr. Jay Chou as one of the guests. Save for Mr. Jay Chou and two other artists, none of the celebrities who participated in *You Can Run But You Can't Hide* (既來之則樂之), Zhanjiang Superstar Concert or Ningbo Superstar Performance Mega Night was an artist managed by our Controlling Shareholders and their respective associates. Apart from *You Can Run But You Can't Hide* (既來之則樂之), we also planned a variety show that was centered around Mr. Liu, a celebrity in the fitness and body-building sector. In addition, in 2022, we entered into cooperation agreements with certain members of Nan Quan Mama (南拳媽媽), a popular band; and definitive cooperation agreements with each of Mr. Liu and Mr. Fang (and his artiste management company). In addition, based on our previous cooperation with Mr. Harlem Yu at the music talk show, namely *You Can Run But You Can't Hide* (既來之則樂之), during Chinese New Year 2021, we further cooperated with Mr. Harlem Yu through our creation of *Yue Lai Yue Kuai Le* (樂來樂快樂), a music talk show that is based on *You Can Run But You Can't Hide* (既來之則樂之).

Our Group's collaboration with Mr. Harlem Yu and Mr. Liu in 2021 has demonstrated that our Group's capability and access to cooperate with other celebrities and/or KOLs, other than merely with Mr. Jay Chou, whether by way of media content creation, event planning or the creation of nijigen-style personality. For details of our cooperation with Mr. Liu and Ms. Vivi Wang, please refer to the paragraph headed “Cooperation with Mr. Liu and Ms. Vivi Wang” in this section below. We believe that cooperation with selected celebrities can contribute to our business growth if our products are designed and targeted at their audience or followers.

On the other hand, Mr. Fang is our chief cultural officer, and he will continue to develop various products and programs with us with strong traditional Chinese characteristics, such as tea, pottery and traditional Chinese clothing that incorporate elements of poetry and calligraphy created by Mr. Fang. For details of our cooperation with Mr. Fang, please refer to the paragraph headed “Cooperation with Mr. Fang” in this section below.

Based on the track record of creation and design of *ChouMate*, the cost incurred and expected to be incurred for the design and creation of nijigen-style personalities inspired by Mr. Liu and Ms. Vivi Wang as well as Mr. Fang, including remuneration of our design staff, is expected to be insignificant. For further details, please refer to the paragraph headed “Our Business – IP creation and operation – Historical IPs and IPs pipeline” in this section above.

In addition, we also plan to design and create the nijigen-style personalities of members of Nan Quan Mama, a popular band. As at the Latest Practicable Date, we entered cooperation agreements with certain members of Nan Quan Mama and we are in the course of negotiating the terms of the agreement to be entered into with remaining members of Nan Quan Mama in connection with the creation of their nijigen-style personalities. Given (i) our Group's historical success in IP creation and operation with other celebrities, including entering into the Liu-related Nijigen-style Personality(ies) Cooperation Agreement with Mr. Liu, Ms. Vivi Wang and W&V regarding cooperation on the creation and design of nijigen-style personalities inspired by them, (ii) our management's extensive network/experience in the Chinese entertainment industry, (iii) our track record of engaging KOLs in the PRC for promoting our products during the Track Record Period, and (iv) cooperation with KOLs is not difficult as there is a great supply of KOLs in the PRC, our Directors do not expect any difficulty in

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diversifying its portfolio of celebrities and expanding its IP repertoire. As at the Latest Practicable Date, all of the celebrities or KOLs that we preliminarily engaged for future cooperations were not artistes managed by our Controlling Shareholders and their respective associates (excluding our Group).

We believe collaboration with these celebrities will be complementary to the empowerment by our collaboration with Mr. Jay Chou. Upon the introduction of different IPs and products, and with cooperation with other celebrities, it is expected that our Group shall be able to apply the business model used for *MODONG* coffee and Mr. Jay Chou-related IPs on new products, IP content and different celebrities to create synergy effect, and thus further reduce usage of Mr. Jay Chou-related IPs’ empowerment. We plan to design specific sales and marketing strategies targeted at each such celebrity’s respective audience or followers, such as our program in partnership with Mr. Liu that target enthusiasts of fitness and body building.

COOPERATION WITH MR. LIU AND MS. VIVI WANG

In November 2021, we established Talent Planet, a company held as to 70% by our Group and 30% by W&V, the artiste management company of Mr. Liu, who is an actor and a singer, as well as a physical trainer from Taiwan. Talent Planet entered into an agreement (being one of the Liu’s Performance-related Cooperation Agreements) with Mr. Liu and W&V, pursuant to which Talent Planet shall provide planning and management services in respect of the entertainment and performance business of Mr. Liu in the PRC. Leveraging on the experience in celebrity IP creation of our management team, we have been involved in the strategic planning and development of Mr. Liu’s public image and profile on social media platforms. In particular, we are involved in selecting the target audience and conceiving the contents and presentation of his livestreaming sessions. We also arranged Mr. Liu to enter into cooperation with a reputable MCN company in the PRC and participate in a variety show as the host on a leading social media platform in December 2021.

Since then, we have been in active collaboration with Mr. Liu in his development into a KOL in the fitness and body-building sector in the PRC. Mr. Liu has been sharing workout videos on *Douyin*, a leading video-focused social media platforms in the PRC, featuring calisthenics originated from him, and his videos have become very popular since April 2022. One of his workout videos went viral and was played over 7 billion times. The number of followers of Mr. Liu’s *Douyin* account achieved a tenfold increase of 60 million new followers from April 2022 to May 2022. We believe such monthly growth in the number of followers was the fastest amongst all other accounts on *Douyin* in history so far. As at December 31, 2022, the number of followers of Mr. Liu’s *Douyin* account further increased to approximately 71.5 million. Mr. Liu’s *Douyin* account has accumulated likes of approximately 164 million, making him the third most popular *Douyin* KOL account in terms of number of followers. With Mr. Liu becoming increasingly popular in the PRC and his videos becoming viral, we believe Mr. Liu-related IP can potentially result in significant promotional effect on the sales of products being promoted therein. According to data released by *Douyin*, there were growth in number of *Douyin* sports and fitness video creators with over 10 thousand followers (growth by about 9%), number of *Douyin* sports and fitness video creators within over 10 thousand followers (growth by about 11.5%) and number of fitness livestream broadcasts (growth by about 50%) within a short period of time between March and May 2022, as driven by the popularity of Mr. Liu.

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Even though Mr. Liu would not participate in e-commerce livestreaming, his popularity has shown great potentials for various kinds of brand owners, including sports brand owners, by appearing in livestreaming sessions, online short videos and other online and offline performance where products of the relevant brand owners have been placed therein for promotion, and creating more attention in the public regarding products being sold there. Livestreaming has grown to be an extremely popular way to communicate and connect with consumers, and is a powerful tool to build consumer loyalty. Given livestreaming is a consumer-interaction focused promotional tool, our Directors believe our Group's involvement in selecting the target audience and conceiving the contents and presentation of Mr. Liu's livestreaming sessions has been an important contributing factor to Mr. Liu's increased popularity in 2022. In other words, how livestreaming sessions are broadcasted, including Mr. Liu's outfit, the guest(s) to be invited, how the rhythm of livestream sessions are controlled, how Mr. Liu and his guest(s) interact with audiences of livestream sessions, are very critical in catching the attention of audiences (also being target consumers) and conveying the appropriate messages to them (e.g. promotion of the relevant products).

Since the first half of 2022, our Group and Mr. Liu have cooperated with other brand owners where these brand owners engage Mr. Liu to promote their respective products during Mr. Liu's livestreaming sessions, online short videos and other online and offline performance. We entered into a number of cooperative agreements with third party brand owners to promote their respective products, pursuant to which, we conceived contents and presentation of livestream sessions, online short videos and other online and offline performance of Mr. Liu, such as development of ideas and production of content of the livestream session, online short video or other online or offline performance that links the respective brands to its target audience in order to create promotional effect. This demonstrated that we are able to create IP with other celebrities in addition to Mr. Jay Chou.

By appearing in Mr. Liu's livestreaming sessions, Ms. Vivi Wang, being Mr. Liu's spouse, has also gained popularity and attracted many followers. Ms. Vivi Wang has gained close to 4 million followers from April 2022 to June 2022, reaching approximately 4.2 million as of December 31, 2022.

With Mr. Liu and Ms. Vivi Wang gaining more popularity, we believe it would attract more opportunities for us to create more IPs, including TV programs, centered around them, in particular Mr. Liu. Thus, going forward, apart from creating more Mr. Liu-related IPs, including but not limited to, TV programs and nijigen-style personality(ies), it is our Group's plan to leverage on his popularity to use such IP(s) to promote our new retail products by way of various means, such as featuring products in TV programs by way of placing advertisements and/or product placement to enhance product and brand exposure and placing nijigen-style personality(ies) on the packaging of our product(s). Given Mr. Liu has become increasingly popular by accumulating a substantial number of followers promotional effect that he can create on products of other brands, we believe Mr. Liu-related IPs would be able to bring significant promotional effect to us. We believe that the remarkable achievement of Mr. Liu demonstrated our ability in collaborating with different celebrities to create popular IPs.

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Cooperation under our IP creation and operation business

Cooperation in respect of events and IP programs of Mr. Liu

(a) Liu's Performance-related Cooperation Agreements

On November 27, 2021, we entered into a celebrity IP management agreement (the "**November 2021 Agreement**") with W&V and Mr. Liu, pursuant to which W&V and Mr. Liu appointed us to act as the sole agent to manage Mr. Liu's commercial activities in the PRC. To set out the details of our cooperation regarding Mr. Liu's entertainment and performance business in the PRC, we further entered into several cooperation agreements with, inter alia, Mr. Liu and W&V (i.e. together with the November 2021 Agreement, the Liu's Performance-related Cooperation Agreements). The following summarizes the salient terms of these cooperation agreements:

Term: A term of ranging from two to three years ending on November 30, 2024. Talent Planet has the priority right to renew the relevant agreement over other third parties.

Responsibilities of Talent Planet: Talent Planet has the exclusive right to provide planning and management services in respect of the entertainment and performance business of Mr. Liu in the PRC, including the strategic planning and development of Mr. Liu's public image and profile on social media platforms.

Responsibilities of W&V (where applicable) and Mr. Liu: W&V (where applicable) and Mr. Liu shall cooperate with Talent Planet in executing the strategic plans and arrangements made, including but not limited to participation of press conference, variety shows, and charitable events. Mr. Liu shall also maintain a positive public image, and should not be involved in any activities that damage Talent Planet's reputation, such as gambling and drug-taking.

Fee arrangement: For all activities, functions or collaborations carried out during the term of the relevant agreement (even if the relevant revenue is realized after its expiry or termination), each of Talent Planet, W&V (where applicable) and Mr. Liu shall be entitled to certain proportion of the revenue derived therefrom, depending on the ways of collaborations^(note).

Termination: These agreements can be terminated by any party thereto by giving three months' prior written notice, provided that the other party explicitly expresses that it will not perform its main obligations under the agreement, or if a party is in breach of the relevant agreement and such breach is not ratified in a reasonable time. W&V (where applicable) and Mr. Liu shall not terminate the relevant agreement unilaterally without prior written approval from Talent Planet.

Note: The revenue is recognized after netting off, among others, (i) the amount of sponsorship entitlements of other business partner(s) (if any); and (ii) operating costs of the relevant collaboration. Depending on the circumstances, the planning and management of Mr. Liu's entertainment and performance business may involve other Group companies, and further agreements may be entered into with specific details of the relevant

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collaboration and different fee allocation arrangements between the Group, Mr. Liu, and W&V set out therein. Depending on the relevant contract terms, we are entitled to sharing of sponsorship amounts from brand owners on agreed rates.

(b) The November 2021 Agreement

Under the November 2021 Agreement, the parties have agreed that, amongst others, Mr. Liu shall continue to be bound by such agreement even if W&V is no longer Mr. Liu's artiste management company.

As advised by the IP Counsel, the November 2021 Agreement is a tripartite agreement entered into by and among Talent Planet, W&V and Mr. Liu. As our subsidiary is a party to the November 2021 Agreement, we are able to procure Talent Planet to enforce the terms thereof against either or both W&V and Mr. Liu. Further, the November 2021 Agreement contains a clause to the effect that if Mr. Liu is no longer an artist under the management of W&V or otherwise W&V withdraws from collaboration projects under the November 2021 Agreement, then (i) Mr. Liu shall continue to perform the November 2021 Agreement; and (ii) our Company shall remain as the exclusive artiste management company of Mr. Liu on a worldwide basis with respect to the scope of cooperation set out in the November 2021 Agreement, and Talent Planet shall separately discuss and confirm with Mr. Liu the manner in which Mr. Liu shall perform the November 2021 Agreement. Accordingly, the IP Counsel is of the view, and the Sole Sponsor concurs, that even if W&V is no longer Mr. Liu's artiste management company, Mr. Liu remains contractually bound by the November 2021 Agreement, hence our interest will not be prejudiced in the event Mr. Liu is no longer an artist under the management of W&V or otherwise W&V withdraws from collaboration projects under the November 2021 Agreement.

Further, under the November 2021 Agreement, W&V and Mr. Liu agreed that Talent Planet is permitted to grant sub-license(s) to other third parties in respect of any part or all of its exclusive rights as an agent under the November 2021 Agreement. Accordingly, Talent Planet entered into two sets of business cooperation agreements with its wholly-owned subsidiaries, conferring upon each wholly-owned subsidiary the non-exclusive rights to negotiate, execute and perform contracts concerning entertainment-related work involving Mr. Liu. Each set of business cooperation agreements consists of two agreements, one of which was entered into between Talent Planet and such wholly-owned subsidiary setting out the general principles of the scope of authorization (the "**Intra-group Business Cooperation Agreement**"); another one was entered into by and among Talent Planet, Mr. Liu and such wholly-owned subsidiary with a key focus on revenue sharing arrangements of projects under the Intra-group Business Cooperation Agreement.

In the event that Mr. Liu is no longer an artist under the management of W&V, the IP Counsel advises, and the Sole Sponsor concurs, that Mr. Liu would still be required to perform projects under the Intra-group Business Cooperation Agreement as the projects would have been entered into by such wholly-owned subsidiary under the authorization of Talent Planet (and hence the authorization of Mr. Liu), provided that the November 2021 Agreement remains valid and effective. Furthermore, under the November 2021 Agreement, Mr. Liu is obliged to carry out contracts signed by Talent Planet for and on behalf of him. In this premises, even if Mr. Liu is

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no longer an artist under the management of W&V, Mr. Liu would still be required to perform projects under the Intra-group Business Cooperation Agreement, hence Mr. Liu's cooperation with us would not be affected if Mr. Liu is no longer under the management of W&V, so long as the November 2021 Agreement remains valid and effective at the material time.

(c) Cooperation with the MCN Company

On November 26, 2021, Talent Planet entered into an artist cooperation agreement with the MCN Company and W&V, pursuant to which the parties agreed to cooperate in the event planning and management in respect of IP programs associated with Mr. Liu on certain designated online platforms, including *Douyin* and *Kuaishou*. Each of the MCN Company and Talent Planet would be entitled to 50% of the fees from brand owners (after deducting the relevant operating costs). Brand owners may enter into cooperation agreement with (i) the MCN Company, in which case the MCN Company would be treated as our customer who would transfer to us our share of the fees (i.e. 50% of the total fees (net of the relevant operating costs)); or (ii) our Group, in which case the brand owners would be treated as our customers and we are required to transfer to the MCN Company their share of the fees (i.e. 50% of the total fees (net of the relevant operating costs)). We would subsequently share the fees with W&V and Mr. Liu pursuant to the Liu's Performance-related Cooperation Agreements.

Cooperation in respect of events and IP programs of Ms. Vivi Wang

In July 2022, we entered into agreements with, among others, Ms. Vivi Wang regarding her entertainment and performance business in the PRC. The terms of such agreements are substantially the same as those Liu's Performance-related Cooperation Agreements, that we entered into with Mr. Liu regarding his entertainment and performance business in the PRC as mentioned under the paragraph headed "Cooperation in respect of events and IP programs of Mr. Liu" above.

We collaborate with Ms. Vivi Wang to promote our products, including Matcha powder and *MODONG* light brewed coffee, through her e-commerce livestreaming sessions in our *Douyin* account without the involvement of Mr. Liu. Apart from cooperating with our Group as a KOL, Ms. Vivi Wang is also our sales and marketing director, who is mainly responsible for, together with the Group, conceiving contents and presentation of e-commerce livestreaming sessions which she appears, and promoting our products.

Cooperation in respect of nijigen-style personalities inspired by Mr. Liu and Ms. Vivi Wang

Apart from cooperating with Mr. Liu regarding his entertainment and performance business in the PRC, we also cooperated with him in creating and design nijigen-style personalities inspired by him and his spouse. As our cooperation with Mr. Liu and Ms. Vivi Wang regarding their respective entertainment and performance business in the PRC differ from our cooperation with them regarding nijigen-style personalities, in July 2022, we entered into the Liu-related Nijigen-style Personality(ies) Cooperation Agreement with Mr. Liu, Ms. Vivi Wang and W&V regarding the creation and design of nijigen-style personalities inspired by them, instead of

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having such matter covered in the cooperation agreements entered into with each of Mr. Liu and Ms. Vivi Wang regarding their respective entertainment and performance business in the PRC, including the Liu’s Performance-related Cooperation Agreements, by supplementing the terms thereof. Pursuant to the Liu-related Nijigen-style Personality(ies) Cooperation Agreement, we shall develop and own nijigen-style personality(ies) related to Mr. Liu and Ms. Vivi Wang (“**Liu-related Nijigen-style Personality(ies)**”), and it was agreed that the relevant IP rights of the Liu-related Nijigen-style Personalities shall be wholly owned by Talent Planet.

As at the Latest Practicable Date, we launched and started to use various Liu-related Nijigen-style Personalities in the promotion of our products. For example, we used nijigen-style personalities of Mr. Liu and Ms. Vivi Wang, namely “*Coach Liu* (劉教練)” and “*Vivi*” in our special promotional gift set for Christmas in 2022.

Cooperation under our new retail business

Going forward, it is our plan to leverage on popularity of Mr. Liu and Ms. Vivi Wang to empower the sale of our products through their related IPs. For further details, please refer to the paragraph headed “Our competitive strengths – Multi-facet IP creation and operation business that provides critical empowerment for our new retail business through creating promotional effect to promote our products and diversifies our revenue source” in this section above.

We created a *Douyin* account under the name of “劉畊宏肥油咔咔掉” during the first half of 2022. “劉畊宏肥油咔咔掉” is a popular slogan that is featured in Mr. Liu’s livestreaming fitness sessions. Leveraging on the popularity of Mr. Liu and Ms. Vivi Wang, we believe the name of such *Douyin* account would attract many of their followers to follow and/or viewers to watch e-commerce livestreaming sessions hosted or videos posted on such account since netizens would associate such account with Mr. Liu and Ms. Vivi Wang. Please refer to the paragraph headed “Our business – IP creation and operation – Celebrity IP management” in this section for details. Since July 2022, we have commenced increase in the frequency in the organization of e-commerce livestreaming sessions to two to four e-commerce livestreaming sessions each month in general in collaboration with Ms. Vivi Wang and other KOLs to promote our products, such as Matcha powder and *MODONG* light brewed coffee, via our “劉畊宏肥油咔咔掉” *Douyin* account. Ms. Vivi Wang appeared in such e-commerce livestreaming sessions. For the year ended December 31, 2022, we recognized revenue of RMB34.1 million from the sales of our products through *Douyin* stores mainly directed from the e-commerce livestreaming sessions.

COOPERATION WITH MR. FANG

In December 2022, we, through Star Plus IP (Kunshan), entered into cooperation agreements with Mr. Fang and his artiste management company regarding (i) the creation and design of nijigen-style personalities inspired by him; and (ii) the licensing of his existing nijigen-style personality. We believe that such traditional Chinese cultural influence of Mr. Fang’s IP will appeal to the general public.

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The following summarizes our cooperation agreements with Mr. Fang and his artiste management company:

- (i) *Agreement in relation to the creation and design of nijigen-style personalities inspired by Mr. Fang*

Similar to the cooperation agreements we entered into with JVR Music in relation to the development of *ChouMate*, we entered into a cooperation agreement with Mr. Fang and his artiste management company, pursuant to which we shall have the right to use Mr. Fang’s personal image to design, develop and create nijigen-style personalities, including but not limited to characters in cartoons, manga, games, and toys. The parties also agreed to co-own the intellectual property rights arising from such nijigen-style personalities, and that we will be solely responsible for the authorization of the nijigen-style personalities to third parties in the PRC region, under which Mr. Fang and his artiste management company will be entitled to a share of revenue with us. It is our responsibility to maintain Mr. Fang’s good public image during the design, development and creation of the nijigen-style personalities, and Mr. Fang and his artiste management company are entitled to give suggestions to us during such processes.

- (ii) *Agreement in relation to the licensing of Mr. Fang’s existing nijigen-style personality*

As Mr. Fang’s artiste management company wholly owns the intellectual property rights of an existing nijigen-style personalities, Punk Cat* (龐克貓), created by Mr. Fang, we entered into a two-year cooperation agreement with his artiste management company in relation to the IP authorization of such nijigen-style personalities. Pursuant to the agreement, we have the right to conduct IP authorization business in relation to Punk Cat in the PRC region, and Mr. Fang’s artiste management company is entitled to a portion of the revenue generated by the IP authorization business we conduct with any third parties other than our associated companies.

RECENT DEVELOPMENTS ON OUR REGULATORY ENVIRONMENT IN RELATION TO CELEBRITIES AND LIVESTREAMING IN THE PRC

The PRC government authorities have taken initiatives to heighten regulation on the PRC entertainment industry and online livestreaming activities. For example, Strengthening Regulations was promulgated recently, which aims to strengthen the regulation on the contents of culture programs and related individuals, and prohibits certain individuals’ violation of law and offense on morality in order to reap ill-gained profit in their fans communities, a practice that can be loosely referred to as “Fan Trap” (“飯圈”); and the Online Live Streaming Marketing Measures was adopted to regulate livestreaming room operators and livestream marketers, which includes our Group and those we engage to promote our products through livestream marketing. For details, please refer to the sections headed “Regulatory overview – PRC laws and regulations – Regulations in relation to strengthening the regulation of entertainment industry” and “Regulatory overview – PRC laws and regulations – Regulations in relation to online live streaming marketing” in this document.

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Impact on our business operations

As advised by our PRC Legal Advisors, the recent tightening of and changes in the PRC regulatory environment to further regulate the livestreaming and influencers are mainly related to, amongst others, (i) publication of illegal and harmful information; (ii) publication of false or misleading information to deceive or mislead audiences; (iii) marketing of counterfeit or substandard goods or goods that infringe intellectual property rights or goods which failed to meet the requirements for personal and property safety; (iv) fabricating or tampering transaction data, viewership and other similar data; (v) promotion or attracting traffic for others despite knowing or being in situations where they ought to know that the promoted individual engages or has engaged in illegal or high-risk behaviors; (vi) contents involving harassment, slander, insult or threatening of any person(s) or infringement of the legitimate rights and interests of others; (vii) engaging in pyramid marketing, fraud, gambling or selling contrabands or controlled goods etc; and (viii) violation of state laws, regulations and relevant provisions.

To the best of our Directors' knowledge and belief, companies produce and/or own the brand were not involved in any of the previously reported cases related to livestreaming and influencers. Based on the cases reported, fines were imposed on third-party KOL/KOCs who promotes products, instead of the companies which produce and/or own the brand of the product. Thus, our Directors believe that this regulatory tightening will not affect supplier of branded products which appeared in the livestream broadcasts to sell their products given that they are independent parties and have separately fully complied with all requirements applicable to them, regardless of the identity and fan-base of the KOL/KOCs. As advised by our PRC Legal Advisors, this regulatory tightening does not adversely affect our business operations because (i) we did not engage in any activities prohibited by the Strengthening Regulations; and (ii) we complied with the laws stated in the Guiding Opinions on Online Livestreaming Marketing, such as Product Quality Law, the Food Safety Law, in all material aspects during the Track Record Period and as at the Latest Practicable Date, which are the responsibilities of product business operators (such as our Group) set out in the Guiding Opinions on Online Livestreaming Marketing. On the other hand, as a livestreaming room operator, we have full control over the content disseminated through our proprietary accounts and we have established guidelines to ensure livestreamers who appear on our accounts will not be transmitting messages in violation of the Online Live Streaming Marketing Measures.

In addition, none of the KOLs and/or KOCs were investigated or being fined by the relevant authorities when they were promoting our Group's products on social media platforms during the Track Record Period. Based on the above, including the advice given by our PRC Legal Advisors, our Directors believe, and the Sole Sponsor concurs, that our live streaming sales activities will not be affected by the implementation of such regulations. As advised by our PRC Legal Advisors, we are in compliance of all relevant laws and regulations in all material aspects, and adequate measures are in place to cope with such changes in the regulatory environment of the PRC entertainment industry. Hence, we believe, and the Sole Sponsor concurs, that such changes are not expected to have a material adverse impact on our business operations, financial performance and use of [REDACTED].

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In addition, we do not engage in the illegal activities targeted by the Strengthening Regulations in our operations. The Strengthening Regulations target the “Fan Trap” practices that typically disseminate vulgar and immoral media contents in an indiscriminating manner for the sole purpose of attracting online traffic and exposure. We primarily focus on new retail business which contributes the majority of our revenue. Our IP events and programs are properly planned by cooperating with selected celebrities whom we consider have complied with the relevant laws and regulations after due assessment with an aim to create a positive brand image of our Group and to convey positive messages. Given the above, our PRC Legal Advisors are of the view that, during the Track Record Period and up to the Latest Practicable Date, we did not engage in any activities prohibited by the Strengthening Regulations, and the Strengthening Regulations had no adverse impact on our business operations.

Impact on Mr. Jay Chou

Mr. Jay Chou, being a celebrity who we frequently cooperated with during the Track Record Period, has been a well-known celebrity in Chinese-speaking communities for over 20 years and has not been the subject of any significant negative publicity. During the Track Record Period and up to the Latest Practicable Date, to our best knowledge, Mr. Jay Chou did not engage in any activities prohibited by the Strengthening Regulations. More importantly, with his success, Mr. Jay Chou does not have incentive to engage in such activities in the future and has the necessary safeguard to prevent such activities. Taking into account of Mr. Jay Chou’s popularity, we believe the image of Mr. Jay Chou has remained positive since his debut, and he has continued to exert positive influence on the public. Hence, as advised by our PRC Legal Advisors, Mr. Jay Chou’s visibility in the PRC shall not be adversely affected by the regulatory changes in the PRC entertainment industry.

Impact on other celebrities and KOLs whom we have been or will be cooperating with

Apart from Mr. Jay Chou, to our best knowledge after due and careful enquiries, other celebrities that we have entered into preliminary or definitive cooperation agreements with (such as Mr. Fang, Mr. Harlem Yu, certain members of Nan Quan Mama and Mr. Liu) were also never involved in activities prohibited pursuant to the relevant regulations or subject to any significant negative publicity. Internal control measures were also formulated to carefully select celebrities and KOLs that we will be cooperating with and we will also closely monitor their behavior in the public domain and maintain a list of celebrities and KOLs which have been cautioned or blacklisted by the relevant authorities. We also include in our internal guidelines that our agreements with celebrities and KOLs shall include provisions requiring them to ensure the information relating to products they promote in livestreams is true, not misleading and in compliance with all PRC laws and regulations, and breach of such contractual obligations is a ground for termination. We will also ensure the media contents planned by us fully conforms with the requirements under the relevant regulations. In order to ensure the information relating to products they promote in livestreams is true, not misleading and in compliance with all PRC laws and regulations, in addition to reliance on contractual obligation imposed on celebrities and KOLs, we would (i) assess the reputation of the celebrities and KOLs prior to engaging them, (ii) provide guidelines to the celebrities and KOLs of how to promote our products, (iii) monitor

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the livestreaming of celebrities and KOLs on a sampling basis. In the event we find out a celebrity or KOL provides inaccurate or misleading information regarding promotion of our products during one’s livestreaming session, and/or we receive similar complaint from any third party, we will take appropriate measures, such as terminating our cooperation with such celebrity or KOL and/or blacklisting him/her. We believe there are a large number of celebrities or influencers that we can cooperate with even if the reputation of any of our existing celebrity or influencer is affected by the regulations. As of the Latest Practicable Date, to our best knowledge after due and careful enquiries, none of the celebrities and KOLs we collaborated with or in negotiation for collaboration was engaged in any activities prohibited by the Strengthening Regulations and other rules and regulations applicable to live streaming activities.

CONNECTED TRANSACTIONS

We from time to time enter into various one off or continuing transactions with our connected persons during our ordinary course of business.

For the IP creation and operation segment, we had and will continue to enter into transactions with our connected persons, including JVR Music (Mr. Jay Chou’s artiste management company) and Archstone (Mr. Jay Chou’s representative for business negotiations in respect of one off or project based engagement) for the provision of various services and the sharing of *ChouMate* related licensing fees, the licensing of *ChouMate* and the sales of *ChouMate* related products at their outlets. For the new retail segment, we had and will continue to enter into distribution and other retail arrangements with our connected persons, including Jesports (Beijing) which was distributing certain of our products. For details, please refer to the section headed “Financial information – Related party transactions and balances” of this document.

After the Track Record Period and before our [REDACTED], we may enter into various transactions with our connected persons, including but not limited to those stated in this section and in the section headed “Summary – Recent developments” of this document or transactions arising from the IP Authorization Agreement, which may constitute connected transactions of our Company if they were entered into upon our [REDACTED]. We will ensure ongoing compliance with the applicable Listing Rules requirements (especially the requirements under Chapters 14 and 14A of the Listing Rules) upon [REDACTED].

MARKETING INITIATIVES

We adopt multi-faceted marketing strategy. Our marketing strategies focus on our ability to procure consumers through KOC promotion, in particular through Private Domain Traffic, or PDT, which is further empowered by celebrity participation through other complementary venues and channels, such as TV programs and large-scale concerts. PDT refers to private-controlled net traffic flow through private channel such as WeChat and Weibo, where users with similar interests or buying habits participate in group chat. PDT can often be enhanced if a private channel is owned by or features a KOL or KOC. Apart from marketing our products through word-of-mouth through KOC promotion, we also devote significant efforts and invest much

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capital in a wide variety of sales and marketing activities. We believe our IP-based marketing boosts our product exposure and enables us to build our brand image through multi-dimensional marketing campaigns. When considering which combination of marketing and promotion methods should be used for a particular product, we will consider different factors, among others, its target end consumer base, how common is such product in the market, whether we will launch relatable IP(s) shortly before or after the launch of such product to create a synergy effect.

KOC marketing initiatives

KOC is a new type of influencers in China, who procure content viewers and account followers by testing products, sharing user experience, giving reviews and recommending products based on their recognition of the products' quality and effects. Young people in China are more willing to share their personal life and shopping experiences online, and their purchasing decisions are more prone to be influenced by KOLs, KOCs, communities and social networks, which provides huge growth potential of the social e-commerce industries. KOCs can act as influencers, whose opinions are consumed by an interested group or community and can attract loyal followers for brands which they recommend. KOCs can have impact on the decision-making process of the potential end consumers through their experience as first-hand end consumers.

The marketing strategy of market participants will evolve from marketing through personal acquaintances to marketing through communities, KOCs and KOLs. Marketing through personal relationship has only limited range of consumers, as acquaintances might not have similar interests in specific products or services. Communities, KOCs and KOLs can match those who have similar demands and provide an efficient approach for online stores to reach a huge amount of target consumers. An integrated full-serviced social e-commerce enables KOCs and distributors to easily navigate, share, create content and interact with consumers, providing enjoyable on-purchase and after-sale services and familiarizing consumers with the product information and true user experience. Therefore, more products and services are expected to be promoted through communities, KOCs and KOLs in the future.

Our marketing strategies focus on KOCs and PDT marketing channels. Many of our distributors and sub-distributors are KOCs that are active in particular social communities and have their own social media accounts to promote our products, providing trainings to end consumers and conducting other related sales activities. Marketing efforts by KOC distributors are complementary to our own sales and marketing efforts, such as product placement and advertisement in TV program and large scale concerts.

Kunshan Tingshe, our Distribution Agent for Kunshan Tingshe Distributed Products, offers free trainings to our distributors or sub-distributors mainly on sales and marketing techniques regarding sales of our products to help them to become KOCs, which include: (i) product trials and experiences sharing; (ii) continuous instructions conducted by KOC distributors based on their personal experiences; and (iii) series of short-term and intensive tutorials such as Seven-day Creation Camp (七日創造營), for KOCs to enhance their influence through integrated

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resources and professional support. We assist Kunshan Tingshe to host training sessions for distributors regularly. Through supporting and cultivating distributors in their effort to become KOCs, we and Kunshan Tingshe also assist our KOCs to promote our brand and products through targeted professional trainings which mainly focus on our brand and features of our products. As a result, we believe we are able to communicate focused messages to our potential end consumers in a more effective and economical way. For more details on our distributors’ training system and program, please refer to the paragraph headed “Distribution network – Distribution Agent Assisted Distribution Model – Management of our distribution network – (II) Market-oriented training programs” in this section.

Promotion and marketing activities

To maintain market recognition of our brands, and to avoid losing resonance in our brands’ target market, we gather feedback from consumers and conduct analysis on the sales of products. We also observe the latest market trend, previous sales performance, market demand as well as advertisements of new products developed by our competitors on a regular basis for ideas for selecting new products for development.

In addition, we also formulate marketing strategies and promotes our brand awareness and products through, among others, TV advertisements/sponsorships, providing trial samples and packaged gifts, hosting various events, conferences and meetings and placing advertisements, to expand our consumer base. One of our major promotion and marketing activities is our annual event. We organized our annual event in Ningbo and Ocean Flower Island in January 2020 and April 2021, respectively, which aimed to foster brand loyalty amongst our distributors and sub-distributors and motivating them to further their sale performance and serve as a marketing tool to enhance our brand awareness. During our annual events, we may announce our future plan, introduce our new products, offer sales promotion of our products as well as invite different performers to perform. We also provide customer services through our *MODONG* Health App where we offer users a *MODONG* coffee low-carb diet plan.

IP-empowered marketing

We established an IP-empowered marketing strategy in which we promote our products in association with our proprietary celebrity unique IPs and associated IP contents. We believe such association facilitates our efforts to introduce new products to end consumers who may be more familiar with the IP but have not previously purchased our products, and allows us to generate engagement from our existing consumer base. One of our successful products, *ChouMate* Edition of *MODONG* coffee, is a product marketed in association with *ChouMate*.

In addition, unique celebrity IPs with a vast fan base may be an incentive for our end consumers or KOCs to try our products and share their reviews on social media platforms. By creating our own IPs, we may boost our KOC marketing capabilities at the same time.

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DISTRIBUTION NETWORK

Overview

During the Track Record Period and up to the Latest Practicable Date, we sold and distributed our products under the new retail business through:

- (i) the Distributed Agent Assisted Distribution Model, where we sold our products through a network of distributors who would further expand the consumer reach by procuring a network of sub-distributors. We would engage a Distribution Agent to assist in the development and management of the network of distributors and their sub-distributors;
- (ii) general distribution model, where we sold our products to our distributors for their onward sale to the end consumers without the engagement of a Distribution Agent; and
- (iii) other e-commerce channels, where we directly sold our products to end consumers through various online platforms such as the *Star Plus 4U* (巨星優選) App, as well as our *Tmall* stores, *Kuashou* stores and *Douyin* stores.

In determining the distribution model to be adopted for our products, we would take into consideration of various factors, including but not limited to, their respective market positioning, target customers and product features. We primarily distribute our *MODONG* coffee (as well as other products supporting a low-carb diet, including *Molitone* prebiotic gummy, *MODONG* herb beverage and *MODONG* probiotics lyophilized powder) through the Distribution Agent Assisted Distribution Model having considered that such products mainly target end consumers who had a pressing need for weight-management and require sufficient guidance and supports in connection with the consumption of such products as a supplement to a low-carb diet. We also distribute our skincare products under *Dr.mg* sub-brand through the Distribution Agent Assisted Distribution Model given that such products mainly target users of mature skins which may require more pre-sale supports and guidance. On the other hand, for our products that target general public and do not require specific knowledge or information in their use (such as our products under the *Dr. INYOU* brand), we would generally distribute through general distributorship model and/or other e-commerce channels with a view to enlarge our customer base at a lower distribution cost.

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Coverage of and revenue contribution by geographic regions

The table below sets forth a breakdown of our revenue from the new retail business by geographical locations for the indicated periods:

	Year ended December 31,							
	2019		2020		2021		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Zhejiang	35,257	43.7	104,488	28.6	66,413	22.0	53,764	22.4
Jiangsu	6,007	7.4	61,791	16.9	59,385	19.7	30,367	12.7
Hunan	9,579	11.9	32,469	8.9	18,682	6.2	13,574	5.7
Shanghai	6,980	8.6	30,041	8.2	22,909	7.6	11,296	4.7
Shandong	5,650	7.0	22,723	6.2	26,882	8.9	19,659	8.2
Guangdong	6,817	8.5	19,203	5.3	15,635	5.2	13,072	5.3
Fujian	1,249	1.5	12,273	3.4	12,999	4.3	6,945	2.9
Guangxi	1,151	1.4	11,406	3.1	9,983	3.3	5,259	2.2
Anhui	90	0.1	10,906	3.0	9,840	3.3	9,754	4.1
Hubei	2,311	2.9	10,648	2.9	6,238	2.1	3,932	1.6
Shanxi	4,056	5.0	5,072	1.4	5,490	1.8	3,280	1.4
Others	1,617	2.0	41,389	11.3	37,254	12.4	28,545	11.9
Revenue from distribution network ⁽¹⁾	80,764	100.00	362,409	99.2	291,710	96.8	199,447	83.1
Revenue from other channels ⁽²⁾	33	0.0 ⁽³⁾	2,766	0.8	9,685	3.2	40,652	16.9
Total revenue from new retail business	80,797	100.0	365,175	100.0	301,395	100.0	240,099	100.0

Notes:

- (1) Representing our revenue from sale under the Distribution Agent Assisted Distribution Model and the general distribution model.
- (2) Mainly included sales made directly to end consumers through other e-commerce platforms.
- (3) Figure represents insignificant amount.

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Distribution Agent Assisted Distribution Model

We introduced the Distribution Agent Assisted Distribution Model in 2019 mainly for the sale and distribution of our *MODONG* Coffee. Under the Distribution Agent Assisted Distribution Model, we sell and distribute our branded products to end consumers primarily through our distribution network that consists of a Distribution Agent, our distributors and their sub-distributors. The Distribution Agent would be responsible for developing and managing the distribution network.

We engage Distribution Agents to develop and manage our distributors and sub-distributors as our business focus for the new retail segment is the design and development of products. As at December 31, 2022, there were over 700 distributors and 16,000 sub-distributors under the Distribution Agent Assisted Distribution Model. In the event that we do not delegate distributors management functions to the Distribution Agent(s), we would be required to divert our focus and resources, including manpower, in the development and management of the distribution networks, including but not limited to the frequent liaison with our vast number of distributors and sub-distributors and provision of trainings on sales and marketing techniques in a repeated manners, which are considered to be mundane and time consuming. We believe delegating such mundane works to the Distribution Agent(s) with the required expertise to assist us in developing the distribution network and providing assistance and guidance to our distributors and the sub-distributors would enable us to focus on our core businesses.

Our Directors are of the view that it is common in the industry for a company engaging in new retail business with a focus on sales through social media channels to cooperate with a distribution agent, which will assist such company in managing the distribution network.

Distributor movement

The table below sets forth the number of our distributors and the sub-distributors, including number of active sub-distributors, under our Distribution Agent Assisted Distribution Model in our distribution network for the periods indicated:

	Year ended December 31,			
	2019	2020	2021	2022
Distributors				
Number at the start of the year	36	74	575	699
Added during the year	39	530	242	92
Terminated during the year	(1)	(29)	(118)	(49)
Number at the end of the year	74	575	699	742
Sub-distributors				
Number at the start of the year	639	2,719	16,519	18,871
Added during the year	2,177	15,736	6,252	2,545
Terminated during the year	(97)	(1,936)	(3,900)	(5,372)

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	Year ended December 31,			
	2019	2020	2021	2022
Number at the end of the year ^(Note)	2,719	16,519	18,871	16,044
Of which:				
– Number of sub-distributors that distributed the Kunshan Tingshe Distributed Products	2,549	16,438	18,794	15,681
– Number of active sub-distributors ^(Note)	2,633	15,922	15,128	10,043

Note: We assess the performance of our distributors and sub-distributors on a regular basis based on their activeness. A sub-distributor is considered to be active if, in the past 12-month period, (i) it has introduced other sub-distributors to us; (ii) it has placed order with us; or (iii) it has sold our products to downstream sub-distributors and/or customers.

The number of our distributors and the sub-distributors, including active sub-distributors, increased significantly in 2020 as we expanded our distribution network following the launch of *MODONG* coffee. To the best of our Directors’ knowledge and belief, our sub-distributors may be end consumers, individuals who would further sell the products or a combination of both.

For the years ended December 31, 2019, 2020, 2021 and 2022, one, 29, 118 and 46 distributors and 97, 1,936, 3,900 and 5,372 sub-distributors, respectively, ceased to be our distributors or sub-distributors (where applicable). The cessation of cooperation may be due to personal reasons of the distributors and sub-distributors such as changes in their business focus or termination of cooperation by us. The Distribution Agent and our Group would jointly decide to terminate the cooperation with the distributors and sub-distributors if they become inactive or in the event of their non-compliance with their respective obligations under the distribution agreements. During the Track Record Period, the termination of cooperation with distributors and/or sub-distributors were mainly due to their failure in complying with our pricing guidelines. No distributors or sub-distributors were terminated due to provision of inappropriate and/or misleading information of our Group’s products during the sales thereof.

Save as disclosed in the paragraph headed “Customers” in this section below, to the best of our Directors’ knowledge and belief, there is no any other material past and present relationship (including but not limited to, business, family, trust, employment, shareholding, financing or otherwise) between our Group and our distributors/sub-distributors, and respective directors, ultimate beneficial owner(s) (if any), shareholder(s) (if any), senior management, or any of their respective associates.

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Distribution of the Kunshan Tingshe Distributed Products under the Distribution Agent Assisted Distribution Model

Background

Kunshan Tingshe is our first and largest Distribution Agent. At the time when we introduced such distribution model in 2019, we separately established Kunshan Tingshe as our 80%-owned subsidiary in June 2019 which was appointed and positioned by us as the Distribution Agent for *MODONG* coffee (which is supplied by our wholly-owned subsidiary, Kunshan Star Plus Action). Kunshan Tingshe, which is led by Li Ting (who was the 20% beneficial equity owner thereof) principally engages in the development and management of the distribution network for *MODONG* coffee and provision of trainings for our distributors mainly on sales and marketing techniques. In other words, we had specifically segregated and assigned the product development and procurement and distribution functions relating to *MODONG* coffee to two subsidiaries, namely Kunshan Star Plus Action (as to product development and procurement functions) and Kunshan Tingshe (as to the distribution function), with a view to making each of these two subsidiaries having their respective own business focus. This arrangement is a common corporate setting for a group of companies for the purpose of business operations. In addition, given that Kunshan Tingshe directly managed and contacted our distributors as a subsidiary of our Company at the relevant time, we designated Kunshan Tingshe to be the entity responsible for the sale of *MODONG* coffee to our distributors and therefore, as part of our internal intra-group arrangement, Kunshan Tingshe purchased *MODONG* coffee from Kunshan Star Plus Action for the purpose of onward sales to our distributors.

Legal and contractual relationship

In order to formalize the aforesaid business, legal and internal intra-group relationships between Kunshan Star Plus Action and Kunshan Tingshe, (i) Kunshan Star Plus Action entered into the Main Distribution Agreement with Kunshan Tingshe, which stipulated the contractual relationship between seller (Kunshan Star Plus Action) and buyer (Kunshan Tingshe); and (ii) Kunshan Tingshe entered into distribution agreements with our distributors whereby the contractual relationship between seller (Kunshan Tingshe) and buyer (our distributors) was established (and our distributors in turn entered into agreements with the sub-distributors whereby the contractual relationship between seller (our distributors) and buyer (the sub-distributors) was established). Accordingly, the sub-distributors would settle the purchase prices with our distributors, who would in turn settle the relevant sum with Kunshan Tingshe. Kunshan Tingshe would then settle the product prices with us pursuant to the Main Distribution Agreement. For details of our settlement arrangement, please refer to the paragraph headed “– Distribution Network – Distribution Agent Assisted Distribution Model – Distribution of the Kunshan Tingshe Distributed Products under the Distribution Agent Assisted Distribution Model – Settlement arrangement among our Group, Kunshan Tingshe and our distributors” in this section below. Such arrangement has been subsequently extended to the sales and distribution of other Kunshan Tingshe Distributed Products after their respective official launch thereof.

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Relationship from accounting perspectives

Notwithstanding the legal and contractual relationship among Kunshan Star Plus Action, Kunshan Tingshe and the distributors as aforementioned, based on the following facts and the respective roles of Kunshan Star Plus Action and Kunshan Tingshe in the Distribution Agent Assisted Distribution Model, in accordance with Hong Kong Financial Reporting Standard (HKFRS) 15, Kunshan Star Plus Action is regarded as the seller and Kunshan Tingshe is regarded as an agent and our distributors are regarded as our customers from accounting perspective, which is in line with our original business intention when Kunshan Tingshe was established, on the following basis:

- Under HKFRS 15, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The Main Distribution Agreement entered into between our Group and Kunshan Tingshe; and the distribution agreements entered into between Kunshan Tingshe and our distributors merely set out the framework of the transactions between the respective parties and did not specified the details of the individual transactions. Accordingly, the existence of such agreements alone is not adequate to conclude the identity of the customers under HKFRS 15, as each party's rights and obligations regarding the specific goods to be transferred are not identifiable. On the contrary, the orders placed by our distributors through the Ordering System contain details of the products to be transacted and we are committed to fulfill the obligations under such orders, thereby creating enforceable rights and obligations between our Group and our distributors, and consisted of a contract under HKFRS 15;
- Selling price of the Kunshan Tingshe Distributed Products and any discount offered to our distributors are determined by Kunshan Star Plus Action, not Kunshan Tingshe. Kunshan Tingshe has no discretion to determine the selling price of the Kunshan Tingshe Distributed Products and it has to strictly comply with the selling price determined by Kunshan Star Plus Action. After *MODONG* coffee is sold to our distributors, our distributors will have discretion in establishing the selling price for *MODONG* coffee to the sub-distributors and their end consumers, as long as they comply with our pricing guidelines including our minimum price requirement unless our prior approval has been obtained, and our distributors are the primary obligor for providing *MODONG* coffee to the sub-distributors and the end consumers;
- Kunshan Star Plus Action, rather than Kunshan Tingshe, retains the primary responsibility for the provision of the Kunshan Tingshe Distributed Products to each of our distributors. Kunshan Tingshe never had control or ownership of the goods throughout the entire process. Once our distributors place orders on our Ordering System, Kunshan Tingshe Distributed Products will be delivered by independent logistics service providers engaged by us directly from Kunshan Star Plus Action's warehouses to our distributors' designated addresses. Kunshan Tingshe does not maintain any inventories of the Kunshan Tingshe Distributed Products and bears no inventory risk in the arrangement; and

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- When a box of the Kunshan Tingshe Distributed Products is delivered by independent logistics service providers engaged by us and accepted by a distributor (or at the address designated by the distributor or sub-distributor), the legal title of the box sold will be transferred to such distributor, who will then assume all the inventory risks associated with the box sold. Save for returns for defective products within 30 days after delivery of the products subject to the provision of the relevant details and proofs from distributors, no product can be returned to us after the seven-day return period as prescribed by the Consumer Protection Law. We will not reclaim any unsold products from our distributors. For more details, please refer to the paragraph headed “Distribution network – Distribution Agent Assisted Distribution Model – Distribution of the Kunshan Tingshe Distributed Products under the Distribution Agent Assisted Distribution Model – Management of our distribution network – (I) Product return policies” in this section.

Accordingly, we only recognize revenue at the point when the Kunshan Tingshe Distributed Products are delivered by independent logistics service providers, which are engaged by us, to and accepted by our distributors (or at the addresses designated by our distributors or sub-distributors). Please refer to the paragraph headed “Product ordering and tracking system – Accounting treatment in relation to the sales of the Kunshan Tingshe Distributed Products” in this sub-section below for further details of the relevant accounting treatment.

Disposal of Kunshan Tingshe

In May 2020, we divested our interest in Kunshan Tingshe. Prior to the disposal of Kunshan Tingshe, as Kunshan Tingshe was still our subsidiary, we shared office and staff resources to support the administrative (including human resources and audit), sales and marketing works (including assisting Kunshan Tingshe to provide trainings to distributors and sub-distributors) of Kunshan Tingshe. After such disposal, we no longer shared office and no longer provided administrative supports to Kunshan Tingshe, and Kunshan Tingshe had leased its own office and recruited its own employees. The following table sets out the number of individuals being responsible for managing our distributors and sub-distributors under the Distribution Agent Assisted Distribution Model during the four years ended December 31, 2022:

	Year ended December 31,			
	2019	2020	2021	2022
Employees and senior management of Kunshan Tingshe (including Li Ting)	1	9	17	13
Selected Distributors with managerial responsibilities ^(Note)	–	13	15	21

Note: After the disposal and with continuous increase in scale of the distribution network, in addition to Kunshan Tingshe and Li Ting, certain Selected Distributors also has taken up the managerial responsibilities in expanding and managing the distribution network.

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We consider it is in the best interests of our Group and the Shareholders as a whole to continue engaging Kunshan Tingshe as a Distribution Agent and maintain the above legal and contractual relationships and agreements between (a) Kunshan Star Plus Action and Kunshan Tingshe; (b) Kunshan Tingshe and our distributors; and (c) our distributors and their sub-distributors, as well as the payment arrangement pursuant to the above arrangements even after the disposal of Kunshan Tingshe, having taken into account of the followings:

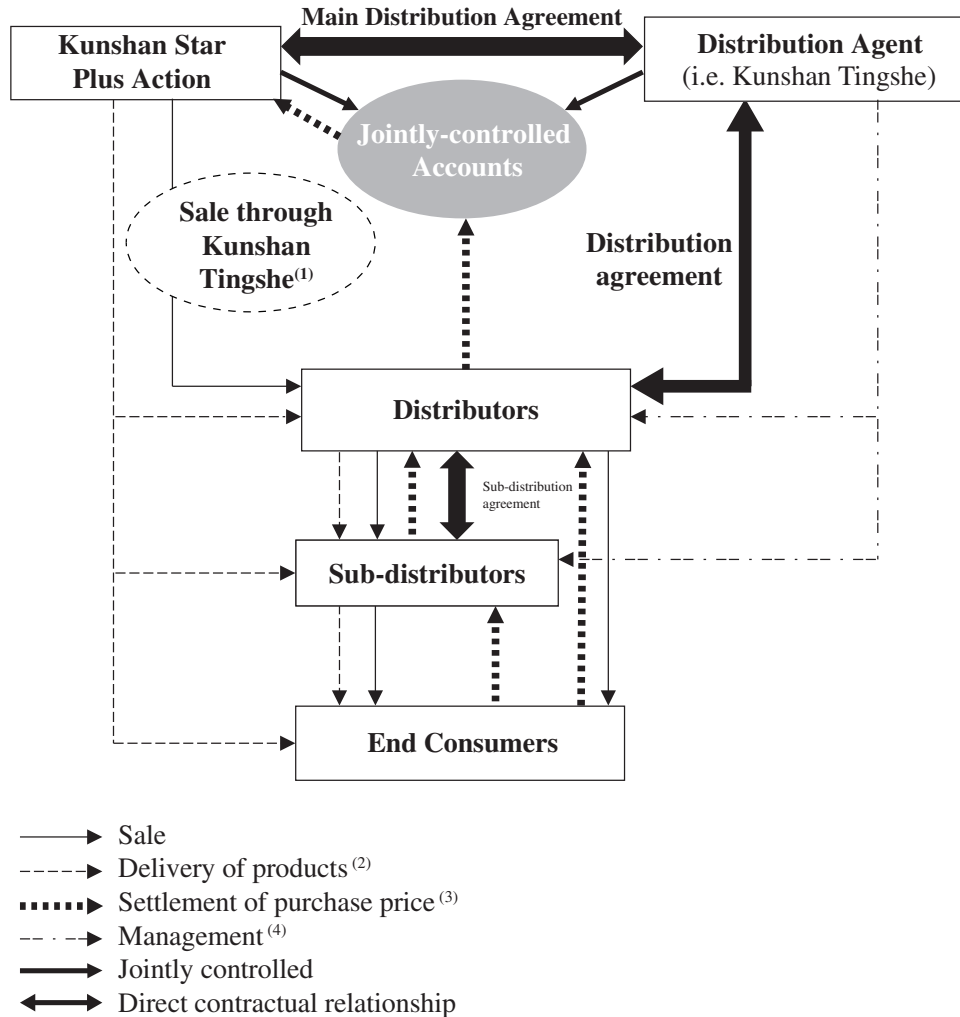
- (i) mutual trust has been well formed between our Group and Kunshan Tingshe for the operation of the Distribution Agent Assisted Distribution Model as well as the pricing arrangement among Kunshan Tingshe, distributors and sub-distributors have already been well-established and well-operated by Kunshan Tingshe;
- (ii) the vast number of distributors and sub-distributors within our distribution network;
- (iii) our Group was ready to dispose of Kunshan Tingshe in order for us to focus on our core business as discussed above;
- (iv) we have not had any direct contractual relationship with our distributors, before and after the disposal of Kunshan Tingshe. As such, our Directors are of the view that the operation of the Distribution Agent Assisted Distribution Model would not be adversely affected if it ceased to be our Distribution Agent by the absence of direct contractual relationship between our Group and distributors, even after Kunshan Tingshe is no longer a member of our Group after completion of its disposal. In order to reduce Kunshan Tingshe's risk to us, (a) we entered into the Jointly-controlled Accounts Agreements with Kunshan Tingshe; and (b) Kunshan Tingshe is obliged to terminate the distribution agreements that it entered into with distributors and procure such distributors to enter into distribution agreements (or other agreements required by us) with our Group or our designated third parties if it ceased to be our Distribution Agent; and
- (v) the cessation of retaining Kunshan Tingshe as our Distribution Agent or any major alteration to the operation of the Distribution Agent Assisted Distribution Model may result in material adverse change on our business and financial performance, given the distribution model has comprised vast number of distributors and sub-distributors and would defeat our intention for the disposal of Kunshan Tingshe.

Apart from acting as our Distribution Agent, certain of our products, such as skincare products under *LA DEW* brand and *MODONG* pastry, are sold to our distributors through Kunshan Tingshe without any payment of discount, incentives and fees from time to time.

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Business flow and key participants

The diagram below illustrates our Distribution Agent Assisted Distribution Model in respect of the Kunshan Tingshe Distributed Products:



Notes:

- (1) As explained above, although the sale of the Kunshan Tingshe Distributed Products, including *MODONG* coffee, is conducted contractually from Kunshan Star Plus Action to Kunshan Tingshe and then to our distributors, given Kunshan Tingshe is regarded as an agent, the sale of the Kunshan Tingshe Distributed Products, including *MODONG* coffee, is considered to be sold from Kunshan Star Plus Action to our distributors from business and accounting perspectives. Our revenue from sales is recognized upon delivery of products to distributors, sub-distributors and/or end consumers (as the case may be).
- (2) Our Group is responsible for the delivery of our products to the distributors or sub-distributors. We may also arrange direct delivery to end consumers from time to time at the specific requests of the distributors or sub-distributors. Where our products were delivered to the distributors or the sub-distributors for their onward delivery to the end consumers, our distributors and the sub-distributors are encouraged to scan the QR code using our QR Code System immediately before delivery to sub-distributors or end consumers.

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- (3) Purchase price for our products shall be settled by the distributors by way of transfer to the Jointly-controlled Accounts, which have been jointly-controlled by us and Kunshan Tingshe since June 1, 2020 after Kunshan Tingshe was disposed of by us. For details, please refer to the paragraph headed “– Distribution Network – Distribution Agent Assisted Distribution Model – Distribution of the Kunshan Tingshe Distributed Products under the Distribution Agent Assisted Distribution Model – Settlement arrangement among our Group, Kunshan Tingshe and our distributors” in this section below.
- (4) Kunshan Tingshe is responsible for the development and management of the distributors and the sub-distributors of our products, including providing training on sales and marketing techniques to the distributors and sub-distributors and monitoring their performance.

Product ordering and tracking system

We operate the Ordering Management System which provides a centralized system to manage the ordering and delivery of our major products (including but not limited to the Kunshan Tingshe Distributed Products and our skincare products). The Ordering Management System comprises two subsystems, namely (i) the ordering system, which enables our distributors and their sub-distributors to place sales orders and records the delivery of products from our warehouse to our distributors or sub-distributors (i.e. the Ordering System); and (ii) the QR code system, which keeps track of the movement of our products from our distributors or sub-distributors to the end consumers (i.e. the QR Code System).

The Ordering System

Our distributors can place orders with us through the Ordering System. The Ordering System also allows the sub-distributors to place orders with their respective distributors in the system and their respective distributors will approve such orders for their respective sub-distributors. Based on the orders from the distributors and sub-distributors, we will then arrange deliveries of our products. After the delivery of our products, we will be able to track the deliveries and completion of the orders based on the delivery records of our logistics service providers.

Our distributors or sub-distributors developed by them are required to make orders of our products through their own respective accounts in the Ordering System. Once a distributor makes an order through his/her own account in the Ordering System, such distributor is required to make prepayments for such order by making reference to it through his/her own respective accounts in the Ordering System by transferring the funds to the Jointly-controlled Accounts. In other words, prepayment being made for the said order of our products from such particular distributor can be identified as it is linked with the related order made by the relevant distributor or sub-distributor. We may arrange delivery of our products directly to the distributors or sub-distributors, or if so requested by the distributors or sub-distributors, to the end consumers. Based on the delivery records of our logistics service providers, we confirm whether the deliveries have been made to our distributors, sub-distributors or end consumers (where appropriate). Given prepayment being made for an order can be identified, we would be able to match the relevant prepayment with the delivery of the related order of products.

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The QR Code System

As part of the Ordering Management System, we also operate the QR Code System, being our product tracking system, relying on a unique, traceable and anti-counterfeiting QR code printed on each box of our products. Starting from the launch of *MODONG* coffee in 2019, in order to (i) keep track of the movement of our Group's inventory; (ii) detect any counterfeit products being sold in the market; (iii) facilitate the recruitment of new sub-distributors and marketing activities directly to end consumers; and (iv) prevent any competition amongst distributors and sub-distributors (where appropriate) over sub-distributors and/or end consumers, we started to implement the QR Code System. Under the QR Code System, the QR codes printed on the boxes of our Group's products are scanned when such products are delivered from the manufacturers to warehouses of our Group or our logistics service providers, and subsequently from such warehouses to the designated address of distributors or sub-distributors. By doing so, our Group would be able to keep track of the movement of its inventory. In addition, since the packaging of most of our Group's products contain a QR code, products that are originated from our Group and found in the market should be easily identified through the QR code scanning system. In other words, if any product is suspected to be counterfeit product, it can be easily verified through the scanning of the QR code on its packaging, as no record of product could be found from the sales record of the Ordering System.

Where our products were delivered to the distributors or the sub-distributors for their onward delivery to the end consumers, our distributors and sub-distributors are encouraged to scan the QR code and record their transactions through the QR Code System immediately before delivery of our products to their sub-distributors or end consumers. For each delivery to end consumers, distributors and sub-distributors are required to input the relevant details, including the name and phone number of the end consumers and the products purchased, into the QR Code System at the time when they scan the QR codes. The relevant record can only be stored in the QR Code System upon scanning of the QR code and having input the required information of the end consumer. We are not involved in the scanning of the QR code by our distributors and sub-distributors. Our Group's distributors and/or sub-distributors are encouraged to do so to prevent any competition amongst distributors and sub-distributors (where appropriate) over sub-distributors and/or end consumers. Given information of each end consumer can only be recorded under one distributor in the QR Code System, by scanning the QR code and recording details of its end consumers, the distributors and sub-distributors would be able to ensure that their respective end consumers would not subsequently purchase our products through other distributors or sub-distributors. Further, in the event that an end consumer subsequently becomes a sub-distributor, such record would also be used to verify the purchases previously made by such end consumer so that he/she would be entitled to become a qualified sub-distributor. In addition, as part of our marketing initiatives, when the purchase volume of such end consumer reaches the level required by our Group during the promotional campaign, conducted by us from time to time, we would arrange delivery of gift(s) to such end consumers directly. Such promotional campaign would incentivize end consumers' purchase of our products. We consider that the above would incentivise the distributors and sub-distributors to scan the QR code in the QR Code System when they delivered the products to their respective end consumers.

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We believe the engagement of distributors is commonly adopted across various industries, even if the brand owners have the access to end customers’ information. Distributors usually take a more proactive approach in educating end customers about new products of the brand owners by employing strategies, such as pre-sales training, roadshows or demos on behalf of brand owners. In addition, by adopting distribution model, brand owners can simplify its employee structure and focus more on product development. Given our focus on the new retail segment is to generate revenue through product design and development, even we possess the contact details of end consumers, we do not have the intention and the required resources, including manpower, to sell our products directly to end consumers. We believe our distributors and sub-distributors would not have material concern on us using information of end consumers to sell our products directly to them without engaging them, but would have the incentives to scan the QR codes in order to prevent their customers being procured by other distributors or sub-distributors. Moreover, as the QR Code System facilitates our Group to carry out marketing activities targeting end consumers so that our distributors and sub-distributors are able to benefit from such promotional activities to incur more sales, we believe that our distributors and sub-distributors would have additional incentive to scan the QR codes in order to demonstrate that they successfully sold our products to end consumers during promotional campaign periods.

Prior to June 2022, we did not perform any cross-checking with respect to the information of the end consumers and/or the delivery records input by our distributors and sub-distributors on the basis that, we considered the risk of counterfeiting the records in the QR Code System is relatively low, given (i) the vast number of distributors, sub-distributors and end consumers involved in the scanning of the QR codes; (ii) the vast number of scanning records; and (iii) the lack of incentive for the distributors and sub-distributors to counterfeit the relevant record. As an additional internal control measure, since June 2022, we have started cross-checking the information of the end consumers and/or the delivery records input by our distributors and sub-distributors from time to time, by way of phone interviews with selected end consumers (based on the phone number of the end consumers and the relevant transaction records as input by the distributors or sub-distributors in the QR Code System) to ascertain the accuracy of the data extracted from the QR Code System, and verify and confirm their order details on a random sampling basis every month, with a sample size of approximately 10 end customers with reasonable size of purchase order for each week of the month (constituting to approximately 40 end customers for each month selected on a random basis).

Distribution of Kunshan Tingshe Distributed Products and risk of channel-stuffing

During the Track Record Period, we mainly sold and distributed our Kunshan Tingshe Distributed Products, mainly comprising *MODONG* coffee, through Kunshan Tingshe under the Distribution Agent Assisted Distribution Model.

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The table below sets forth the breakdown of the sales of *MODONG* coffee for the indicated periods:

		Year ended December 31,			
		2019	2020	2021	2022
Approximate total number of boxes sold in distribution network⁽¹⁾	A=B+C	632,000	3,314,000	2,132,000	1,380,000
Sales revenue under distribution network (RMB'000)	D	71,894	332,475	225,256	150,208
Average price (RMB)		114	100	106	109
<i>Originated directly from Distributors</i>					
Approximate number of boxes sold to distributor (excluding those sold to sub-distributors through the distributors) ⁽¹⁾	B	39,000	141,000	240,000	289,000
Average number of boxes sold per distributor		584	280	382	463
Maximum number of boxes purchased by a single distributor		2,066	4,617	29,880	34,520
<i>Originated from Sub-distributors through Distributors</i>					
Approximate number of boxes sold to sub-distributors through distributors ⁽¹⁾	C	593,000	3,173,000	1,892,000	1,091,000
Average number of boxes sold per sub-distributor		228	184	142	129
Maximum number of boxes purchased by a single sub-distributor		2,220	2,420	4,000	5,020
Others sale channels					
Sales revenue (RMB'000) ⁽²⁾	E	33	393	2,516	675
Approximate number of boxes sold		100	1,000	1,000	1,000
Total sales revenue of MODONG coffee (RMB'000)	F=D+E	<u>71,927</u>	<u>332,868</u>	<u>227,772</u>	<u>150,883</u>

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Notes:

- (1) Represented the total number of boxes of *MODONG* coffee sold pursuant to orders directly placed by distributors and orders from sub-distributors placed through distributors.
- (2) Represented revenue generated from sale through e-commerce channels, which also included insignificant amount generated from the sale of certain ancillary products of the *MODONG* coffee such as effervescent tablets, coffee cups and body fat scale.

As illustrated in the above table, a substantial portion of the *MODONG* coffee sold to our distributors was subsequently sold to their sub-distributors. Out of the total number of boxes of *MODONG* coffee sold to our distributors, 93.8%, 95.7%, 88.7% and 79.1% were sold onward to our sub-distributors during the year ended December 31, 2019, 2020, 2021 and 2022, respectively.

In addition, based on (i) the scanning records of the traceable anti-counterfeiting QR code attached to each box of *MODONG* coffee as a result of the scanning independently undertaken by the distributors and sub-distributors without the involvement of our Group; and (ii) the delivery records in respect of *MODONG* coffee that were sold to distributors (excluding those sold to sub-distributors through distributors) and directly delivered by us to the end consumers at the request of the distributors, it is shown that approximately 69%, 90%, 94% and 64% of the total number of boxes of *MODONG* coffee that were sold to end consumers during the four years ended December 31, 2022, respectively. We consider the remaining percentages mainly represent *MODONG* coffee consumed by the distributors and their sub-distributors for their own consumption and *MODONG* coffee sold to end-consumers which had not been scanned by the distributors and sub-distributors.

Pricing arrangement and discounts, incentives and fees in relation to the sales of Kunshan Tingshe Distributed Products

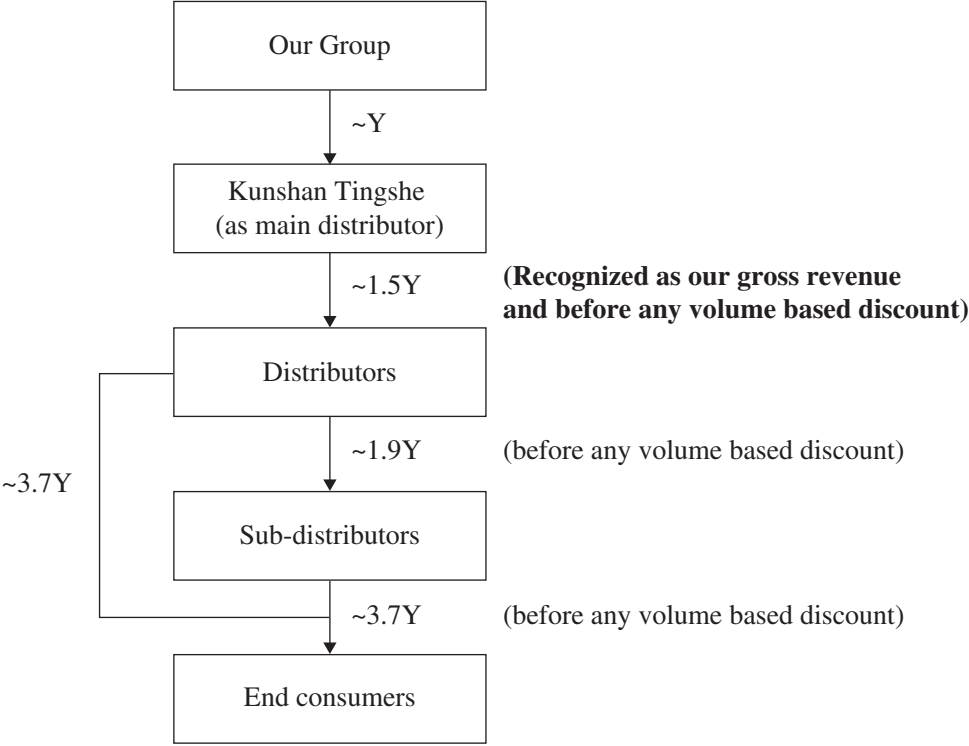
- (I) Pricing arrangement for sales from our Group to Kunshan Tingshe, distributors, sub-distributors and end consumers

We adopt similar pricing arrangement and discounts, incentives and fees in relation to the sales of Kunshan Tingshe Distributed Products. We use *MODONG* coffee, being our largest revenue contributor, as example for illustrating our pricing arrangement and mechanism below. Both the unit selling price of the *MODONG* coffee that we sell to Kunshan Tingshe (“**our unit selling price to Kunshan Tingshe**” or denote it as “**Y**”), the unit selling price of the *MODONG* coffee that Kunshan Tingshe sells to our distributors (“**Kunshan Tingshe’s unit selling price to our distributors**”) are determined by us and have been fixed throughout the Track Record Period. We also set the benchmark prices of the unit selling price of the *MODONG* coffee that our distributors sell to the sub-distributors (“**distributors’ benchmark unit selling price to the sub-distributors**”) and the unit selling price of the *MODONG* coffee that our distributors or the sub-distributors sell to the end consumers (“**benchmark unit selling price to end consumers**”).

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Kunshan Tingshe’s unit selling price to our distributors is set at a fixed mark-up (the “**Fixed Mark-up**” or 0.5Y) of approximately 50% to our unit selling price to Kunshan Tingshe (i.e. approximately 1.5Y). In other words, the Fixed Mark-up is equal to approximately 34% of Kunshan Tingshe’s unit selling price to our distributors (i.e. $\sim 0.5Y/1.5Y = \sim 34\%$). Distributors’ benchmark unit selling price to the sub-distributors is approximately marked up 25% based on Kunshan Tingshe’s unit selling price to our distributors (i.e. $1.5Y \times 1.25 = 1.9Y$) before the application of certain volume-based discounts based on our discount guidance. Benchmark unit selling price to end consumers is approximately marked up 145% based on Kunshan Tingshe’s unit selling price to our distributors (i.e. $1.5Y \times 2.45 = 3.7Y$) before the application of certain volume-based discounts based on our discount guidance.

Set out below is a numerical illustration of the pricing policies from our Group to end consumers:



Note: Y is used as a denotation of our unit selling price to Kunshan Tingshe in this section only for the purpose of illustrating the relative amounts of the prices of MODONG coffee and related expenses under the Distribution Agent Distribution Model. The unit selling prices of MODONG coffee has been fixed throughout the Track Record Period.

The various mark-ups of selling prices between different levels mentioned above are used to mobilize Kunshan Tingshe, our distributors and the sub-distributors to promote and market our MODONG coffee. The mark-ups of selling prices between each level is in line with industry norm.

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(II) Discounts, incentives and fees to distributors and Li Ting

The Fixed Mark-up, which represents the surplus of Kunshan Tingshe’s selling prices over that of our unit selling price to Kunshan Tingshe, is determined by us after consultation with Kunshan Tingshe and taking into account various discounts, incentives and fees required to be given by Kunshan Tingshe to promote the sales of the *MODONG* coffee and to expand the network of our distributors. In other words, the Fixed Mark-up is given to Kunshan Tingshe to cover the following items:

- 1.1 various volume discounts and incentives given to our distributors. Volume discounts are given to our distributors if they meet certain purchase targets in terms of the number of boxes of the *MODONG* coffee as pre-determined by us. Incentives will also be given to distributors (“**Introducing Distributors**”) for their services provided to assist Kunshan Tingshe to for, amongst others, extending our distribution network by procuring new distributors (“**Procured Distributors**”), including their assistance and guidance provided to the Procured Distributors in relation to our products and marketing strategies. Such discounts and incentives amounted to approximately 20–24% of Kunshan Tingshe’s gross sales for the years ended December 31, 2019, 2020, 2021 and 2022 (i.e. approximately 20–24% of 1.5Y); and
- 1.2 sales volume based fees are given to a few distributors as selected by Kunshan Tingshe (according to certain criteria including the distribution network they assisted to develop, and the number of distributors they referred to Kunshan Tingshe) to provide services to assist Kunshan Tingshe in promoting the sales of the *MODONG* coffee and expanding the distribution network in order to incentivize the Selected Distributors to promote sales through the distribution networks which they assisted to develop. Such sales volume based fees to Selected Distributors amounted to approximately 3–4% of Kunshan Tingshe’s gross sales for 2020 (i.e. approximately 3–4% of 1.5Y) as the Selected Distributors achieved a high completion rate of the sales targets. In 2021 and 2022, as the sale volume of the *MODONG* coffee by the Selected Distributors had decreased, thereby lowering the sale volume based fees to 1.4% and 1.0% of Kunshan Tingshe’s gross sales for 2021 and 2022, respectively (i.e. approximately 1.4% and 1.0% of 1.5Y).

The volume discounts, incentives and fees to our distributors as mentioned in the above items (1.1) to (1.2) are subject to our Group’s review and approval and are considered as payments to customers under HKFRS 15 and they are net off with revenue accordingly. For more details, please refer to the section headed “Financial information – Description of major components of our results of operations – Revenue from new retail business” in this document.

2. Kunshan Tingshe shall be entitled to use the entire remaining balance of the Fixed Mark-up after deducting the above items (1.1) and (1.2) (“**Remaining Balance of the Fixed Mark-up**”) to cover its operating costs, including but not limited to, payment of fee to Li Ting or company(ies) controlled or designated by Li Ting (“**Service Fee to Li Ting**”) for her services provided to Kunshan Tingshe in managing Kunshan

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Tingshe and the network of distributors and sub-distributors, marketing and promotion expenses and employee benefit expenses.

The Service Fee to Li Ting is directly linked to the sales performance of *MODONG* coffee and accordingly is based on the total boxes of the *MODONG* coffee sold by us to our distributors multiplied by a fixed unit fee, which amounted to approximately 3% to 4% of Kunshan Tingshe's gross sales for 2019, 2020, 2021 and 2022 (i.e. approximately 3% to 4% of 1.5Y).

We believe the success of building, expanding and maintaining our Group's extensive distribution network is mainly contributable to Kunshan Tingshe's development and management thereof, which is carried out through the leadership of Li Ting. Accordingly, we consider a service fee shall be paid to Li Ting in order to (i) recognize the soft skills brought by Li Ting; and (ii) ensure her continuous effort to maintain and even expand our distribution network. The Service Fee to Li Ting was negotiated and determined taking into account, among others, our assessment to secure a reasonable margin on product sold, Li Ting's role in Kunshan Tingshe and her expected compensation. Our Directors are of the view that it is not uncommon in the industry that social e-commerce companies to pay a certain amount of fees to its distribution agent and/or key personnel of its distribution agent to incentivize them.

(III) Additional incentive fee to Kunshan Tingshe on top of the Fixed Mark-up for promoting the sales of *MODONG* coffee ("**Additional Incentive Fee to Kunshan Tingshe**")

In order to further incentivize and motivate Kunshan Tingshe to put more effort in developing and expanding our distribution network, pursuant to the agreements entered with Kunshan Tingshe on January 6, 2020 and July 1, 2021 respectively, starting from 2020, we agreed to pay sales incentives to Kunshan Tingshe based on the total boxes of *MODONG* coffee sold if minimum sales targets of 2,000,000 and 3,000,000 boxes can be met for the years ended December 31, 2020 and 2021, respectively. In 2020, the sales incentive was RMB5 per box for the first 2,000,000 boxes and RMB8 per box for each box exceeding 2,000,000 boxes. In 2021, the sales incentive was RMB5 per box for the first 3,000,000 boxes and RMB7 per box for each box exceeding 3,000,000 boxes. In 2022, the sales incentive was RMB5 per box for the first 2,800,000 boxes and RMB7 per box for each box exceeding 2,800,000 boxes. The above sales targets are simply the indication for entitlement of the Additional Incentive Fee to Kunshan Tingshe, instead of being mandatory sales targets to be achieved whereby the failure of which would result in either termination of our relationship therewith or any penalty being imposed thereon.

Accounting treatment in relation to the sales of the Kunshan Tingshe Distributed Products

Before the disposal of Kunshan Tingshe on May 31, 2020, Kunshan Tingshe was our subsidiary and therefore all its sales, cost of sales as well as all operating costs (after

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inter-companies eliminated) were consolidated in our Group’s consolidated financial statements. In particular,

- (A) our Group’s consolidated sales of the *MODONG* coffee were equal to the sales of Kunshan Tingshe (i.e. Kunshan Tingshe’s unit selling price to our distributors, or 1.5Y), net of the discounts, incentives and fees to distributors as mentioned in the above items (1.1) and (1.2) (which actually represent the discounts, incentives and fees given to distributors by our Group as Kunshan Tingshe was part of our Group);
- (B) all the cost of sales as well as all operating costs (after inter-companies eliminated) were consolidated as part of the related costs or expenses of our Group. In particular, the Service Fee to Li Ting (which is part of such operating costs of Kunshan Tingshe) was recorded as part of the selling and marketing expenses of our Group; and
- (C) the Additional Incentive Fee to Kunshan Tingshe which was paid by our Group (excluding Kunshan Tingshe) was eliminated upon consolidation.

The accounting treatments in relation to the sales and various components of the Fixed Mark-up are substantially the same after the disposal of Kunshan Tingshe, except for the Additional Incentive Fee to Kunshan Tingshe from our Group which would not be eliminated and consolidated, and is recorded as part of the operating costs of our Group.

Based on the above, the gross and net sales of the Kunshan Tingshe Distributed Products during the Track Record Period remain the same both before and after the disposal of Kunshan Tingshe, which are summarized below with reference to the above explanations:

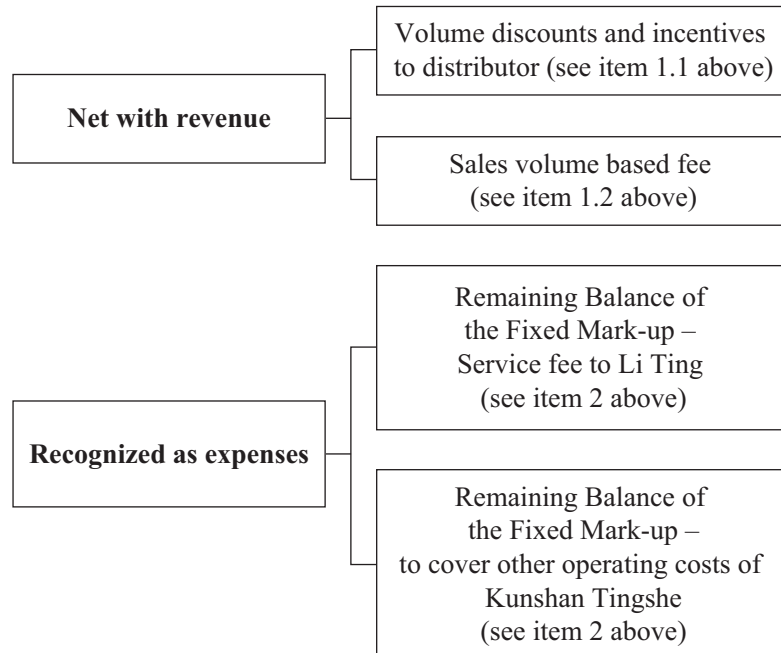
		Year ended December 31,							
		% to our gross sales		% to our gross sales		% to our gross sales		% to our gross sales	
		2019	2020	2021	2022	2019	2020	2021	2022
Notes		(in RMB thousands)							
Gross revenue	(a)	90,319	467,926	331,441	222,557	100%	100%	100%	100%
Volume discounts and incentives to our distributors	(b)	(18,425)	(111,893)	(72,425)	(52,673)	20.4%	23.9%	21.9%	23.7%
Sales volume based fees to the Selected Distributors	(c)	-	(15,260)	(4,669)	(2,221)	-	3.3%	1.4%	1.0%
Revenue recognized by our Group	(d)	<u>71,894</u>	<u>340,773</u>	<u>254,347</u>	<u>167,663</u>	<u>79.6%</u>	<u>72.8%</u>	<u>76.7%</u>	<u>75.3%</u>

Notes:

- (a) Based on Kunshan Tingshe’s unit selling price to our distributors of approximately 1.5Y.
- (b) Based on discounts and incentives to distributors as mentioned in the above item (1.1).
- (c) Based on the sales volume based fees to distributors as mentioned in the above item (1.2).
- (d) Represented the revenue recognized by our Group in respect of the sale of the Kunshan Tingshe Distributed Products through Kunshan Tingshe.

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(IV) Illustration of the accounting treatment of the Fixed Mark-up (i.e. based on 0.5Y or 34% of 1.5Y)



Set out below is an analysis of the Fixed Mark-up during the Track Record Period:

		Year ended December 31,							
		% to our gross sales		% to our gross sales		% to our gross sales		% to our gross sales	
		2019	2020	2021	2022	2019	2020	2021	2022
<i>Notes</i>		<i>(in RMB thousands)</i>							
To offset revenue as shown above									
Volume discounts and incentives to distributors	(a)	18,425	111,893	72,425	52,673	20.4%	23.9%	21.9%	23.7%
Sales volume based fees to the Selected Distributors	(b)	–	15,260	4,669	2,221	–	3.3%	1.4%	1.0%
Recognized as expenses									
Remaining Balance of Fixed Mark-up	(c)								
– Service Fee to Li Ting		3,290	17,957	12,913	7,389	3.6%	3.8%	3.9%	3.3%
– To cover other operating costs of Kunshan Tingshe		9,060	18,347	25,779	15,595	10.0%	3.9%	7.8%	7.0%
		<i>(Note d)</i>	<i>(Note d)</i>			<i>(Note e)</i>		<i>(Note e)</i>	<i>(Note e)</i>
Total of Fixed Mark-up	(f)	<u>30,775</u>	<u>163,457</u>	<u>115,786</u>	<u>77,878</u>	<u>34.0%</u>	<u>34.9%</u>	<u>34.9%</u>	<u>35.0%</u>

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Notes:

- (a) Based on discounts and incentives to distributors as mentioned in the above item (1.1).
- (b) Based on the sales volume based fees to distributors as mentioned in the above item (1.2).
- (c) The Remaining Balance of the Fixed Mark-up are the amounts as mentioned in the above item (2).
- (d) For the year ended December 31, 2019 and for the five months ended May 31, 2020, the Remaining Balance of Fixed Mark-up to cover other operating costs of Kunshan Tingshe of RMB9.1 million and RMB9.9 million respectively were eliminated on consolidation in preparing our consolidated financial statements and such other operating costs of Kunshan Tingshe were consolidated in our financial statements as part of our selling and marketing expenses as well as general and administrative expenses as explained above.
- (e) The percentage of the Remaining Balance of Fixed Mark-up to cover other operating costs of Kunshan Tingshe to our gross sales was relatively higher in 2019 since we allocated more costs on the establishment of the distribution network in the first year of sales of *MODONG* coffee as its sales volume was relatively low and we were still introducing it to the market. In 2021 and 2022, we recorded a higher percentage of the Remaining Balance of Fixed Mark-up to cover other operating costs of Kunshan Tingshe, mainly because the sale of *MODONG* coffee decreased in the two years ended December 31, 2022, which resulted in the decrease in (i) the volume discounts and incentives to distributors; and/or (ii) the sales volume based fees to the Selected Distributors, which was determined with reference to the completion rate of predetermined sales targets.
- (f) Notwithstanding that the Fixed Mark-up should be approximately 34% of Kunshan Tingshe's unit selling price to our distributors as illustrated above, there is a slight variation from the 34% during the Track Record Period as we might from time to time (i) offer promotion activities to sell *MODONG* coffee together with our other products in a bundle, or vice versa. For instance, our skincare products and *MODONG* coffee may be packaged as a bundle to promote our sales. As a result, the selling price and gross revenue of our Kunshan Tingshe Distributed Products is adjusted with fair value allocation in accordance with HKFRS 15; and (ii) organize certain activities or campaign where our *MODONG* coffee and the ancillary products are directly sold through Kunshan Tingshe to the end consumers without involving payment of discounts, incentives and fees to distributors.

As illustrated in the above table, part of the Fixed Mark-up covering the volume discounts and incentives and sales volume-based fees to be granted to distributors represented discounts, incentives and fees paid by our Group to the distributors through Kunshan Tingshe and are therefore not regarded as services fees to Kunshan Tingshe. On the other hand, the Remaining Balance of the Fixed Mark-up for covering the Service Fees to Li Ting and other operating costs of Kunshan Tingshe are regarded as service fees to Kunshan Tingshe for promotion and marketing of the Kunshan Tingshe Distributed Products, including *MODONG* coffee, by developing, expanding and managing our distribution network.

The Additional Incentive Fee to Kunshan Tingshe from our Group amounted to approximately RMB19.5 million for 2020, which amounted to approximately 4.2% of our gross sales for 2020. Of the aforesaid RMB19.5 million incurred in 2020, RMB7.8 million was the fee paid for the five months ended May 31, 2020 and was therefore eliminated on consolidation in preparing of our Group's financial statements. We did not pay any Additional Incentive Fee to Kunshan Tingshe in 2021 and 2022 as the sale volume of *MODONG* coffee through Kunshan Tingshe in 2021 and 2022 did not meet the respective prescribed threshold for the Additional Incentive Fee to Kunshan Tingshe.

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Settlement arrangement among our Group, Kunshan Tingshe and our distributors

Immediately before and after our disposal of Kunshan Tingshe, Kunshan Tingshe has been primarily responsible for receiving prepayments for sales (based on Kunshan Tingshe’s unit selling price to our distributors i.e. approximately 1.5Y) from our distributors through its bank account. After retention of the Fixed Mark-up (i.e. 0.5Y) by Kunshan Tingshe, it will transfer the related amount of sales (i.e. Y) from its bank accounts to the bank accounts of Kunshan Star Plus Action.

After our disposal of Kunshan Tingshe, in order to reduce our credit risk in relation to the amount due from Kunshan Tingshe to us (i.e. payable to us by Kunshan Tingshe from its bank accounts) and reduce the balance thereof, (i) we entered into one of the Jointly-controlled Accounts Agreements with Kunshan Tingshe, pursuant to which the Jointly-controlled Account, which was designated for the receipt of payments for the Kunshan Tingshe Distributed Product from the distributors, shall be jointly controlled by us and Kunshan Tingshe since June 1, 2020; and (ii) a security deposit of RMB50 million was also paid to us by Kunshan Tingshe out of such account to reduce the balance thereof and the amount due from Kunshan Tingshe to us from time to time. For further details on the Jointly-controlled Account and the security deposit, please refer to the paragraphs headed “– Distribution Network – Distribution Agent Assisted Distribution Model – Distribution of the Kunshan Tingshe Distributed Products under the Distribution Agent Assisted Distribution Model – Control measures against risk of default of Kunshan Tingshe – (a) Jointly controlled Accounts” in this section below.

Given that (i) prepayments from our distributors to the Jointly-controlled Accounts is considered necessary after taking into account our distribution model and the contractual buyer and seller relationships between Kunshan Star Plus Action and Kunshan Tingshe as well as between Kunshan Tingshe and our distributors; and (ii) the management of making of prepayments from the distributors and sub-distributors is considered to be part of the roles and functions of Kunshan Tingshe in relation to the management of the distribution network, our Directors consider that it is commercially reasonable to continue with the above settlement arrangement after the disposal of Kunshan Tingshe.

We see through Kunshan Tingshe for recording prepayments from our distributors from accounting perspective, which means that the prepayments from our distributors to Kunshan Tingshe are regarded as our contract liabilities, both before and after the disposal of Kunshan Tingshe. Any balance of prepayments from our distributors kept in the Jointly-controlled Accounts which has yet to be transferred to our bank accounts, net of RMB50 million security deposit, is recorded as amount due from a third party after the disposal of Kunshan Tingshe.

To further lower our credit risk in respect of the fund in the Jointly-controlled Accounts which have not been transferred to our Group, in or around September 2022, Kunshan Tingshe and our Group agreed to accelerate the settlement of prepayment received in the Jointly-controlled Accounts. On October 31, 2022, we entered into a supplemental agreement with Kunshan Tingshe, pursuant to which Kunshan Tingshe shall transfer the amount payable to us in respect of the prepayment received from the distributors on the working day immediately

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following the date of such prepayment commencing from November 2022 and Kunshan Tingshe would no longer be required to maintain with us the security deposit of RMB50.0 million. Upon the implementation of the aforesaid settlement arrangement, the amounts due from Kunshan Tingshe to our Group has been reduced to a relatively low level. As of December 31, 2022, there was no amount due from Kunshan Tingshe and the balance of the Jointly-controlled Accounts was RMB1.3 million.

Roles and responsibilities of our Group and Kunshan Tingshe

The below table summarizes the respective roles and responsibilities of each of our Group and Kunshan Tingshe under each operation arrangement of the Distribution Agent Assisted Distribution Model, where our Group generally serves as the brand owner which focuses on product development and brand building, and Kunshan Tingshe generally serves as our Distribution Agent which focuses on the manner and effectiveness of the sales of Kunshan Tingshe Distributed Products by our distributors and their sub-distributors.

	Our Group	Kunshan Tingshe
	Save for our involvement in marketing and promotional activities as described below in relation to the overall brand and product promotion, we are not heavily involved in the development of our distribution network.	
Product development	<ul style="list-style-type: none"> – Conduct product and market research – Engage independent third party(ies) to co-develop new products – Introduce new products 	<ul style="list-style-type: none"> – Provide our Group with end consumers’ feedback on the use of our products
Development and management of distribution network	<ul style="list-style-type: none"> – Determine the pricing policies, including discounts, incentives and fees, in relation to the sales of Kunshan Tingshe Distributed Products and additional incentives payable to Kunshan Tingshe to motivate Li Ting and distributors to expand our distribution network 	<ul style="list-style-type: none"> – Provide guidance to our distributors in organizing salon distributors meetings – Assist us in organizing annual events by inviting our distributors and their sub-distributors to join such annual events

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Our Group	Kunshan Tingshe
Marketing and promotional activities	<ul style="list-style-type: none"><li data-bbox="967 278 1406 576">– Delegating Kunshan Jiameng to manage our distributors by assisting them to register as Individual Proprietor or company (where appropriate), provide training to our distributors as to how to register as Individual Proprietor and arrange settlement thereto as further discussed below<li data-bbox="967 629 1406 885">– Monitor the performance of our distributors, e.g. how our distributors sell the Kunshan Tingshe Distributed products to sub-distributors or end-consumers (where applicable) and whether our distributors set price below the minimum price sets by us
According to the respective roles and responsibilities of our Group and Kunshan Tingshe in respect of the sale of the Kunshan Tingshe Distributed Products, with our Group focusing on the development of products and Kunshan Tingshe being responsible for the development and day-to-day management of the distribution network, the marketing and promotion activities conducted by our Group mainly focus on the promotion of our brand and products; whereas Kunshan Tingshe mainly conducts marketing and promotion activities for the development of the distribution network.	<ul style="list-style-type: none"><li data-bbox="967 1204 1406 1491">– Conducting marketing and advertising activities for the development of the distribution network such as salon distributors meetings for the sharing of KOC experience by the distributors and distributors recruitment events, with the assistance of Kunshan Jiameng for coordinating and facilitating the execution thereof<li data-bbox="967 1523 1406 1747">– Form ideas for advertisements and promotional social media contents and production of promotion video for image building and promotion of our distributors in order to enhance the effectiveness of promotion and sales of our products by the relevant distributors
<ul style="list-style-type: none"><li data-bbox="501 1204 935 1268">– Conducting marketing and promotional activities for our products<li data-bbox="501 1300 935 1395">– Create celebrity IPs which have synergy to promote our retail products as well as enhance our brand awareness<li data-bbox="501 1427 935 1779">– Organize large-scale annual events which aim to foster brand loyalty amongst our distributors and their sub-distributors and motivate them to further enhance their sale performance and serve as a marketing tool to enhance our brand awareness through announcing upcoming development of our Group such as IP programs or events to be launched by us, launch of new products and/or promotion activities of our products.	

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Our Group	Kunshan Tingshe
Trainings	<p data-bbox="501 272 1414 427">Our Group and Kunshan Tingshe provide introductory trainings in different perspective (as set out below) to newly joined sub-distributors, whom may not have any prior knowledge in our corporate culture and/or rules that they should comply while promoting our products. Such trainings are designed to be provided to all distributors and sub-distributors in general and are usually conducted formally.</p> <ul data-bbox="501 474 1414 1610" style="list-style-type: none"><li data-bbox="501 474 938 538">– Prepare training materials regarding our products jointly with Kunshan Tingshe<li data-bbox="501 570 938 902">– Provide trainings on our corporate culture, rules that distributors and sub-distributors that need to comply with for sales and promotion of our products, knowledge on ketogenic diet, our brands, theory on ketogenic diet, the features, usage and ingredients of our products and how consumption of our products can be implemented to daily lives to maximize the effect thereof etc., to distributors and sub-distributors <ul data-bbox="967 474 1414 1610" style="list-style-type: none"><li data-bbox="967 474 1414 538">– Prepare training materials regarding our products jointly with our Group<li data-bbox="967 570 1414 661">– Provide trainings to distributors and sub-distributors of how to use the Ordering System<li data-bbox="967 693 1414 1278">– Provide (i) trainings on our products via product trials and experiences sharing during offline training meetings and continuous instructions conducted by KOC distributors based on their personal experiences; and (ii) trainings on general sales and marketing skills. Trainings on selling and promotion skills include how to provide aftersales services (e.g. how to answer queries regarding our products from end consumers), how to edit materials to be published on social media to promote our products, and how to host salon distributor meetings. Trainings on distribution network management skills include how to create and enhance the image building of our distributors or sub-distributors, how to support amongst distributors and sub-distributors etc.<li data-bbox="967 1310 1414 1459">– Delegate the arrangement offline training meetings regarding sales and marketing techniques, such as securing venues and accommodations for participants, to Kunshan Jiameng<li data-bbox="967 1491 1414 1610">– Delegate the provision of trainings to newly joined sub-distributors of how to register as Individual Proprietors to Kunshan Jiameng

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Our Group	Kunshan Tingshe
Development and use of the Ordering System	<p>The Ordering System was originally developed and launched by our Group in 2019. Our Group utilizes the Ordering System to manage the orders placed by our distributors and their sub-distributors. Subsequent to our disposal of Kunshan Tingshe, the Ordering System is continuously used by our Group and Kunshan Tingshe where:</p> <p>(i) Kunshan Tingshe is responsible for overall management of the orders placed by our distributors on behalf of us, such as receiving the prepayment from our distributors immediately before and after the disposal of Kunshan Tingshe by us as discussed below, arranging settlement of product price as discussed below, providing discounts and incentives to distributors and sub-distributors etc.; and</p> <p>(ii) our Group uses the data in the Ordering System to arrange delivery of our products</p>
Settlement of product price and the corresponding discounts, incentives and fees in relation to the sales of Kunshan Tingshe Distributed Products	<p>– We designate the product settlement function to Kunshan Tingshe and we will settle the fee with Kunshan Tingshe on a regular basis based on the records in the Ordering System</p> <p>– Calculate, with the assistance from Kunshan Jiameng, volume discount and incentives, sales volume-based fees to be granted to distributors and the Service Fee to Li Ting based on the sales data being withdrawn from the Ordering System, and arrange the settlement with them</p>
Arrangement of the Jointly-controlled Accounts	<p>– Approve jointly with Kunshan Tingshe regarding any remittance of cash out of the Jointly-controlled Accounts</p> <p>– Approve jointly with our Group regarding any remittance of cash out of the Jointly-controlled Accounts</p> <p>– Be, immediately before and after disposal of Kunshan Tingshe by us, primarily responsible for receiving prepayments for sales (which are normally non-refundable) from our distributors through the Jointly-controlled Accounts, and transfer purchase price for such products to us on the working day immediately following the date of such prepayment</p> <p>– Receive, hold and manage the refundable security deposit from distributors to secure the distributors’ compliance of the distribution agreements. The refundable security deposit will be retained in the Jointly-controlled Accounts and refunded to the distributors when they ceased to be our distributor</p>

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Our Group	Kunshan Tingshe
	<ul style="list-style-type: none"> - Receive, hold and manage the refundable purchase deposit from distributors for each purchase order placed by them, as a guarantee for performance of contractual obligations imposed on them through the Jointly-controlled Accounts, at the time when prepayment for the purchase price of our products is made by the distributors and return such refundable purchase deposit to the said distributors in the following month if no breach of contractual obligation occurred - Given that the refundable security deposit and the refundable purchase deposit are fully refundable to the distributors if there is no breach of the relevant distribution agreement, Kunshan Tingshe will not transfer such amounts to our Group
Delivery of products	<p>Process and arrange delivery of our products directly to our distributors, sub-distributors or end-consumers by engaging independent logistics service provider(s), upon receipt of sales orders placed directly from distributors or sub-distributors through the Ordering System</p> <p style="text-align: right;">N/A</p>

Main Distribution Agreement with Kunshan Tingshe

We entered into the Main Distribution Agreement with Kunshan Tingshe for the Kunshan Tingshe Distributed Products on September 24, 2021 (as supplemented by a supplemental agreement dated October 31, 2022), which formalized the arrangement between Kunshan Tingshe and us. The products sold through Kunshan Tingshe substantially comprised *MODONG* coffee and, to a lesser extent, other Kunshan Tingshe Distributed Products during the Track Record Period. The following summarizes the salient terms of the Main Distribution Agreement:

Geographic exclusivity: Kunshan Tingshe can only conduct distribution operations for Distribution Agent Assisted Distribution Model products through social e-commerce channel within the PRC.

Supply and payment of products: We shall supply the products to Kunshan Tingshe according to the price stipulated in the relevant agreement, and Kunshan Tingshe shall settle the payment and remit such payment to our bank accounts upon the receipt of our written notice.

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Security deposit: The Main Distribution Agreement provides that Kunshan Tingshe is required to make a security deposit of RMB50.0 million with us out of the fund in the Jointly-controlled Accounts, with an objective to reduce the balance thereof and the amount due from Kunshan Tingshe to us from time to time. In October 2022, we entered into a supplemental agreement to the Main Distribution Agreement provides that Kunshan Tingshe shall no longer be required to maintain with our Group the security deposit of RMB50.0 million as we have commenced daily settlement with Kunshan Tingshe since November 2022.

Minimum sales amount: The Main Distribution Agreement provides that Kunshan Tingshe shall undertake to realize a minimum annual sales amount of 2,000,000 boxes of *MODONG* coffee, with the minimum sales amount of RMB210 million payable to us by Kunshan Tingshe. We are entitled to unilaterally terminate the Main Distribution Agreement with 30 days notice in the event if such minimum sales amount is not achieved.

Pricing: Kunshan Tingshe is required to follow our nationwide uniform pricing guidelines. The selling price can be further revised upon our prior approval if specific market requires such adjustment. For details, please refer to the paragraph headed "Distribution network – Distribution Agent Assisted Distribution Model – Distribution of the Kunshan Tingshe Distributed Products under the Distribution Agent Assisted Distribution Model – Pricing arrangement and discounts, incentives and fees paid for the sales of Kunshan Tingshe Distributed Products in this section.

Sales and marketing operations: Kunshan Tingshe shall strictly comply with the relevant PRC laws, regulations and not engage in any illegal, inappropriate, misleading and false advertising during the sales of products. Additionally, Kunshan Tingshe shall follow our sales policies and distribution procedures. Kunshan Tingshe is also responsible for assessing and providing guidance to distributors to comply with such sales policies and procedures. Any form of online or offline marketing campaigns or events which is held under our name, whether related or unrelated to our business, is forbidden without our prior written approval.

Term of contract: The term of the Main Distribution Agreement is five years and is automatically renewed for five years after the expiry date unless we provided prior written notice to Kunshan Tingshe that the agreement will not be renewed.

Assignment: Shall the Main Distribution Agreement be discharged or terminated, the distribution channels of Kunshan Tingshe shall be undertaken and managed by us or our designated third party(ies). Kunshan Tingshe should collaborate with us or our designated third party(ies) to facilitate any handover matters. Kunshan Tingshe shall not assign any of its rights or obligations under the Main Distribution Agreement to any third party without our prior written consent.

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Control measures against risk of default of Kunshan Tingshe

We maintain critical control in our business relationship with Kunshan Tingshe, including:

(a) Jointly-controlled Accounts

Kunshan Tingshe ceased to be our subsidiary on May 31, 2020. Given the contractual buyer and seller relationship between Kunshan Tingshe and our distributors in relation to the sales of the Kunshan Tingshe Distributed Products pursuant to the distribution agreements entered into between Kunshan Tingshe and our distributors prior to the disposal of Kunshan Tingshe, immediately before and after disposal of Kunshan Tingshe by us, Kunshan Tingshe has continued to be the legal entity being primarily responsible for receiving the prepayments for purchases from our distributors. For details of the settlement arrangement between our Group, Kunshan Tingshe and our distributors, please refer to the paragraph headed “– Distribution Network – Distribution Agent Assisted Distribution Model – Distribution of the Kunshan Tingshe Distributed Products under the Distribution Agent Assisted Distribution Model – Settlement arrangement among our Group, Kunshan Tingshe and our distributors” in this section above. In view of the settlement arrangement, in order to have a better control over the cash received by Kunshan Tingshe regarding the distribution of the Kunshan Tingshe Distributed Products and reduce the amount due from Kunshan Tingshe to us (being Kunshan Tingshe’s credit risk to us), we entered into the Jointly-controlled Accounts Agreements with Kunshan Tingshe. Pursuant to such Jointly-controlled Accounts Agreements, the Jointly-controlled Accounts which were designated for the receipt of payments for the Kunshan Tingshe Distributed Products from the distributors shall be jointly-controlled by us and Kunshan Tingshe. The following summarizes the salient terms of the Jointly-controlled Accounts Agreements:

Nature of the account: For the sole purpose of the deposit of prepayment and security deposit from our distributors.

Legal title of the account: Subject to the co-management arrangement below, the legal title of the Jointly-controlled Accounts belong to Kunshan Tingshe.

Co-management arrangement: Kunshan Tingshe and us each appoint a representative as the co-manager of the account. Any remittance out of the account has to be approved by both co-managers. In particular, each of our Group and Kunshan Tingshe holds one chop for offline transaction and one set of login key to the online banking system in respect of the Jointly-controlled Accounts. Any withdrawal from such bank accounts would require presentation of both chops (as to offline transactions) and both login keys (as to online transactions). Accordingly, Kunshan Tingshe cannot make unilateral withdrawal from the account or pledge the account as collateral in any way, and we are entitled to seek damages from Kunshan Tingshe for any breach.

Term: For an indefinite term unless the Main Distribution Agreement is terminated.

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Account settlement: Pursuant to the Main Distribution Agreement and the supplemental agreement to the Main Distribution Agreement dated October 31, 2022, we shall provide the sales invoice of the day before to Kunshan Tingshe each day, and Kunshan Tingshe shall confirm the sales amount and settle the amount payable to us in respect of prepayment received from the distributors on the working day immediately following the date of such prepayment from the Jointly-controlled Accounts.

As of December 31, 2022, the balance of the Jointly-controlled Accounts was approximately RMB1.3 million.

Given Kunshan Tingshe is unable to make any withdrawal from the Jointly-controlled Accounts unilaterally, the risk of default of Kunshan Tingshe in respect of payments from our distributors is relatively remote. During the Track Record Period and as at the Latest Practicable Date, the funds in the Jointly-controlled Accounts had not been misappropriated. In the event that there is any misappropriation of funds by Kunshan Tingshe, our Group is legally able to enforce our rights, through legal actions or other dispute resolutions, under the Jointly-controlled Accounts Agreements and/or the Main Distribution Agreement.

(b) Control over product formula

We are in possession of the formulae required for the production of *MODONG* coffee and majority of other Kunshan Tingshe Distributed Products, and we believe the unique attributes of Kunshan Tingshe Distributed Products are critical to the end consumers' purchase decisions.

(c) Control over order placement

All the orders of our Kunshan Tingshe Distributed Products are placed through the Ordering System whereby we have full access to the orders placed by our distributors and their sub-distributors.

(d) Control over contractual relationship

We entered into a five-year Main Distribution Agreement with Kunshan Tingshe, and the term will be automatically extended for another five-year unless we decide otherwise. In addition, the Main Distribution Agreement ensures that Li Ting, and Li Ting has reciprocally undertaken that she will continue to provide sales and marketing services to our Group during the term of the agreement. More importantly, in the event that such Main Distribution Agreement is terminated, the management rights and obligations of the distribution channels controlled by Kunshan Tingshe shall be transferred back to us or our designated third party(ies).

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Mutual reliance between our Group and Li Ting

Our Directors are of the view that there is mutual reliance between our Group and Li Ting, as the shareholder and key personnel of Kunshan Tingshe, for the distribution of Kunshan Tingshe Distributed Products. During the Track Record Period and as of the Latest Practicable Date, we mainly relied on Li Ting and her team to manage our distributors and sub-distributors and develop our distribution network. Conversely, Li Ting relies on us to continue its main distribution business. More importantly, collaboration with us gives Li Ting the opportunity to leverage the empowerment of our unique celebrity IPs to procure distributors for us and their respective sub-distributors. Such empowerment enables Li Ting to quickly expand the distribution network, which in turn reward Li Ting and her team in the form of discount, incentives and fees as well as Service Fees to Li Ting.

As demonstrated above, Kunshan Tingshe, by itself or through Kunshan Jiameng (as further discussed below), undertakes most of the development and management functions under the Distribution Agent Assisted Distribution Model, in particular those that require significant time and efforts. Such development and management functions are mainly conducted by Li Ting and her team. In addition, as discussed in the paragraph headed “Distribution of Kunshan Tingshe Distributed Products and risk of channel-stuffing – Pricing arrangement and discounts, incentives and fees in relation to the sales of Kunshan Tingshe Distributed Products” in this section above, the amount of Fixed Mark-up that we pay to Kunshan Tingshe to cover all volume discounts and incentives to distributors, sales volume based fees, Service Fee to Li Ting and other operating expenses of Kunshan Tingshe, we are not required to divert our resources in minimizing the costs of carrying out the current roles of Kunshan Tingshe. Accordingly, even though there are inherent risks under the Distribution Agent Assisted Distribution Model, with the implementation of our various control measures against the risk of default of Kunshan Tingshe, our Directors are of the view that we are able to operate the Distribution Agent Assisted Distribution Model in a more cost efficient manner. Thus, our Directors consider it is in the best interest of our Group to continue to engage Kunshan Tingshe as the Distribution Agent under the Distribution Agent Assisted Distribution Model going forward.

Distribution arrangement with our distributors

Orders for Kunshan Tingshe Distributed Products are directly placed by the distributors through the Ordering System. We will only process and arrange delivery of products to the distributors based on the distributors’ orders and the distributors may then onward sell the products to the sub-distributors and/or the end consumers. While the sub-distributors can place their orders of the Kunshan Tingshe Distributed Products with distributors using the Ordering System, we do not enter into direct sales with the sub-distributors. The delivery of products to distributors, sub-distributors or their end consumers is arranged by us at the instruction of the relevant distributor or sub-distributor.

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Kunshan Tingshe enters into distribution agreement with each distributor on our behalf as our Distribution Agent. Kunshan Tingshe is required to enter into distribution agreements with the distributors on the same terms and conditions as the distribution agreement template provided by us.

The following summarizes the salient terms of Kunshan Tingshe's typical distribution agreements with the distributors:

Exclusivity. The distributor cannot sell any product comparable to Kunshan Tingshe Distributed Products.

Payment and delivery. The distributor should make full payment at the time of order placement and the delivery should be made within 30 days.

Sales and pricing. Distributors are required to follow our nationwide price guidelines when selling our products. The selling price can be adjusted in a particular local market with our consent.

Purchase deposits from distributors. In addition to the payment in full of the purchase price for orders of our products, distributors should pay an additional RMB40 per box of coffee to be purchased by them, as a refundable purchase deposit as security for their compliance of the contractual obligations imposed on the distributors, which shall be remitted to the Jointly-controlled Accounts. Such deposit is typically returned to the distributor the following month if no breach of contractual obligation has occurred.

Advertising. Distributors should strictly comply with the relevant PRC laws, regulations and not engage in any illegal, inappropriate, misleading and false advertising during the sales of products. Additionally, they should strictly follow our sales policies and procedures during the course of business and assess and guide the sub-distributors properly from time to time. Furthermore, any form of online or offline marketing campaigns/events which is held under our Company's name, whether related or unrelated to our business, is forbidden without prior written approval from the Distribution Agent.

Security deposit. Distributors are required to make a refundable security deposit of RMB10,000 with the Distribution Agent within five days upon the signing of the agreement. If the distributors engage in any misconduct such as unauthorized price adjustment, the Distribution Agent is entitled to deduct damages from the security deposit. Any security deposit that the distributor collected from sub-distributors shall be remitted to the bank account designated by the Distribution Agent; and will be refunded to the distributors upon the termination of the distributors' relationships.

Return policy. We accept unconditional product return within seven days of product delivery in accordance with the Law on the Protection of Consumer Rights and Interests provided that the returned products are in re-sellable condition (unwashed, unused and not damaged). We also accept returns for defective products within 30 days after delivery of the products subject to the distributors providing the relevant details and proofs.

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Distributor's other responsibilities. The distributor is also required to, among other thing:

- comply with the applicable laws and regulations and obtain the relevant qualifications and certifications;
- refrain from making sales commitment or promises for product return unless required by law to sub-distributors;
- not to sell the products of third parties by using our distribution system; and
- attend mandatory training sessions and other sales and marketing events hosted by the Distribution Agent or our Company.

The Distribution Agent's responsibilities. The Distribution Agent shall provide the distributors with marketing information and mandatory business trainings.

Term of contract. The term of agreement is generally one year and is automatically renewed for one year after the expiry date unless either party objects.

No minimum sales targets. As Kunshan Tingshe does not set any mandatory sales targets for the distributors and sub-distributors, the distribution agreements do not set any minimum purchase amount for the distributors.

Change of Distribution Agent

Pursuant to the Main Distribution Agreement, the management rights and obligations of the distribution channels of Kunshan Tingshe will be transferred to us or our designated party(ies) if Kunshan Tingshe no longer distributes products for us. In the event that the management rights and obligations of the distribution channels of Kunshan Tingshe shall be transferred to other parties, our distributors agreed that they shall cooperate with Kunshan Tingshe or its assignees to take necessary measures to complete the assignment or transfer in order to effectively manage the distribution network for the Kunshan Tingshe Distributed Products. In that case, we will immediately identify alternative candidates which are capable to perform such function, such candidates include entities which are controlled by our other well-performing distributors or other Distribution Agent in the market which have similar experience and expertise, and in such case we do not expect our underlying policies and mechanisms for the distribution of Kunshan Tingshe Distributed Products pursuant to the distributor agreement to undergo major changes should an alternative Distribution Agent be engaged in place of Kunshan Tingshe. Further, we do not have any plans to manage our distributors by allocating our internal human resources as that would not be in line with our business strategy.

The Sub-distributors

We permit our distributors to engage sub-distributors during the ordinary course of business to extend their consumer reach. The sub-distributors are only permitted to sell our products to

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consumers and are prohibited from further engaging other distributors to conduct sales. We do not have direct contractual relationships with the sub-distributors and we manage these sub-distributors through our distributors, who have direct contractual relationship with the Distribution Agent and their respective sub-distributors.

We provide a sub-distribution agreement template to distributors which is substantively similar to the distribution agreement between the Distribution Agent and our distributors. We require our distributors to use this form agreement when they enter into a contractual relationship with their sub-distributors.

Management of our distribution network

We adopt a tiered and top-down distributor management system in which the Distribution Agent assists us to monitor our distributors, which in turn are responsible for monitoring their respective sub-distributors. Our distributors are responsible for ensuring that sub-distributors comply with the terms and conditions set out in the sub-distribution agreement. In the event that a sub-distributor fails to comply with the terms and conditions as set out in the sub-distribution agreement, we will require the relevant distributor to terminate the sub-distribution agreement that it entered into with such sub-distributor if such sub-distributor failed to rectify the identified non-compliances.

Set out below are the major policies and procedures in monitoring and managing the conduct of our distributors and their sub-distributors relating to the sale of our products:

(I) Product return policies

Our distributors shall accept product return and/or exchange (i) unconditionally within seven days of delivery in compliance with the E-Commerce Law; (ii) within 30 days of delivery if the returned product can be resold; or (iii) due to damage caused by product packaging or quality during product delivery, or problem arising from the consumption of the products.

Based on our understanding, we believe our distributors generally adopt similar product return policies with their sub-distributors.

(II) Market-oriented training programs

As a fast developing social e-commerce platform, distributor training is an essential and integrated part of our operations. Such trainings not only provide critical product information, knowledge and updates to our distributors for the promotion of our products, they also serve as an important distributor and consumer procurement method. We provide online and offline training services to our distributors and sub-distributors, where we train them mainly on our brand and the features of our products, while Kunshan Tingshe trains them mainly on sales and marketing techniques.

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We founded *Star Plus E-Academy* (巨星E學院) course platform under our WeChat official account, Star Plus Action, in order to advocate healthy lifestyle, instruct marketing skills and promote our products. Each of our Group and Kunshan Tingshe provide respective online trainings on such platform. We also conduct offline training meetings which held in different venues such as hotels and conference centres. Course materials of these trainings, which were jointly prepared and provided by Kunshan Tingshe and us, are designed to cover professional knowledge about our products, our Company's regulations, health management, sales and marketing skills and team management. Our instructors team includes our in-house health management advisors, our distributors, and external entrepreneurs or lecturers.

(III) Approval of distributorship

The applications to join our distribution network shall be approved by Kunshan Tingshe and us before the sub-distributors can become our distributors. The criteria for selection of potential distributors include, but not limited to, scale of customer base, eligible business qualification and license and financial resources. Each of our distributors is required to maintain certain number of qualified sub-distributors.

(IV) Distributor database

Once a distributor is approved and granted access of the database, detailed record will be kept for the distributor including product ordering record, order and delivery status, stock and inventory level status. The database provides us with a holistic view and control of our distribution network as well as detailed information of each distributor for management purpose. In particular, analysing product ordering record in the Ordering Management System allow us to estimate the inventory level and activity levels of each distributor.

(V) Distributor management measures

We manage the performance of our distributors by issuing and requiring strict compliance of other market management policies and pricing guidelines. The key terms of our market management policies include:

- *Pricing guidelines.* When our distributors or the sub-distributors onward sell our Kunshan Tingshe Distributed Products to the end consumers, they use a unit selling price set by us which represents approximately 145% mark-up on Kunshan Tingshe's unit selling price to our distributors. We allow our distributors and the sub-distributors to give certain volume-based discounts to the end consumers based on the discount guidance that we set. All the distributors and sub-distributors must strictly comply with our pricing guidelines, and carry out sales and expand channels according to our pricing guidelines and operating system policies. If distributors and sub-distributors violate such policies, their distribution qualification may be suspended or cancelled, and the volume discount granted and the performance deposits paid in that month shall also be forfeited. Meanwhile, penalties may also be imposed on the respective distributor.

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- *Prohibition on sales by borrowing goods.* Sub-distributors are not allowed to borrow products for sale, and they must purchase our products from their respective distributors.
- *Non-compliance with distributions agreement (“DSD Agreement Non-Compliance”).* We have adopted different measures in preventing and identifying any DSD Agreement Non-Compliance. On the one hand, we provide trainings on, among others, rules that shall be complied for sales and promotion of our products to our distributors and sub-distributors. In addition, Introducing Distributors also provide hands-on advice to Procured Distributors which, among others, ensure the information provided by sub-distributors, in particular newly-joined sub-distributors, to end consumers are accurate and not misleading. On the other hand, we encourage our distributors and sub-distributors to monitor and report to us any potential DSD Agreement Non-compliance in the market. In addition, we have a dedicated team responsible for monitoring sales of our products on (a) the mainstream e-commerce platforms; and (b) the social e-commerce channels of our distributors and sub-distributors, in order to actively identify DSD Agreement Non-compliance, such as sales on unauthorized channels/platforms. Our team also cooperates with external law firms and/or intellectual property professionals in collecting evidence for alleged DSD Agreement Non-compliance and possible infringement activities on these sale channels/platforms. During the Track Record Period, no distributors or sub-distributors were terminated due to provision of inappropriate and/or misleading information of our Group’s products during the sales thereof.

Our PRC Legal Advisors are of the view, and our Directors concur, that our Company has no liability for the DSD Agreement Non-compliance, particularly with respect to provision of inappropriate and/or misleading information by the distributors and sub-distributors of our Group’s products, having considered: (i) the distribution agreements entered into by the distributors or the sub-distributors provide that any promotional materials should be either provided or approved by us; (ii) such inappropriate and/or misleading information of our products are provided by the distributors and sub-distributors (if any), whereby they would only be the persons held liable under the relevant PRC laws and regulations, thus no liability would be imposed on us in the event that the distributors and sub-distributors provide inappropriate and/or misleading information of our products in breach of the distribution agreements. We did not have any material financial disputes with our distributors or the sub-distributors during the Track Record Period.

The engagement of Kunshan Jiameng by Kunshan Tingshe

(I) Background

As we are considered to be a pioneer in relation to our social e-commerce operation for sales of our products, i.e. sales of our products under the Distribution Agent Assisted Distribution Model through vast number of distributors, being individuals, via e-commerce channels, we were treated by Kunshan AMR as a social e-commerce pilot enterprise to participate in the Kunshan Pilot Program, in particular, through the development of relevant

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policies, laws and regulations regarding the operation of individuals/entities in the social e-commerce industry. Our Group has maintained close communication with the local government authorities in Kunshan to seek guidance from the government authorities on a regular basis to ensure our business model (including the operations of our Group’s distributors) complies with the relevant laws and regulations. Based on our understanding from communication with local government authorities, the local government authorities encouraged the engagement of independent and professional service provider(s) to assist each social e-commerce enterprise in the Kunshan Pilot Program to ensure the operations of individuals involved in operations of such social e-commerce enterprise to comply with the relevant laws and regulations. Kunshan AMR has carried out pioneering work in data sharing and cooperation with entities in Kunshan Pilot Program for the purposes of encouraging social e-commerce industry players to conduct their businesses in the legally recognized manner.

Pursuant to the E-Commerce Law, our distributors are required to be registered as Individual Proprietor or corporate entities. Further, the relevant authorities requested our distributors to use a commercial premises as the registered address for business registration (the “**Registered Address**”). Since our distributors operate under the social e-commerce model, their operations might not be carried out through a commercial premise, hence our distributors are unlikely to have an address which satisfies the authorities’ requirement for Registered Address and had been facing difficulties in completing the registration process. Even though there will not be any legal implication on us even if some of our distributors did not comply with the E-Commerce Law or we did not monitor, notify and provide assistance to our distributors to complete registrations, after being aware of such requirements under the E-Commerce Law, we explored the possibility of assisting our distributors to complete the registration process in order to ensure that they are in compliance with all applicable laws and regulations. During such process, we noticed certain obstacles were faced by our distributors, for example, it is practically infeasible for distributors to have their own Registered Address solely for the purpose of completing the registration and fulfilling applicable regulatory requirements as mentioned above.

In order to resolve the issues faced by our distributors in compliance with the relevant laws and regulations, in April 2022, a meeting (the “**KDRC Meeting**”) was organized by Kunshan Development and Reform Commission. Representatives of various government authorities (including Kunshan AMR), Kunshan Jiabao (i.e. the property developer of Dream World Park (夢世界園區), the business hub where our office is located at) and our Group had attended the KDRC meeting. We understand that, upon conclusion of the KDRC Meeting, the Kunshan local government authorities recommended and agreed that separate entities/individuals should be involved in different parts of the social e-commerce operation, i.e. (i) our Group shall focus on the planning and research and development of new products and brands as well as the planning and development of IP content and its licensing; (ii) Kunshan Tingshe shall focus on its operation of expanding the distribution network; and (iii) a separate entity should act as a bridge between government authorities and participants in the social e-commerce industry to ensure such participants (i.e. our distributors) are properly supervised and comply with applicable laws and regulations in a timely and effective manner (i.e. an entity with roles and responsibilities similar to Kunshan Jiameng). As Kunshan Tingshe did not have the relevant experience and expertise in handling the regulatory related matters for our distributors, it engaged Kunshan Jiameng as a service provider to provide the relevant administrative and regulatory supports.

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(II) Background of Kunshan Jiameng and its shareholder

Mr. Li Yi (李軼) (“**Mr. Li**”), being the controlling shareholder of Kunshan Jiameng, was invited by Kunshan Jiabao to attend the KDRC Meeting given his past experience in dealing with the Kunshan Tax Bureau and Kunshan Industry and Commerce Bureau when handling tax-related matters and providing consultancy and regulatory compliance services, which has laid the foundation for him to assume the roles and responsibilities to be provided by Kunshan Jiameng.

Mr. Li was the general manager of Kunshan Qiye Investment Consulting Co., Ltd.* (昆山啟業投資諮詢有限公司) and the consultant of Haichuang Consulting (Suzhou) Co., Ltd.* (海創諮詢(蘇州)有限公司), which were all principally engaged in the provision of business consultation services to customers which are mainly small to medium enterprises covering different industries (such as advising on the form of entity each business should establish based on their specific circumstance, assisting businesses on the relevant registration process, and compliance with the filing and reporting requirements of tax authorities and industry and commerce bureau) from 2016 to 2020 (immediately before the establishment of Kunshan Jiameng). From 2012 to 2016, Mr. Li worked in a property development company under Kingboard Holdings Limited (stock code: 148) where he was in charge of fiscal and taxation management, and such role required him to have a thorough understanding of the relevant taxation policies and regulatory framework as well as frequent communication with government authorities (especially the tax bureau). Mr. Li’s previous roles required him to maintain frequent communication with local government authorities to ensure that both sides’ interpretation of the local policies, such as tax, are aligned, and the good working relationship with the local government authorities made his advisory work more efficient. Mr. Li’s connections and previous experience (especially the provision of consultancy and regulatory compliance services) has laid the foundation for him to set foot in assuming Kunshan Jiameng’s role, particularly in providing advisory services to our distributors and verifying and releasing fees payable to them.

(III) The roles and responsibilities of Kunshan Jiameng

Led by Mr. Li, Kunshan Jiameng provides administrative and regulatory support to Kunshan Tingshe and our distributors, as most of whom are individuals with limited knowledge on legal and regulatory requirements, such as registration as Individual Proprietor and/or tax filings. Kunshan Jiameng also acts as a bridge between local government authorities for the Kunshan Pilot Program and Kunshan Tingshe in relation to distributors’ compliance matters, so that Kunshan Tingshe and distributors would be informed of any regulatory updates in a timely manner.

Prior to our disposal of Kunshan Tingshe, Kunshan Tingshe’s operation was supported by our Group where we provided human resources, office and administrative support to Kunshan Tingshe. Considering Kunshan Tingshe would be operating separately from us after its disposal, in addition to being responsible for providing regulatory support, Kunshan Jiameng also provides other administrative supports to Kunshan Tingshe to execute both offline and online advertising and promotional activities for the development of the distribution network. Kunshan Tingshe is mainly responsible for formulating and planning the marketing and promotion events and activities, while Kunshan Jiameng is responsible for, as a service provider of Kunshan

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Tingshe, providing supports for the execution of such events and activities, including but not limited to, sourcing service providers, preparing budgets and detailed plans for the events and activities for Kunshan Tingshe's approval, as well as handling the logistics arrangement such as securing venues and accommodations for the participants.

In March 2022, Kunshan Jiameng has been officially recognized by Jiangsu Kunshan Huaqiao Economic Development Zone Management Committee* (江蘇昆山花橋經濟開發區管理委員會) as a third party service provider to assist social e-commerce enterprises or participants in the Kunshan Digital E-Commerce Business Hub* (巨星數字電商產業園) within Kunshan Pilot Zone in their operations in accordance with the relevant laws and regulations, and in good faith by reporting the latest industry development to the relevant governmental authority(ies) regularly.

To the best of our Directors' knowledge and belief, Kunshan Tingshe entered into an agreement with Kunshan Jiameng in June 2020, pursuant to which Kunshan Tingshe engaged Kunshan Jiameng to provide, among others, the following administrative and supportive services:

- provide guidance to our distributors as to how to register himself/herself as Individual Proprietor or company (where applicable) and answer any compliance-related enquiries raised by our distributors from time to time, in order to ensure they comply with the relevant PRC laws and regulations;
- coordinate with and assist in engaging independent third party service providers to execute both offline and online marketing and advertising activities and events for the development of the distribution network contemplated by Kunshan Tingshe;
- arrange training meetings regarding sales and marketing techniques organized by Kunshan Tingshe, such as securing venues and accommodations for participants;
- verify certain volume discounts, incentives and fees payable to Li Ting and our distributors;
- assist our distributors to perform general record keeping and to issue the invoices on behalf of our distributors – our distributors have generally authorized Kunshan Jiameng to arrange registration of the account ("**Tax Account**"), which such distributors use for tax filing with the PRC tax authority, as well as authorize and grant Kunshan Jiameng to gain access and operate their respective Tax Accounts;
- as Kunshan Tingshe would share the sales data withdrawn from the Ordering System with Kunshan Jiameng each month, Kunshan Jiameng would be able to assist Kunshan Tingshe in calculating the volume discounts and incentives to be granted to our distributors based on such shared sales data. Thus, Kunshan Jiameng would be able to confirm with each of our distributors the exact amount of volume discount and incentives to be granted to each of them by cross-checking the sales data generated from the Ordering System against the sales orders provided by our distributors with respect to those sales orders placed by them during that particular month;

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- after Kunshan Jiameng has confirmed the volume discounts and incentives that our distributors are entitled to, Kunshan Jiameng would normally (i) inform our distributors the amount of volume discounts and incentives that the relevant distributors would be entitled to during that particular month; and (ii) log in the relevant distributor's Tax Account, and use such Tax Account to issue invoice ("**Invoice**") in the name of such distributor on their behalf to Kunshan Jiameng (i.e. issuances of invoices on behalf of our distributors), after that Kunshan Jiameng would arrange payment of the relevant volume discounts and incentives to our distributors according to the Invoices;
- the records of the Invoices that are made by Kunshan Jiameng on behalf of our distributors in their respective Tax Accounts as mentioned above are also considered as Kunshan Jiameng providing assistance to our distributors in recording the discounts and incentives received by them with respect to their sales of Kunshan Tingshe Distributed Products in their respective Tax Accounts (i.e. record keeping of the volume discounts and incentives received by the Group's distributors with respect to their sales of Kunshan Tingshe Distributed Products). Such arrangement is to ensure our distributors have properly reported the appropriate taxable amount to the local government in accordance with all the relevant PRC laws and regulations;
- with respect to the onward retail sales of our products from our distributors to their customers, each of our distributors would be the only responsible party for the reporting of appropriate taxable amount to the local tax authority and the issuance of invoices. As (1) approximately 85% of our distributors are Individual Proprietors; and (2) their operation scale are relatively small, they would be subject to tax based on deemed income basis pursuant to the relevant PRC laws and regulations. Accordingly, their income tax with respect to their onward retail sales to their customers would be calculated based on a deemed income basis with reference to their operation scale.

As the transactions between our distributors and their customers are relatively simple, as compared to the transactions between Kunshan Tingshe and our distributors, the related tax compliance matters are considered to be straightforward. Thus, given Kunshan Jiameng is not involved in the transactions between our distributors and their customers, unlike the above mentioned arrangement of calculation and payment of the volume discounts and incentives to be granted to our distributors, the issuance of Invoices and the provision of assistance to our distributors for proper reporting of the appropriate amount to the local government with respect to the volume discounts and incentives received by our distributors, Kunshan Jiameng would not report the appropriate taxable amount of our distributors on their behalf to the local tax authority and the issuance of invoices on behalf of our distributors with respect to their onward retails to their customers. Kunshan Jiameng would give advice to our distributors for their compliance of the relevant PRC laws and regulations by answering their enquiries (if any) and providing assistance if it is requested by our distributors;

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- provide assistance to Kunshan Tingshe with respect to payment of the abovementioned volume discounts, incentives and fees to our distributors and Li Ting in relation to the sales of Kunshan Tingshe Distributed Products, using the payments received from Kunshan Tingshe;
- assist our distributors in preparing tax filing to the governmental authority in relation to the discounts, incentives and fees received by them (which is considered by the local government to be one of the key functions that Kunshan Jiameng should serve as it assists the local government to supervise whether the distributors have properly prepared their respective tax filings and discharge their respective tax obligation in accordance with the relevant laws and regulations); and
- liaise with the relevant governmental authority(ies) and provide them with the latest industry development, such as any complaints filed against our products and sales channel thereof, in order to assist the governmental authority(ies) to fine tune the regulations on social e-commerce industry players.

The above arrangement between Kunshan Tingshe and Kunshan Jiameng is in line with the directive put forward at the KDRC Meeting by local government authorities.

(IV) Payment arrangement between Kunshan Tingshe and Kunshan Jiameng

In consideration of, and for the purpose of providing the necessary funds for, the administrative and supportive services provided by Kunshan Jiameng as well as payments of volume discounts, incentives and fees to our distributors and Li Ting on behalf of Kunshan Tingshe, Kunshan Tingshe shall make payments to Kunshan Jiameng based on the sale volume of the Kunshan Tingshe Distributed Products (the "**Payments to Jiameng**"). In particular with respect to the sale of *MODONG* coffee through Kunshan Tingshe, the Payments to Jiameng payable by Kunshan Tingshe is determined with reference to the sale of each box of *MODONG* coffee and is equal to approximately 73% of the Fixed Mark-up (i.e. $0.5Y \times 73\% = \sim 0.38Y$), which is financed out of the Fixed Mark-up received by Kunshan Tingshe from us (i.e. $0.5Y$). During the years ended December 31, 2020 and 2021 and the six months ended June 30, 2022, based on the sale of the Kunshan Tingshe Distributed Products, the Payments to Jiameng amounted to RMB62.6 million, RMB90.4 million and RMB27.0 million, respectively.

The Payments to Jiameng are for Kunshan Jiameng to make the payments on behalf of Kunshan Tingshe for (i) certain discounts, incentives and fees to our distributors and Li Ting; and (ii) the expenses for marketing and advertising activities for the development of the distribution network undertaken under the instruction of Kunshan Tingshe which will be borne and paid by Kunshan Jiameng as part of Kunshan Jiameng's responsibility to assist Kunshan Tingshe. To our best knowledge, information and belief, such payment arrangement regarding item (i) above is to assist the local government to supervise whether the distributors and Li Ting have properly prepared their respective tax filings and discharge their respective tax obligation in accordance with the relevant laws and regulations.

After the payments of the above items (i) and (ii), the remaining amount represents the service fees to Kunshan Jiameng. Kunshan Tingshe will monitor the amounts of the above items (i) and (ii) from time to time such that the resulted services fees to Kunshan Jiameng will be at

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the intended rate of approximately 5% of the Payments to Jiameng (i.e. approximately RMB2.8 million, RMB4.1 million and RMB1.2 million respectively during the years ended December 31, 2020 and 2021 and the six months ended June 30, 2022 based on the aforesaid respective amounts of Payments to Jiameng during the respective year).

There are other service providers in the PRC which provide services that are similar to that of Kunshan Jiameng (“**Other Service Providers**”). Such Other Service Providers principally provide consolidated administrative works for a large group of dispersed participants who contribute services (“**Participants**”) to the clients of the Other Service Providers (“**Clients**”). The Other Service Providers’ service fee ranges from 5% to 10% of the total monthly sum payable from the Clients to the Participants, which may vary depending on the industry nature and scale of the Clients. Based on the foregoing, our Directors are of the view that the service fee charged by Kunshan Jiameng and the total monthly amount settled by it on behalf of Kunshan Tingshe is comparable to the market rates.

To the best knowledge, information and belief of our Directors, to facilitate Kunshan Jiameng in providing its services, Kunshan Tingshe would transfer the Payments to Jiameng on a prepayment basis based on the estimated sales of the Kunshan Tingshe Distributed Products. Kunshan Tingshe and Kunshan Jiameng would subsequently confirm and settle the amounts (including the service fees to Kunshan Jiameng) based on the actual sales orders received. During the year ended December 31, 2020 and 2021 and the six months ended June 30, 2022, the net amounts transferred by Kunshan Tingshe to Kunshan Jiameng was RMB71.4 million, RMB121.6 million and RMB53.4 million, respectively.

(V) Assistance to Kunshan Tingshe in the execution of marketing and advertising activities

Under the cooperation between Kunshan Tingshe and Kunshan Jiameng, Kunshan Jiameng also provides assistance to Kunshan Tingshe in the execution of the marketing and advertising activities and events for the development of the distribution network, including but not limited to, sourcing service providers, preparing budgets and detailed plan of the events and activities for Kunshan Tingshe’s approval, as well as handling the logistics arrangement such as arranging the venue, accommodation, transportation and food and beverages for the attendees, engaging photographers, rental of equipment and venue decoration. Since the Disposal, Kunshan Tingshe has delegated the execution of most of the marketing advertising activities and events to Kunshan Jiameng. Nevertheless, Kunshan Tingshe would occasionally enter into agreements with external service providers in respect of a few marketing and advertising activities and events, including a seasonal promotion event conducted on the *Star Plus 4U* App and the production of videos for the image building of our distributors.

(VI) Size of operation of Kunshan Jiameng

As at December 31, 2022, Kunshan Jiameng had 10 staff being responsible for the above roles, and it did not provide any similar services to its other clients, save as Shouwang Xingguang. Apart from the above services provided to Kunshan Tingshe, Kunshan Jiameng mainly engages in provision of consultation services, design, production and publication of

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advertisements. To the best knowledge, information and belief of our Directors, the following table sets forth certain key financial information of Kunshan Jiameng for the year/period indicated:

	For the year ended December 31,		For the six months ended June 30,
	2020	2021	2022
	<i>(in RMB thousands)</i>		
	(unaudited)	(unaudited)	(unaudited)
Revenue <i>(Note)</i>	39,185	97,461	40,112
Gross profit	3,362	6,759	2,469
Net profit/(loss)	1,883	(357)	841

Note: The revenue of Kunshan Jiameng was primarily attributable to the services provided to Kunshan Tingshe which was recorded on a gross basis including, among other things, the Payments to Jiameng for settlement of certain discounts, incentives and fees to our distributors and Li Ting; and (ii) the expenses for marketing and advertising activities for the development of the distribution network. The difference between the revenue of Kunshan Jiameng as discussed above and the Payments to Jiameng of approximately RMB62.6 million, RMB90.4 million and RMB27.0 million as recorded in Kunshan Tingshe’s book was primarily attributable to cut-off adjustments arising from the fact that the revenue of Kunshan Jiameng were recorded on cash basis or partial accrual basis and were not recognized in accordance with HKFRS. As advised by management of Kunshan Jiameng, the revenue recognized in its management account was based on (i) the invoice issued by Kunshan Jiameng to Kunshan Tingshe; and (ii) for transaction that invoice was yet to be issued by Kunshan Jiameng, the management’s estimation of the accrued revenue. On the other hand, the Payments to Jiameng were recognized by Kunshan Tingshe in accordance with applicable HKFRS when such relevant expenses were incurred. The management has reconciled such expenses relating to the goods sold to customers with the delivery record to confirm that such expenses have been properly recorded in correct period.

Our Directors confirm, and the Sole Sponsor concurs, that, throughout the Track Record Period, there was no cost or expense that was incurred by Kunshan Tingshe and/or Kunshan Jiameng in respect of the distribution of our products which had not been properly taken up or recorded in our financial statements in accordance with the contractual and business relationship between (i) our Group and Kunshan Tingshe; and/or (ii) Kunshan Tingshe and Kunshan Jiameng.

(VII) Companies providing similar services as Kunshan Jiameng

Based on the administrative directive issued by the Jiangsu Kunshan Huaqiao Economic Development Zone Management Committee in March 2022 (“**Administrative Directive**”), Kunshan Guozhen Enterprise Management Company Limited* (昆山國臻企業管理有限公司), (“**Service Provider A**”) and Kunshan Hanhong Technology Investment Development Company Limited* (昆山瀚泓科技園投資發展有限公司) (“**Service Provider B**”) are the other two service providers in addition to Kunshan Jiameng recognized by Jiangsu Kunshan Huaqiao Economic Development Zone Management Committee* (江蘇昆山花橋經濟開發區管理委員會) to assist the other two groups of e-commerce enterprises and related entities/individuals engaging in e-commerce business at the other two business hubs in Kunshan Digital E-commerce Business

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Hub* (巨星數字電商產業園) within Kunshan Pilot Zone. Based on the Administrative Directive, the main role of each of Service Provider A, Service Provider B and Kunshan Jiameng is to assist with the regulation of entities/individuals engaging in e-commerce business for the local government authorities. To the best of our Directors' knowledge and belief, customers of Service Provider A are mainly e-commerce enterprises with relatively larger scale of operation. Thus, Service Provider A is not requested by its customers to provide some services similar to those provided by Kunshan Jiameng, i.e. coordinating and facilitating the execution of the advertising and promotional activities/events contemplated by Kunshan Tingshe and verifying, and arranging settlement.

Although the services provided by Service Provider A are not exactly the same as that of Kunshan Jiameng, based on the main role of each of Service Provider A, Service Provider B and Kunshan Jiameng as set out in the Administrative Directive, as well as the basis set out below, our Directors are of the view that the core value and the roles of Service Provider A and Service Provider B are to provide supports and assistance to enterprises engaging in e-commerce business at the other two business hubs in Kunshan Pilot Zone in relation to (i) the compliance with the applicable registration and tax requirements; and (ii) liaison with the local government authorities, and thus are substantially the same as the ones of Kunshan Jiameng:

1. based on a press release of the Kunshan Huaqiao Economic Development Zone Administration Committee* (昆山花橋經濟開發區管理委員會) dated June 28, 2022, as it is considered that customers of Service Provider A are mainly mid-to-large size enterprises, which are comparatively sizable as compared with our Group's distributors, which are mainly small scale business operators. Thus, it is reasonable that Service Provider A is not engaged to provide administrative support services similar to those provided by Kunshan Jiameng; and
2. both of Kunshan Jiameng, Service Provider A and Service Provider B act as a bridge between local government authorities in Kunshan Pilot Zone and the three respective groups of e-commerce enterprises and related entities engaging in e-commerce business at the respective business hubs in Kunshan Pilot Zone for compliance matters.

Apart from the above mentioned Service Provider A and Service Provider B, there are the Other Service Providers. The Clients normally engage a large group of Participants who are not their employees in producing goods or providing services that such Clients require, which is similar to the arrangement between our Group and our distributors and sub-distributors with respect to the sales of Kunshan Tingshe Distributed Products. The services provided by the Other Service Providers normally include (i) verifying amount payable to the Participants by the Clients; (ii) paying such amount to such Participants on behalf of the Clients thereafter; and (iii) assisting the Participants in compliance matters (e.g. tax filing, book-keeping and filings with the SAMR etc.). The Other Service Providers would assist the Clients in calculating the amounts payable to the Participants. The Clients would transfer the aggregate amount that both Other Service Providers and the Participants are entitled to on a monthly basis. Upon receipt of such amount, the Other Service Providers would confirm and check with each Participant that the

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amount payable thereto as represented by the Clients is the same as the amount that such Participants have in mind. Our Directors are of the view that such services provided by the Other Service Providers are comparable to that of Kunshan Jiameng.

Distribution of skincare products under the Dr.mg sub-brand

For skincare products under the *Dr.mg* sub-brand, we primarily employ a distribution model similar to that of *MODONG* coffee. We engage Kunshan Shouwang Xingguang E-commerce Company Limited (昆山守望星光電子商務有限公司) (“**Shouwang Xingguang**”) as the Distribution Agent to manage our distributors and the sub-distributors in our distributor network in relation to the sales and promotion of *Dr.mg* products. Shouwang Xingguang is a PRC established company with a registered capital of RMB1,000,000 which principally engages in the business of cosmetics wholesale and retail. According to publicly available information, Shouwang Xingguang is owned as to 99.0% by Mr. Qi Ronglin, who has over 10 years of industrial experience in cosmetic and e-commerce markets, and 1.0% by Mr. Yang Baoxing. We became acquainted with Shouwang Xingguang through Mr. Qi Ronglin, who was a co-worker with a member of our senior management, Ms. Jiang Xiuhong, before she joined our Group. To the best of the Directors’ knowledge and belief, both Mr. Qi Ronglin and Mr. Yang Baoxing are Independent Third Parties. Our revenue attributable to Shouwang Xingguang amounted to RMB12.6 million and RMB2.1 million for the two years ended December 31, 2022, respectively.

Our distributors’ compliances with the E-Commerce Law

Pursuant to the E-Commerce Law that came into effect on January 1, 2019, distributors that conduct e-commerce business via WeChat, *Kuaishou*, *XiaoHongShu* or other platforms would be regarded as e-commerce operators (i.e. in-platform business operators, or other e-commerce operators sell commodities or offer services through a self-built website or other network services) and be required to register with the competent authorities as Individual Proprietors or corporate entities. Pursuant to the E-Commerce Law, if e-commerce operators fail to be registered as Individual Proprietors or corporate entities, unless exempted under certain circumstances, such e-commerce operator may be required to rectify the non-compliance within a specified time limit and may also be fined an amount of no more than RMB10,000. During the Track Record Period, the substantial majority of our distributors were individuals. For the year ended December 31, 2019, 2020, 2021 and 2022, the aggregate number of distributors who had historically failed to register as Individual Proprietors or corporate entities throughout each year were 75, 583, 718 and 70, respectively, contributing revenue of RMB80.8 million, RMB360.8 million, RMB176.7 million and RMB2.8 million, respectively, during the respective financial year. Such revenue represented approximately 100.0%, 98.8%, 58.6% and 0.8% of our Group’s total revenue with respect to the new retail segment during the Track Record Period, respectively.

As advised by our PRC Legal Advisors, our Group is not an e-commerce platform operator and therefore not required to comply with the responsibilities of an e-commerce platform operator (including but not limited to monitoring, notifying and providing assistance to our distributors to complete registrations of corporate entities). Hence, we are not required to

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comply with the above responsibilities of an e-commerce platform operator and there would not be any legal implication to us even some of our distributors did not comply with the E-Commerce Law during the Track Record Period.

Nevertheless, to encourage our distributors' compliances with the relevant requirements under the E-Commerce Law, we have been requiring our distributors to take action to change to corporate entity or Individual Proprietor status and register with the competent authorities, while we allow a transition period for them to do so, in order to minimize the potential impact that it may have on our business or distributors. In addition, Kunshan Tingshe has engaged Kunshan Jiameng to, inter alia, provide guidance to our distributors on how to register oneself as an Individual Proprietor or a corporate entity. After the engagement of Kunshan Jiameng, there was a substantial decrease in the number of distributors who had failed to register as Individual Proprietors or corporate entities. The number of distributors who failed to register as Individual Proprietors or corporate entities were 120, 25, 10 and 10, respectively, as at December 31, 2020, 2021, 2022 and the Latest Practicable Date. Given a vast number of individual distributors failed to register as Individual Proprietors or corporate entities, it took awhile for Kunshan Jiameng to assist distributors in completing such registration.

As at the Latest Practicable Date, approximately 99% of our distributors had registered as Individual Proprietors or corporate entities, despite that some new distributors were in the process of the registration as Individual Proprietors or establishment of corporate entity(ies) for their respective involvement in the distribution network as distributors. As almost all of our distributors have been registered as Individual Proprietors or corporate entities as of the Latest Practicable Date, our Directors are of the view that some distributors' failure to comply with the E-Commerce Law would not have any material impact on our business operation and distributors.

Regulations relating to pyramid selling

The Regulation on the Prohibition of Pyramid Selling prohibits, amongst others: (i) paying remunerations to recruiters based on the number of persons recruited; (ii) requesting recruiters to pay fees for the purpose of obtaining the qualification or recruiting others to participate in pyramid selling; and (iii) requesting recruiters to persuade others to participate in pyramid selling so as to form a multi-level relationship and paying remuneration to an upper-level promoter based on the sales performance of the promoters at the lower-level, in each case, in order for seeking illegal gains.

As advised by our PRC Legal Advisors, based on the Inspection Opinions issued by the Kunshan AMR:

- (a) our business model does not involve paying remunerations to the distributors based on the number of persons recruited in order for seeking illegal gains, which is prohibited by the Regulation on the Prohibition of Pyramid Selling, based on the following reasons: (i) our products sold are legitimate transactions with reasonable price, and we focus on the quality of the products with product return and exchange policies to

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protect the interests of the end customers in accordance with applicable PRC laws and regulations; (ii) incentives we give to the Introducing Distributors for their efforts to provide assistance and guidance to the Procured Distributors in relation to the products and marketing strategies are not merely based on the number of persons recruited by the Introducing Distributors, which are not prohibited by the Regulation on the Prohibition of Pyramid Selling for the bases set forth in sub-paragraph (c) below; and (iii) although we require each distributor to maintain a certain number of qualified sub-distributors, such arrangement is not prohibited under the Regulation on the Prohibition of Pyramid Selling as: (x) such arrangement is commercially logical and not prohibited by the PRC law as no illegal purpose was involved; and (y) distributors who failed to meet such requirement would not be prohibited from selling our products (despite that the relevant distributors may be downgraded to sub-distributors);

- (b) our business model does not involve requesting the distributors to pay fees for the purpose of obtaining the qualification or recruiting others to participate in selling, in order for seeking any illegal gains prohibited by the PRC law, based on the following reasons: (i) although distributors/sub-distributors are required to pay a deposit, such deposit is solely for the purposes of guaranteeing the distributors' compliance with the distribution agreement; (ii) distributors/sub-distributors are able to freely exit the distribution network and such deposit will be refunded upon termination according to the clause of distribution agreement; and (iii) besides the deposit, the distributors/sub-distributors are not required to pay any fees to the Group in order for being qualified to distribute the products of the Group; and
- (c) our distribution model focuses on product sales (rather than merely receiving incentives) for the purpose of seeking lawful interests, which is not prohibited under the Regulation on the Prohibition of Pyramid Selling. Formal distribution/sub-distribution agreements have been entered into with the distributors/sub-distributors which clearly set forth their respective rights and obligations. Incentives are given to the Introducing Distributors for their efforts to provide assistance and guidance to the Procured Distributors, who are mostly new to the social e-commerce industry and lack of sufficient skills and expertise, in relation to the products and marketing strategies so that the Procured Distributors equipped with relevant product and marketing skills and knowledge for their sales. The Introducing Distributors are required to provide (i) assistance in various training and marketing events organized by us in respect of product expertise training, market knowledge training and updates on development of our Group and our products; (ii) various trainings mainly on sales and technique, such as organizing, product usage experience sharing meetings, regional sales forum and salon distributors meetings; and (iii) with the assistance of Kunshan Jiameng, guidance to get registered as an Individual Proprietor or a company, the use of the Ordering System and other necessary procedures established by us, by way of face-to-face meetings or online channels such as WeChat.

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Based on the advice of our PRC Legal Advisors, our Directors are of the view, and the Sole Sponsor concurs, that our distribution model, including the incentives given to the Introducing Distributors for procuring new distributors and the requirement for each distributor to maintain a certain number of qualified sub-distributors, does not involve any activities prohibited under the Regulation on the Prohibition of Pyramid Selling. In addition, in May 2022, Ms. Ma (one of our Founders, Controlling Shareholders and executive Directors) was appointed as a member of "New Retail and Live Streaming E-commerce Expert Committee" (新零售和直播電商專家委員會) by the Research and Development Centre of the State Administration for Market Regulation of the PRC (國家市場監督管理總局發展研究中心). We believe that such appointment of Ms. Ma demonstrated the government's support and recognition of the business model of our new retail business.

The Temporary Suspension of Bank Accounts due to alleged pyramid selling

We were subject to two incidents in 2020 and 2021, whereby certain funds in our bank accounts were temporarily frozen by certain local government authorities outside Kunshan, on the unfounded allegation that we were engaged in pyramid selling under the Regulation on the Prohibition of Pyramid Selling (the "**Temporary Suspension of Bank Accounts**"). After we took prompt actions to defend our legal rights and interest, both of the above incidents were resolved in our favor and our funds were released in full unconditionally within a short period of time.

In June 2020, a local Administration for Market Regulation of a fourth-tier city froze certain bank accounts of our then group companies, Kunshan Tingshe, Li Ting and Li Ting's spouse for suspected pyramid selling. All of the above-mentioned group companies were registered in Kunshan. In May 2021, a local Administration for Market Regulation of a fourth-tier city froze certain bank accounts which belong to two of our group companies which were registered in Kunshan and Beijing, respectively, Kunshan Tingshe, Li Ting, and a distributor.

As advised by our PRC Legal Advisors, the actions undertaken by the local government authorities in the Temporary Suspension of Bank Accounts only concerns the issuance of pre-litigation asset preservation orders pending further investigation, and does not involve any imposition of administrative penalties. Additionally, save as the abovementioned parties which had their bank accounts frozen during the Temporary Suspension of Bank Accounts (as the case may be), none of our group companies or entities associated with Li Ting which were principally engaged in new retail operations were subject to any administration penalties by market regulation authorities during the Track Record Period and up to the Latest Practicable Date.

In response to each temporary account freeze, we reported to Kunshan AMR, which is the competent authority supervising our new retail operations, and Kunshan AMR carried out inspections on our operations and issued the two Inspection Opinions in June 2020 and June 2021, respectively, which concluded that we were engaged in new retail activities through a legitimate distribution model. Following the discussion by Kunshan AMR with the local

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authorities involved in the Inspection Opinion, the relevant local authorities ordered our frozen funds to be fully and unconditionally released in July 2020 and July 2021, respectively.

According to Article 8 of the Provisions on Administrative Penalty Procedures for Market Regulation (市場監督管理行政處罰程序規定), an administration for market regulation at the level of county or city comprising different districts shall have jurisdiction over administrative penalty cases occurring within its jurisdiction *ex officio*. As advised by our PRC Legal Advisors and based on the confirmation provided by Kunshan AMR, since (i) our subsidiaries principally engaging in new retail business and Kunshan Tingshe are domiciled in Kunshan which is a county-level city; and (ii) the main functions of our new retail operation (including but not limited to management, product development and our management over the distribution channels) are conducted in our headquarters located in Kunshan only, therefore according to the Regulations on Jurisdiction of Administration for Market Regulation, Kunshan shall be regarded as the place where our new retail operations take place under the applicable PRC laws and regulation. Even though our products are sold nationwide, Kunshan AMR is the competent authority supervising our new retail operations.

Based on the interviews with Kunshan AMR, both the Temporary Suspension of Bank Accounts were also reported to the SAMR in the manner followed by the PRC administrative authorities in accordance with their normal practice. To the best of our Directors' knowledge, no objection or any opinion from the SAMR has been received by Kunshan AMR in relation to such reports.

The Sole Sponsor, together with our PRC Legal Advisors, Jingtian & Gongcheng and Jones Day (as one of the PRC and Hong Kong legal advisors of the Sole Sponsor, respectively), conducted interviews with Kunshan AMR which confirmed that Kunshan AMR is the competent authority supervising and regulating the new retail business operation of the Group and Kunshan Tingshe, given that (i) territorial jurisdiction is one of the basic principles embodied in various PRC administrative laws and regulations, and (ii) Kunshan AMR, being the local county level AMR, is the competent authority supervising and regulating all enterprises in Kunshan.

The Inspection Opinions

According to the Inspection Opinions, our new retail business operations complied with all the relevant laws and regulations based on, amongst others, the following reasons:

- *Legitimate distributor relationship and sales channel expansion methods:* There is no upstream contribution relationship between different levels of distributors that is typical in pyramid selling, which means the proceeds to be received by distributors of higher tiers is to be calculated based on the number of new distributors or members that it is able to lure to join the network and who will be paying upfront fees to the scheme upon joining. Our distributors and the sub-distributors generate profit from the difference between the sales price and procurement price as well as relevant discount(s). Our distributors and the sub-distributors are procured through legitimate means with a focus on commercially reasonable returns through sales of products.

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- *Legitimate product distribution system:* We are able to monitor the distribution of our products and require our distributors and the sub-distributors to reach certain benchmarks before they are allowed to join our distribution network.
- *Legitimate transaction with a fair market value:* Sales of our products are legitimate transactions, and our products have a fair market value.
- *No other enforcement actions:* As of the date of the Inspection Opinion issued in June 2021, Kunshan Star Plus Action and Kunshan Tingshe were not subject to any administration penalties by market regulation authorities for acquiring unlawful benefits, damaging consumer interest or committing commercial frauds, and Kunshan AMR did not receive reports from other market regulation authorities in relation to suspected illegal activities of such companies.

Our PRC Legal Advisors’ views

As advised by our PRC Legal Advisors, taking into account the relevant facts and the Inspection Opinions and based on our PRC Legal Advisors’ review of our business operations from PRC law perspective, our new retail operations comply with all the relevant PRC laws and regulations in all material respects and should not be considered as pyramid selling because the sales of our Kunshan Tingshe Distributed Products does not fall under the prohibited categories stipulated in the Regulation on the Prohibition of Pyramid Selling. For details, please refer to the paragraph headed “Distribution network – Distribution Agent Assisted Distribution Model – Regulations relating to pyramid selling” in this section above.

Board confirmation

Our Directors confirm that the Temporary Suspension of Bank Accounts did not have any material adverse impact on our operations. During the Temporary Suspension of Bank Accounts, we were able to utilize our remaining cash on hand and operating cash inflow to settle the expenses incurred during our ordinary course of business.

Our Board, after taking into account the views of Kunshan AMR and the advice of our PRC Legal Advisors, is of the view that: (i) we have not engaged in pyramid selling activities as alleged and have not violated the applicable laws and regulations in this connection; (ii) the prompt resolutions of the Temporary Suspension of Bank Accounts have essentially proven that we are not engaged in pyramid selling; (iii) the implementation of the Kunshan Pilot Program has conveyed a clear message that we are engaging in a legitimate new retail business, increase the awareness of our business model nationwide so that local government authorities can have better understanding of our business model and its legitimacy; and (iv) adequate controls and measures had been put in place to prevent the occurrence of similar incidents. For details, please refer to the section headed “Risk factors – Risks relating to our business and industry – The relevant rules and regulations on social e-commerce in China are still under development and subject to interpretation, and their implementation involves uncertainty” in this document for the risks that we may face.

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Preventive measures adopted to mitigate the risk of similar incidents and potential impact on our operations

To prevent incidents similar to the Temporary Suspension of Bank Accounts from recurring and to maintain normal operations should any similar incident recur, we implemented the following preventive measures:

- (a) We had been cooperating with the relevant competent authorities, including Kunshan AMR, to facilitate the implementation of the Kunshan Pilot Program, which we believe can increase the awareness of our business model nationwide. We also maintain periodic communication with Kunshan AMR which allows Kunshan AMR to supervise our operations and to ensure that no aspect of our operations is or might violate the relevant rules and regulations. In particular, Kunshan AMR is able to have direct access to our operation system in real time, which allows it to have full knowledge of our business model by accessing our new retail operational data covering aspects such as orders, shipments, and members in our distribution network and their recent activities. Such guidance and cooperation help to maintain the legitimacy of our business model.
- (b) We have adopted procedures for regular review on the operation risk of the cities and/or regions in which we operate. In particular, we have been monitoring any pre-trial investigation or administrative measures, such as freezing of bank accounts, adopted by the local Administration for Market Regulations in connection with any alleged cases of pyramid-selling. We consider that operating in cities and/or regions which adopted a relatively tough policy towards alleged cases of pyramid-selling would impose a higher business interruption risk to our Group similar to that caused by the Temporary Suspension of Bank Accounts. We may, after taken into accounts the aforesaid operation risk, as well as the overall strategic importance of a specific city and/or region to our business and the background of the local distributors and sub-distributors, consider suspending our expansion in such cities and/or regions. As at the Latest Practicable Date, we ceased to develop new distributors or sub-distributors in 40 cities, municipalities or counties which were identified as posing high operation risk to us. As advised by our PRC Legal Advisors, if we, our distributors and sub-distributors, agents or other representatives have no or minimal business presence in such municipality, the risk that law enforcement authorities in such municipality issuing pre-litigation asset-preservation orders to wrongfully freeze our bank accounts would be minimal.
- (c) We increased the amount of prepayment to our supplier to ensure that we have sufficient inventory for two to four months of our operations.
- (d) We allocated cash on hand across bank accounts of our various group companies, including bank accounts of our group companies principally engaged in IP creation and operation business, for temporary or contingency use. We also maintained

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standing funds held in a Hong Kong bank account which could be utilized any time, if necessary. We will take further initiatives to obtain credit lines from financial institutions, which will act as additional contingency funds.

Cannibalisation

Our Directors are of the view that there was no cannibalisation issue among our distributors and the sub-distributors, and sufficient and effective measures had been put in place to avoid cannibalisation for the following reasons: (i) each of the sub-distributors purchases products from a particular distributor after a sub-distribution agreement is entered into between both parties which requires them to follow our Company's market management policy. Such policy prohibits a sub-distributor to purchase products from any other distributor, hence the competition between our distributors over the sub-distributors is minimal; (ii) there is a guidance price that our distributors and sub-distributors should closely adhere to when they on-sell our products, and apart from monitoring activities carried out by ourselves, our distributors and the sub-distributors will also keep track of each other's marketing activities, hence we believe that an effective system has been put in place to avoid any pricing disorder. Further, if we notice that any of our distributors or the sub-distributors does not follow our pricing policy, the distributorship arrangement with the relevant distributor or sub-distributor can be terminated at our or the relevant distributor's discretion, respectively; and (iii) our distributors and the sub-distributors distribute our products through their own PDT (i.e. connections within their own social network) to end consumers, hence each member in our distribution network should have their own group of target customers and end consumers which do not materially overlap.

General distribution model

During the Track Record Period, we distributed products other than the Kunshan Tingshe Distributed Products and skincare products under the *Dr.mg* sub-brand, mainly including products under the *Dr. INYOU* brand, under the general distribution model, through our network of distributors (including Kunshan Tingshe not acting in the capacity of Distribution Agent) and sub-distributors without the engagement of a Distribution Agent.

Background of the major distributor and the salient terms of our distribution agreement entered therewith under the general distribution model

The following summarizes the background of our major distributor under the general distribution model, Customer D, and the salient terms of our distribution agreement with it:

Major distributed products *LA DEW* skincare products, products under *Chaxiaojie* sub-brand and products under *Dr. INYOU* brand

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Background

To the knowledge of our Company, Customer D is a PRC incorporated company principally engages in the sales of food products, cosmetics and daily necessities. Based on publicly available information, Customer D is owned by two Independent Third Parties, including (i) its legal representative, executive director and general manager as to 51%; and (ii) an individual as to 49%.

Our relationship with the distributor

We became acquainted with Customer D through the referral of Ms. Ma's friend. To the best of our Directors' knowledge and belief, apart from the distribution relationship, our Group does not have any other past or present relationship (including, without limitation, business family, trust, employment, shareholding, financing or otherwise) with Customer D, its directors, shareholders, senior management, or any of their respective associates.

Salient terms of distribution agreement

- (a) Term: From December 1, 2021 to December 31, 2024, and renewable upon negotiations 30 days before the expiry of contract term.
- (b) Security: Customer D is required to make a security deposit of RMB1 million with us.
- (c) Payment: The credit term shall be three months from December 1, 2021 to June 30, 2022, and one month thereafter.
- (d) Sales and Pricing: Customer D shall set the price within a reasonable price range. The distributor shall be responsible for all the expenses for delivery, storage, operation and development of distribution channels, training and organization of offline activities.

We commenced engaging Customer D in late 2021. The revenue contributed by Customer D for the two years ended December 31, 2022 was RMB12.0 million and RMB4.5 million, respectively.

Based on our communication with Customer D, we understand that Customer D distributed our skincare products under *LA DEW* through two e-commerce platforms including *Douyin*, and sold such skincare products to individuals offline. During the Track Record Period, we had other distributors under the general distribution model with relatively smaller transaction amounts.

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Based on our communication with our distributors under the general distribution model, we understand their respective downstream sales channels. In the event that our distributor onward sells our products to retailers, such as supermarket(s) and e-commerce platform(s), we will visit the physical store(s) or e-commerce platform(s) (where appropriate) to verify whether our products are being sold to end consumers. In addition, we would understand their respective inventory level during our communication with our distributors under the general distribution model from time to time. By understanding their inventory level, we would be able to understand the fluctuation in their inventory level and check whether there are any obsolete inventory. We are of the view that the inventory level monitoring arrangements would minimize the risk of channel stuffing among our distributors under the general distribution model.

We expect our sale of health management products under *MODONG* brand, which would be launched in the future, would also be distributed under the general distribution model.

Distribution through other e-commerce channels

We also distribute our products through other e-commerce channels where we directly sell our products to the end consumers. Such e-commerce channels include our *Star Plus 4U* App (巨星優選) and our stores operated on various online platforms such as our *Tmall* stores, *Kuaishou* stores and *Douyin* stores. End consumers may place orders for our products through these e-commerce channels and we will be responsible for delivery of the products to the end consumers. Payments for our products are made through the e-commerce channels, which will subsequently be paid to us according to the relevant policies of the e-commerce channels.

***Star Plus 4U* (巨星優選)**

On July 1, 2021, we entered into a cooperation agreement with Kunshan Huaxing Internet Cultural Promotion Limited (昆山華星互聯文化傳播有限公司) (“**Kunshan Huaxing**”) for the operation of *Star Plus 4U* (巨星優選). We are the copyright and trademark owner of the *Star Plus 4U* App, and Kunshan Huaxing is an Independent Third Party and obtained the value-added telecommunication services license. Kunshan Huaxing operates the *Star Plus 4U* software, through which users can directly purchase a majority of our products as well as the products procured from other suppliers.

The following summarizes the salient terms of the cooperation agreement with Kunshan Huaxing:

Scope of cooperation: We granted Kunshan Huaxing the license to use *Star Plus 4U* and Kunshan Huaxing agrees to operate *Star Plus 4U*. Subject to our prior approval, Kunshan Huaxing is entitled to sell products procured from other suppliers in addition to our products on *Star Plus 4U*.

Fee arrangement: We shall receive 50% of the sales revenue of all the products sold through the platform, after deducting the cost of sales and sales and marketing expenses.

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Term: Five years.

Our rights: We are the owner of the intellectual property of *Star Plus 4U App* and all the business related information, except for the relevant operational and user data.

Other e-commerce channels

Other than the *Star Plus 4U App*, we also sell our products through various e-commerce channels including our *Tmall* stores, *Kuaishou* stores and *Douyin* stores. We normally sell our products which target the general public through e-commerce platforms.

In addition, since December 2021, we have further expanded our sales channels where we commenced selling the products for our new retail business through e-commerce livestreaming sessions and online short videos on *Douyin*. We created our own *Douyin* account “劉畊宏肥油咔咔掉” to conduct e-commerce livestreaming sessions for the sale of our products and collaborate with celebrities and KOLs (e.g. Ms. Vivi Wang) to promote the sales of our products on our *Douyin* stores through, among others, e-commerce livestreaming sessions and online short videos through our *Douyin* account and/or the accounts of the relevant celebrities and KOLs. For further details, please refer to the paragraph headed “Cooperation with Mr. Liu and Ms. Vivi Wang” in this section.

During the e-commerce livestreaming sessions and/or in the online short videos, the relevant celebrities and KOLs would normally introduce our products and share the features of such products with his/her viewers. Viewers can access our *Douyin* stores by clicking the link posted in the e-commerce livestreaming sessions and/or online short videos in real time. Any sales conducted through the specific link would then be recorded as sales attributable to the relevant celebrities and KOLs. According to the terms and conditions of *Douyin*, we shall pay (i) service fees to *Douyin* for operation and technical support services, which are generally at standard fee rates (which vary depending on the types of products being sold) of our sales derived from completed transactions, from the specific link; and (ii) commission to the relevant celebrities and KOLs where such commission are generally based on pre-agreed percentage of the transactions completed from the specific link. During the year ended December 31, 2022, commission rate payable by us to such celebrities and KOLs typically ranged from 10% to 30% and we recorded expenses of commission of RMB8.6 million. Please also refer to the section headed “Financial information – Description of major components of our results of operations – Selling and marketing expenses – Commissions” for further details on the commissions to celebrities and KOLs. Our Directors are of the view that the commission rate payable by our Group to celebrities and KOLs is in line with the prevailing market rate.

As the celebrities and KOLs whom we collaborate with are of good reputation (i.e. with good ratings on *Douyin*) and generally have well-established viewers base, our Directors are of the view that they should be able to promote our products effectively. We consider that distribution of our products on these e-commerce platforms would enhance our brand awareness as well as customer base.

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CUSTOMERS

Our customers consist of customers from our new retail business and IP creation and operation segments. For our new retail business, our customers are our distributors, and our end consumers include our distributors, sub-distributors as well as the users of our products. For our IP creation and operation, our customers primarily consist of content producers or IP licensing partners. We have developed a stable relationship with our key customers.

In each year during the Track Record Period, revenue generated from our top five customers accounted for approximately 23.5%, 21.2%, 16.3% and 23.6%, and the total revenue generated from our largest customer and its affiliates accounted for approximately 6.4%, 13.7%, 5.6% and 8.3% in each year during the Track Record Period, respectively.

The following tables set forth the details of our five largest customers in each year during the Track Record Period:

For the year ended December 31, 2019

Customer	Customer type/ background	Business segment	Place of business	Revenue	Approximate	Commencement of business relationship
				attributable to customer <i>(RMB'000)</i>	% of our total revenue <i>(%)</i>	
Zhang Yinmei (張銀美) ⁽¹⁾	Distributor	New retail	Shanghai	5,581	6.4	2018
Zhou Rongmei (周榮梅) ⁽²⁾	Distributor	New retail	Zhejiang	3,976	4.6	2018
Customer A ⁽³⁾	Distributor	New retail	Zhejiang	3,823	4.4	2018
Wang Lei (王蕾) ⁽⁴⁾	Distributor	New retail	Zhejiang	3,547	4.1	2018
Zhang Yanling (張艷玲) ⁽⁵⁾	Distributor	New retail	Shandong	3,503	4.0	2018

Notes:

- (1) Zhang Yinmei (張銀美) is an individual with business positions in both the trading and e-commerce industries. She is the proprietor of a trading firm and a daily necessities firm, as well as a legal representative and executive director of a trading company and a e-commerce company. For the year ended December 31, 2019, Zhang Yinmei (張銀美) was our distributor in her personal capacity. Subsequently, such customer entered into a distribution agreement through a corporate entity controlled by him/her as to 80% and the remaining equity interest is owned by an individual who is an Independent Third Party.
- (2) Zhou Rongmei (周榮梅) is an individual with trading background. She is the legal representative, executive director and manager of a trading company, as well as the proprietor of a trading firm and a food store. She was awarded the Emerging Outstanding WeChat Business Team by *China Beauty* in 2015. For the year ended December 31, 2019, Zhou Rongmei (周榮梅) was our distributor in her personal capacity. Such customer established an Individual Proprietor in July 2020 and such entity was subsequently our distributor.

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- (3) Customer A is an individual with e-commerce and trading background. She is currently the legal representative, executive director and general manager of an e-commerce company and a garment company, as well as the proprietor of a trading firm, a clothing store, and a e-commerce studio. For the year ended December 31, 2019, Customer A was our distributor in her personal capacity. Such customer established an Individual Proprietor in July 2020 and such entity was subsequently our distributor.
- (4) Wang Lei (王蕾) is an individual with e-commerce and trading background. She is currently the legal representative, executive director and manager of an e-commerce company, as well as the proprietor of a trading firm and a clothing store. For the year ended December 31, 2019, she was our distributor in her personal capacity. She established an Individual Proprietor in April 2019 and such entity was subsequently our distributor.
- (5) Zhang Yanling (張艷玲) is an individual with trading and business background. She is currently the legal representative, executive director and general manager of a business services company, and the supervisor for another business services company. She is also the proprietor of a trading firm and a clothing store. For the year ended December 31, 2019, she was our distributor in her personal capacity. She established an Individual Proprietor in July 2014 and such entity was subsequently our distributor.

For the year ended December 31, 2020

Customer	Customer type/ background	Business segment	Place of business	Approximate		
				Revenue attributable to customer <i>(RMB'000)</i>	% of our total revenue <i>(%)</i>	Commencement of business relationship
Customer B ⁽¹⁾	Cable television, radio and television broadcasting with program production, and video on demand services	IP creation and operation	Zhejiang	62,409	13.7	2020
Netflix, Inc.	Streaming service provider offering streaming of TV series, documentaries and films	IP creation and operation	United States	19,181	4.2	2020
Xie Fang (謝芳) ⁽²⁾	Distributor	New retail	Fujian	5,785	1.3	2019
Customer A ⁽³⁾	Distributor	New retail	Zhejiang	4,913	1.1	2018
Gan Liping (甘麗萍) ⁽⁴⁾	Distributor	New retail	Guangxi	4,220	0.9	2018

Notes:

- (1) Customer B is a comprehensive media group directly affiliated to the Provincial Party Committee and Provincial Government of Zhejiang, China, with news and propaganda as its main sectors. It has more than 7,100 employees, 10 TV channels, and eight broadcasting frequencies. Its business scope covers newspapers, magazines, audiovisual publishing, film and television drama production, cultural parks, media engineering, tourist hotels, comprehensive properties, and other fields.

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- (2) Xie Fang (謝芳) is an individual with trading background. She is the legal representative, executive director and general manager of a trading company, as well as the proprietor of a clothing store and a trading firm. For the year ended December 31, 2020, she was our distributor in her personal capacity. She established an Individual Proprietor in July 2020 and such entity was subsequently our distributor.
- (3) Customer A was also one of our five largest customers for the year ended December 31, 2019. For details, please refer to note 3 to the List of top five customers for the year ended December 31, 2019 above.
- (4) Gan Liping (甘麗萍) is an individual with trading and e-commerce background. She is the legal representative, executive director of a trading company and an e-commerce company. She is also the proprietor of a trading firm and a department store firm. For the year ended December 31, 2020, she was our distributor in her personal capacity. Subsequently, she entered into a distribution agreement through a corporate entity established in July 2020, which was owned by her as to 99% and the remaining equity interest was owned by an individual who is an Independent Third Party.

For the year ended December 31, 2021

Customer	Customer type/ background	Business segment	Place of business	Approximate		
				Revenue attributable to customer <i>(RMB'000)</i>	% of our total revenue <i>(%)</i>	Commencement of business relationship
Customer C Group ⁽¹⁾	Production and operation of radio and television programs; Advertising designing	IP creation and operation	Beijing	20,484	5.6	2021
Customer D ⁽²⁾	Wholesaler	New retail	Jiangsu	11,964	3.3	2021
Customer E ⁽³⁾	Organize and plan cultural and sports activities	IP creation and operation	Sichuan	9,974	2.7	2021
Customer F ⁽⁴⁾	Cultural and creative design services; Music art consulting; Planning of cultural activities	IP creation and operation	Guangdong	8,726	2.4	2021
Customer G ⁽⁵⁾	Production and operation of radio and television programs; Advertising designing	IP creation and operation	Zhejiang	8,491	2.3	2021

Notes:

- (1) Customer C Group is listed on the Main Board of the Stock Exchange principally engaged in the operation of video-based social platforms and the provision of livestreaming and online marketing services.
- (2) Customer D is a PRC incorporated company with a registered capital of RMB100,000. Its principal business includes the wholesale and retail of food products.
- (3) Customer E is a PRC incorporated company with a registered capital RMB1 million. Its principal business includes the organization and planning of cultural and sports activities.

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- (4) Customer F consists of two fellow companies under the same blue chip Chinese multinational technology conglomerate listed on the Main Board of the Stock Exchange, whose principal business includes digital content, communication and social platform.
- (5) Customer G is a PRC incorporated company with a registered capital of RMB50 million. Its principal business includes the production of radio and television programs, publication of advertisements, operation of internet cultural content, and sale of packaged food products online. According to publicly available information, Customer G has more than 900 employees.

Year ended December 31, 2022

Customer	Customer type/ background	Business segment	Place of business	Approximate		Commencement of business relationship
				Revenue attributable to customer <i>(RMB'000)</i>	% of our total revenue <i>(%)</i>	
Customer G ⁽¹⁾	Production and operation of radio and television programs; Advertising designing	IP creation and operation	Zhejiang	28,565	8.3	2021
Customer C Group ⁽²⁾	Production and operation of radio and television programs; Advertising designing	IP creation and operation	Beijing	23,895	6.9	2021
Customer H Group ⁽³⁾	Production and operation of radio and television programs; Advertising designing	IP creation and operation	Beijing	16,287	4.7	2022
Customer I ⁽⁴⁾	Production and operation of radio and television programs; Advertising designing	IP creation and operation	Fujian	7,854	2.3	2022
Customer D ⁽⁵⁾	Wholesaler	New retail	Jiangsu	4,478	1.3	2021

Notes:

- (1) Customer G was also one of our five largest customers for the year ended December 31, 2021. For details, please refer to note 5 to the List of top five customers for the year ended December 31, 2021 above.
- (2) Customer C Group is also one of our five largest customers for the year ended December 31, 2021. For details, please refer to note 1 to the List of top five customers for the year ended December 31, 2021 above.
- (3) Customer H Group is listed on the Main Board of the Stock Exchange principally engaged in telecommunications and information related businesses.

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- (4) Customer I is a PRC incorporated company with a registered capital of RMB100 million. Its principal business includes advertisement consultation services, design, production and publication of advertisements in the PRC, cultural, entertainment and performance agency services, as well as radio and television program production and operation.
- (5) Customer D was also one of our five largest customers for the year ended December 31, 2021. For details, please refer to note 2 to the list of top five customers for the year ended December 31, 2021 above.

As of the Latest Practicable Date, to the best knowledge of our Directors after the enquiry, none of our Directors or their close associates or any Shareholders holding more than 5% of the issued share capital of our Company immediately following the completion of the [REDACTED], had any interests in any of our five largest customers during the Track Record Period.

Jesports (Beijing) is one of our distributors and during its ordinary course of business, it ordered our health management and skincare products in the new retail segment, which are primarily distributed through the Internet cafes and teahouse chains operated by Jesports (Beijing), its subsidiaries or within its franchise network. Save as Jesports (Beijing), Ms. Ma and Ms. Zhang which were our distributors, to the best knowledge, information and belief of our Directors, having made all reasonable enquiries, none of our Directors or their respective close associates or any Shareholders owning more than 5% of our issued Shares were, or had any interest in any of our distributors or the sub-distributors during the Track Record Period and up to the Latest Practicable Date. The aggregate revenue contribution from Jesports (Beijing), Ms. Ma and Ms. Zhang during the Track Record Period was less than 1% of our total revenue during each year. The respective revenue contribution from Jesports (Beijing), Ms. Ma and Ms. Zhang during the Track Record Period are set out as follows.

	Year ended December 31,			
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Jesports (Beijing)	–	1,656	2,510	73
Ms. Zhang	–	39	32	128
Ms. Ma	8	37	–	–

For further details, please refer to Note 36(b) to the Accountant’s Report in Appendix I to this document.

SUPPLIERS

Currently, our suppliers primarily include selected third-party manufacturers for our new retail business and event planning and management for our IP creation and operation. We have developed a stable relationship with our key suppliers.

For our new retail business, our suppliers are selected third-party manufacturers in China. Our products are manufactured by selected third-party manufacturers in China that specialize in

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the manufacturing of skincare products or nutritional food. Our manufacturing supply chain is important to our growing business. We closely collaborate with a network of ODM and packaging supply partners to produce our products, such as Hengmei Group. For further details of our dealing with Hengmei Group, please refer to the paragraph headed “Suppliers – Selection and management of supplier – Hengmei Group” in this section below.

For our IP creation and operation business, our suppliers include selected event or program planning and management companies in China. Due to the business nature of the event or program planning and management, we will engage suppliers from time to time on ad hoc basis when we are engaged to provide media content, event planning and other designing and licensing of proprietary celebrity IPs.

In each year during the Track Record Period, purchases from our top five suppliers accounted for approximately 75.1%, 73.3%, 58.3% and 47.9% of our total purchase, respectively, and the total purchase from our largest supplier accounted for approximately 26.9%, 48.1%, 31.2% and 23.2% of our total purchase amount in each year during the Track Record Period, respectively.

The following tables set forth the details of our five largest suppliers in each year during the Track Record Period:

For the year ended December 31, 2019

<u>Supplier</u>	<u>Products/services provided to us</u>	<u>Business segment</u>	<u>Place of business</u>	<u>Purchase amount by us</u> <i>(RMB'000)</i>	<u>Approximate % of our total purchase</u> <i>(%)</i>	<u>Commencement of business relationship</u>
Supplier A ⁽¹⁾	Program planning and coordination	IP creation & operation	Xinjiang	18,872	26.9	2018
Hangzhou Hengmei	Manufacturer of MODONG coffee	New retail	Hangzhou	13,887	19.8	2019
Supplier B ⁽²⁾	Manufacturer of other products	New retail	Beijing	8,175	11.7	2018
Archstone	Provision of planning service, participation and authorization of IP of celebrities at events and/or programs etc.	IP creation and operation	Taiwan	6,985	10.0	2018
Supplier C ⁽³⁾	Production service	IP creation and operation	Shanghai	4,779	6.8	2018

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Notes:

- (1) Supplier A is a PRC incorporated company with a registered capital of RMB10 million. Its principal business includes business consultation, e-commerce, and organization of cultural and artistic exchange activities.
- (2) Supplier B is a PRC incorporated company with a registered capital of RMB155.1 million. Its principal business includes technological development, sales of food, daily necessities, and import and export of goods and technologies.
- (3) Supplier C is a PRC sole proprietorship* (“個人獨資企業”) with a registered capital of RMB10,000. Its principal business includes the planning and consultation of film and television drama, exchange and planning of film and television cultural and artistic activities, and technical development, technical services and technical consultation in the field of film and television culture.

For the year ended December 31, 2020

Supplier	Products/services provided to us	Business segment	Place of business	Purchase	Approximate	Commencement of business relationship
				amount by us	% of our total purchase	
				(RMB'000)	(%)	
Hangzhou Hengmei	Manufacturer of MODONG coffee	New retail	Hangzhou	74,389	48.1	2019
Handian Biotechnology (Jiangsu) Inc.* (江蘇漢典生物科技股份有限公司) ⁽¹⁾	Manufacturer of health management products	New retail	Jiangsu	15,863	10.3	2019
Supplier D ⁽²⁾	Program planning and coordination of <i>J-Style Trip</i> season one and Ningbo Superstar Performance Mega Night	IP creation and operation	Taiwan	8,388	5.4	2018
Archstone	Provision of planning service, participation and authorization of IP of celebrities at events and/or programs etc.	IP creation and operation	Taiwan	7,600	4.9	2018
Supplier E ⁽³⁾	Manufacturer of beauty equipment	New retail	Beijing	7,114	4.6	2018

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Notes:

- (1) Handian Biotechnology (Jiangsu) Inc.* (江蘇漢典生物科技股份有限公司) is a PRC incorporated company listed on the New Third Board Market (OTC market in the PRC) with a registered capital of RMB10.7 million. Its principal business includes research and development, production and sales of health food.
- (2) Supplier D is a company incorporated in the British Virgin Islands which mainly engages in cultural and entertainment-related business.
- (3) Supplier E is a PRC incorporated company with a registered capital of RMB1 million. Its principal business includes organization of cultural and artistic exchanges and sales of daily necessities.

For the year ended December 31, 2021

Supplier	Products/services provided to us	Business segment	Place of business	Purchase	Approximate	Commencement of business relationship
				amount by us	% of our total purchase	
				(RMB'000)	(%)	
Hangzhou Hengmei ⁽¹⁾	Manufacturer of MODONG coffee	New retail	Hangzhou	47,121	31.2	2019
Archstone	Provision of planning service, participation and authorization of IP of celebrities at events and/or programs etc.	IP creation and operation	Taiwan	11,461	7.6	2018
Supplier F ⁽²⁾	Program planning and coordination of J-Style Trip season two	IP creation and operation	Taiwan	10,759	7.1	2021
Handian Biotechnology (Jiangsu) Inc.* (江蘇漢典生物科技股份有限公司) ⁽³⁾	Manufacturer of health management products	New retail	Jiangsu	9,895	6.6	2019
Supplier D ⁽⁴⁾	Program planning and coordination	IP creation and operation	Taiwan	8,735	5.8	2018

Notes:

- (1) The purchase from Hangzhou Hengmei in the year ended December 31, 2021 includes purchases from both Hangzhou Hengmei and its wholly-owned subsidiary.

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- (2) Supplier F is a Taiwan incorporated company with a share capital of New Taiwan Dollar 1 million. Its principal business includes entertainment-related business, artistic and cultural services, and advertisement services.
- (3) Handian Biotechnology (Jiangsu) Inc.* (江蘇漢典生物科技股份有限公司) was also one of our five largest suppliers for the year ended December 31, 2020. For details, please refer to note 1 of the table for the year ended December 31, 2020.
- (4) Supplier D was also one of our five largest suppliers for the year ended December 31, 2020. For details, please refer to note 2 of the table for the year ended December 31, 2020.

For the year ended December 31, 2022

Supplier	Products/services provided to us	Business segment	Place of business	Purchase amount by us (RMB'000)	Approximate % of our total purchase (%)	Commencement of business relationship
Hangzhou Hengmei ⁽¹⁾	Manufacturer of MODONG coffee	New retail	Hangzhou	42,325	23.2	2019
Supplier G ⁽²⁾	Provision of stage and set design planning for our IP program	IP creation and operation	Taiwan	18,434	10.1	2021
Supplier F ⁽³⁾	Program planning and coordination of <i>Yue Lai Yue Kuai Le</i> (樂來樂快樂) and <i>J-Style Trip</i> season two	IP creation and operation	Taiwan	12,706	7.0	2021
Archstone	Provision of planning service, participation and authorization of IP of celebrities at events and/or programs etc.	IP creation and operation	Taiwan	7,051	3.9	2018
Handian Biotechnology (Jiangsu) Inc.* (江蘇漢典生物科技股份有限公司) ⁽⁴⁾	Manufacturer of health management products	New retail	Jiangsu	6,712	3.7	2019

Notes:

- (1) The purchase from Hangzhou Hengmei in the year ended December 31, 2022 includes purchases from both Hangzhou Hengmei and its wholly-owned subsidiary.
- (2) Supplier G is a Taiwan incorporated company with its shares listed on the Taiwan Stock Exchange. Its principal business includes event-planning and the design and production of shows and stages.
- (3) Supplier F was also one of our five largest suppliers for the year ended December 31, 2021. For details, please refer to note 2 of the table for the year ended December 31, 2021.

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- (4) Handian Biotechnology (Jiangsu) Inc.* (江蘇漢典生物科技股份有限公司) was also one of our five largest suppliers for the years ended December 31, 2020 and 2021. For details, please refer to note 1 of the list of top five suppliers for the year ended December 31, 2020.

As of the Latest Practicable Date, save as Archstone, to the best knowledge of our Directors after due inquiry, none of our Directors or their close associates or any Shareholders holding more than 5% of the issued share capital of our Company immediately following the completion of the [REDACTED], had any interests in any of our five largest suppliers during the Track Record Period.

Selection and management of supplier

Generally, we select third-party suppliers based on a number of factors such as manufacturing capacity, source of raw materials, years of operation, reputation and compliance with the applicable laws and regulations. We periodically review the performance of our third-party suppliers and reserve alternative sources of supply in advance based on our product launch plans.

To protect our intellectual property rights from infringement, we primarily rely on our agreements with the third-party manufacturers to protect our intellectual property rights.

We from time to time enter into OEM cooperation framework agreements with OEM manufacturers in relation to the production of various products. The following summarizes the salient terms of such cooperation agreement.

Exclusivity. The supply or sales of the products with the same or similar formula and relevant intellectual property rights or packaging, and the use of the formula to produce or authorize any other third parties to produce and sell any products is exclusive to us.

Term. Two years, and shall be automatically renewed for one year upon expiration, unless we give three months’ prior written notice to the relevant OEM manufacturers.

Intellectual property rights. We shall own the formula of the product and the rights to use the formula of the product exclusively. We shall own all other intellectual property rights of the products exclusively and without any limits.

In the event we engage OEM manufacturers to develop certain of our products, we may include an extra clause which the formula and relevant intellectual property rights developed by such manufacturers shall be owned by us.

Hengmei Group

During the Track Record Period and as of the Latest Practicable Date, we engaged Hangzhou Hengmei and its undertaking companies as the sole manufacturer of our *MODONG*

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coffee, *MODONG* MCT coffee, *MODONG* high protein milk tea, *Dr. INYOU* collagen peptide beverage, matcha powder and *MODONG* lightly brewed coffee.

Hengmei Group is a manufacturer of health products in China with a focus on weight management and nutritious diet management. It has the capacity of product research and development, production as well as health consultation. According to publicly available information, Hangzhou Hengmei has a registered capital of RMB38.4 million. To the best knowledge and information of the Company, Hengmei Group has more than 600 employees, of which 50 are professional research and development staff, and 92 are quality control staff as of June 30, 2022. Hengmei Group has developed more than 20 series of food products including a series of high-quality protein food bars, protein-based solid drinks and other products, and its customers include a number of industrial leading companies which focusing on health products. Hengmei Group is a Certified Supplier (認證供應商) by Société Générale de Surveillance in recognition of its site existence and business operation, and it has been certified as a High-tech Enterprise (高新技術企業) in December 2019. In addition, Hangzhou Hengmei is a member of the China Health Association (中國健康協會). To the best knowledge of our Directors, each member of Hengmei Group which we engage has obtained all the required permits and licenses for its business under the relevant PRC laws and regulations.

For the year ended December 31, 2019, 2020, 2021 and 2022, our purchases from Hengmei Group amounted to RMB13.9 million, RMB74.4 million, RMB47.1 million and RMB42.3 million, respectively. The fluctuation in our purchase from Hengmei Group during the Track Record Period was mainly due to the fluctuation in the sale of our products, particularly *MODONG* coffee, given that Hengmei Group is the only supplier of our *MODONG* coffee. In addition, our purchases from Hengmei Group may also be affected, to a lesser extent, by (i) the changes in the unit cost of *MODONG* coffee purchased from Hengmei Group, which was determined by the parties at the time of placing of orders with reference to the price of raw material; and (ii) our purchases of other products (including *MODONG* pastry, *MODONG* MCT coffee, *MODONG* high protein milk tea and *Dr. INYOU* collagen peptide beverage) from Hangzhou Hengmei or its subsidiaries since 2021.

The following table sets out the quantity of the major product that we purchased from Hengmei Group for the year ended December 31, 2019, 2020, 2021 and 2022:

	Year ended December 31,			
	2019	2020	2021	2022
<i>MODONG</i> coffee (boxes) (in thousand) (Note)	641	3,393	2,156	1,440
Trial sample of <i>MODONG</i> coffee (bags)	628	3,544	2,326	1,500

Note: Each box of *MODONG* coffee contains seven bags.

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Hengmei Group was one of our five largest suppliers in each year during the Track Record Period. Based on our Directors' knowledge and belief, after make all reasonable queries, we are only one of Hengmei Group's customers among its diversified customer base and our transactions are not significant to Hengmei Group's business or financial position.

To the best of our Directors' knowledge and belief, apart from the supplier-customer relationship, there is no any other past or present relationships (including, without limited to, business, family, trust, employment, shareholding, financing or otherwise) between our Group and Hangzhou Hengmei, as well as Hangzhou Hengmei's directors, equity holders, senior management, and their respective associates.

We did not experience a shortage or delay in the supply of raw materials which had imposed a material impact on us during the Track Record Period. During the Track Record Period, we did not experience any major fluctuations of raw material prices.

On May 26, 2021, we entered into a new five-year cooperation framework agreement with Hangzhou Hengmei in relation to our *MODONG* coffee. The salient terms of the cooperation framework agreement are as follow:

Exclusivity. The supply or sales (including supply or sale without authorization) of *MODONG* coffee or other products with the same or similar formula and relevant intellectual property rights or packaging of *MODONG* coffee, and the use of the formula of *MODONG* coffee to produce or authorize any other third parties to produce and sell any products is exclusive to our Company.

Term. Five years, and shall be automatically renewed for one year upon expiration, unless we give three months' prior written notice to Hangzhou Hengmei.

Intellectual property rights. We shall own the rights to use the formula of *MODONG* coffee exclusively, including but not limited to the right to use certain ingredients in the formula of *MODONG* coffee. We shall own all the other intellectual property rights of the entrusted products (excluding the formula of our *MODONG* coffee) exclusively and without any limits.

Supervision. We are entitled to check and inspect Hangzhou Hengmei's factories and quality control system. For failures identified and quality improvement recommendations proposed by us, Hangzhou Hengmei shall formulate improvement measures within the period requested by us.

Inspection. We are entitled to inspect the products. If any products do not satisfy the standards as agreed by the parties, we are entitled to refuse to accept them.

We also entered into an ODM agreement with Hangzhou Hengmei on May 26, 2021, pursuant to which we shall provide technical elements such as development ideas and concepts and nutritional requirements for *MODONG* coffee and entrust Hangzhou Hengmei to carry out research and development and the manufacturing of *MODONG* coffee. Hangzhou Hengmei is not

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entitled to disclose the formula, manufacturing process, suppliers of ingredients or specification of our *MODONG* coffee and the relevant IP exclusively, which enables us to subcontract any other third party to manufacture *MODONG* coffee when we deem necessary.

We entered into cooperation agreements with Hengmei Group from time to time for manufacturing of our products, such as *MODONG* MCT coffee, *Dr. INYOU* collagen peptide beverage etc., during the Track Record Period. The salient terms of these cooperation framework agreements are similar to those of the cooperation framework agreement therewith in relation to *MODONG* coffee. Certain terms, such as ownership of the formula and relevant IP rights of these products may vary, depending on the terms of the relevant agreements.

We co-developed the formulae of these products, including *MODONG* coffee, with Hengmei Group and consider such formulae to be a piece of sensitive and confidential information. We consider engaging only one supplier for the production of such products to be appropriate to minimize the risk of leakage of confidential formulae and inconsistent quality of our products in order to maintain our competitive advantages. Having considered that we have had a good relationship with Hengmei Group and we believe Hengmei Group is a sizable and reputable health products manufacturer based of its abovementioned certifications, Hengmei Group is currently our sole supplier of these products, including *MODONG* coffee.

As there are several health products manufacturers in China which have similar qualifications and capabilities, we believe that, in the event that Hengmei Group ceases to cooperate with us and terminates the contract, we would be able to locate readily available alternative supplier(s) and change suppliers(s) without incurring significant cost or experience material delay on product supply as (i) we have maintained a sufficient amount of these products, (ii) our distributors are required to make prepayments for the products ordered by them and/or sub-distributors developed by them through the Ordering System which we would able to monitor whether there is sufficient amount of these products to be delivered, and in the event we identify there is insufficient inventory, it would be identified at an early stage and we would have time to resolve the matter, and (iii) we entered into framework agreements with alternative suppliers which would be able to produce these products at a quality level required by us, when necessary.

We are also in possession of all the relevant licences necessary to carry on and operate our business and we have sufficient workforce and possess our own formulae to operate and produce our products, including *MODONG* coffee, independently. For more details, please refer to the section headed “Risk factors – Risks relating to our business and industry – Our business operations could be negatively impacted by our reliance on the sole supplier to produce *MODONG* coffee” in this document.

Overlapping of major supplier and customer

During the Track Record Period, one of our top five customers from the IP creation and operation segment were also our supplier.

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Customer G

During the year ended December 31, 2022, our largest customer (i.e. Customer G or the MCN Company) was also one of our suppliers during the financial period. Customer G is a reputable multi-channel network company in the PRC. Since late 2021, we have cooperated with Customer G in the event planning and IP program associated with Mr. Liu under our IP creation and operation segment and our Group, Customer G and Mr. Liu (and his artiste management company) shall be entitled to certain percentage of the fees from brand owners who engaged Mr. Liu to promote their products or services. Customer G is treated as our customer when it enters into cooperation agreement with the brand owners and is responsible for collecting the fees from the brand owner(s) and transferring to us our share of the relevant fees. For the year ended December 31, 2022, our revenue derived from Customer G amounted to RMB28.6 million.

On the other hand, during the year ended December 31, 2022, we planned and developed a IP program, namely, 618 streaming session (618主播請就位), which was broadcasted on *Douyin* and involving Mr. Liu as one of the performers. Pursuant to the cooperation agreement entered into between Customer G and Talent Planet, we shall pay to Customer G their share of the fees in relation to Mr. Liu’s performance in the program. Accordingly, Customer G was treated as our supplier for the production of such IP program. During the year ended December 31, 2022, our purchases from Customer G amounted to RMB1.7 million.

SEASONALITY

We experience seasonality in our business, in particular for our new retail segment. Our results of operations for our new retail segment are affected by our promotional and marketing activities, which may be subject to different shopping festivals during the year. For example, we may record higher sales volume of our products during 618 campaign in second quarter and/or Double 11 and Double 12 campaigns in fourth quarter during each year. Overall, the impact of seasonality of our business has been relatively mild due to our diversified new retail product portfolio and IP offerings to compensate the seasonality effect, and our rapid growth. The seasonable trends that we have experienced in the past may not apply to, or be indicative of, our future operating results. For further information, please refer to the section headed “Risk factors – Risks relating to our business and industry – Our business operations may be subject to seasonality.” in this document.

LOGISTICS AND INVENTORY MANAGEMENT

As of the Latest Practicable Date, we engaged three warehousing services providers primarily to provide inventory management, meet our storage needs and ensure the delivery of our products to the end consumers or distributors efficiently and economically.

We co-operate with third-party logistics service providers to collect our products from warehouses and deliver them to our retail points. As of the Latest Practicable Date, we had one warehousing and delivery service provider and several logistics service providers. Our transportation arrangements with third-party logistics service providers enable us to maintain a low level of capital investment in developing and maintaining an in-house logistics system. We select logistics service providers based on their reputation, logistic network and financial resources.

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Inventory management

During the Track Record Period, all of our inventories were raw and packaging materials and finished products. We need to maintain a sufficient amount of inventories in our warehouses to satisfy the demands of our sales and distribution channels, and to support our expansion plan. On March 26, 2020, we entered into an inventory management agreement with Hangzhou Hengmei, the manufacturer of our *MODONG* coffee, which provides that Hangzhou Hengmei shall stock up raw materials and ingredients for the annual production of 3.5 million boxes of *MODONG* coffee in order to avoid any disruption to Hangzhou Hengmei’s production process which may be caused by the COVID-19 pandemic. Such agreement has been renewed on April 8, 2022, pursuant to which Hangzhou Hengmei shall stock up raw materials and ingredients for 350,000 boxes of *MODONG* coffee. As of the Latest Practicable Date, the inventory management agreement remained effective.

As of December 31, 2019, 2020, 2021 and 2022, the balance of inventories amounted to RMB15.5 million, RMB24.1 million, RMB24.5 million and RMB28.8 million, respectively, representing 8.7%, 9.3%, 6.9% and 6.9% of our total current assets, respectively. Our average number of inventory turnover days for 2019, 2020, 2021 and 2022 were 180 days, 76 days, 128 days and 149 days, respectively.

To promote a healthy financial model and improve the cash flow of our distributors so as to develop a sustainable distribution network, we have been monitoring the inventory levels based on the inventory records provided by our distributors and sub-distributors. We have established policies with regard to inventory management, such as a labelling system with traceable QR code for each package of our product to trace the delivery status distributable by us. In addition, upon the completion of stocking, the warehouse keeper shall promptly contact the procurement personnel to input the relevant information into the inventory management system, and the inventories shall be inspected on a monthly basis and a written inspection table shall be generated and jointly signed by the personnel who in charge of the inspection. Moreover, we have also put in place a security system to protect and prevent our inventory from theft, embezzlement and damages.

We believe the above-mentioned initiatives could reduce the exposure of our distributors to financial and operational risks and hence promote a healthy distribution network.

IMPACT OF THE OUTBREAK OF COVID-19 ON OUR BUSINESS

There had been an outbreak of the new coronavirus (COVID-19), which had quickly spread around the globe since late 2019 to early 2020. During the year ended December 31, 2020, we recorded a gross loss in our IP creation and operation business primarily because of the cancellation of a number of sponsorships for *J-Style Trip* season one due to the uncertainty of the effect of the COVID-19 pandemic. The pandemic and the related control measures imposed by the local government also affected the schedule of events and/or production of IP programs, which in turn affect our revenue from the IP creation and operation business.

Since late 2021, there had been another wave of outbreak of the COVID-19 pandemic, including the highly transmissible Omicron variant, in various districts in the PRC which had subsequently developed into a large-scale outbreak during the first half of 2022. In response to

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the Resurgence, local governments in PRC have imposed various restrictions on business and social activities, including stringent travel restrictions, heightened quarantine measures and mandated temporary suspension of business operations. Many regions in the PRC imposed different scale of travelling restrictions. Particularly, a large-scale regional static management control measure (全域靜態管理) had been imposed in Shanghai, being one of the most large-scaled control measures imposed since the COVID-19 pandemic. The control measures posed great challenge to the PRC economy during the first half of 2022. In April 2022, both Manufacturing Purchasing Managers' Index and Synthesized Purchasing Managers' Index had reached the lowest record since March 2020. In the first half of 2022, the bulletproof drink market in the PRC recorded a year-on-year decline of approximately 46.2% as compared to the corresponding period in 2021.

The Resurgence also presented further challenges to our business and financial performances during the year ended December 31, 2022, as a substantial part of our operations are located in the Yangtze River Delta area which was severely affected by the Resurgence. We recorded a decrease in our revenue of RMB21.1 million from RMB365.3 million for the year ended December 31, 2021 to RMB344.2 million for the year ended December 31, 2022, representing a decrease of approximately 5.8%. Such decrease was mainly attributable to the decrease in our revenue from our new retail business, which had recorded a decrease of 20.3% from RMB301.4 million for the year ended December 31, 2021 to RMB240.1 million for the year ended December 31, 2022. Particularly, our business and operations had been negatively affected by (i) the disruptions to the operation of our logistics and delivery service providers which had materially affected the delivery of our products to the distributors, sub-distributors or end consumers; (ii) consumer demand was affected due to the overall worsening of the PRC economy; (iii) the production of our products has been disrupted as raw materials were unable to be delivered to our suppliers; (iv) travel restrictions and social distancing requirements imposed by the local government which had prohibited Kunshan Tingshe and our distributors from organizing offline promotion activities; and (v) the delays in the production and/or broadcasting schedule of our IP programs, which have been used by us as one of the sales and marketing means for our new retail products, due to travel restrictions which had in turn affected our revenue from the IP creation and operation segment. Set forth below are the details of the original time of and revised estimated time of the broadcasting/launching schedule of our major IP programs as a result of the outbreak of the COVID-19:

Our IP programs	Original time of broadcasting/ launching	Estimated time of broadcasting/ launching as at the Latest Practicable Date
<i>Yue Lai Yue Kuai Le</i> (樂來樂快樂)	Fourth quarter of 2021	Second half of 2023
<i>J-Style Trip</i> season two	During 2022	Summer of 2023
A fitness-related performance tour featuring Mr. Liu, Ms. Vivi Wang and other celebrities	Fourth quarter of 2022	Middle of 2023

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In view of the adverse impacts of the COVID-19 outbreak on the distribution of our products through PDT which require substantial supports through offline marketing and promotion activities, we have been expanding the distribution channels for our products. We started to sell our products through various e-commerce platforms, including our *Kuaishou* stores (which was opened in January 2021) and *Tmall* stores (which was opened in November 2020). Our sale through other e-commerce channels increased from RMB2.8 million for the year ended December 2020 to RMB9.7 million for the year ended December 31, 2021. Since December 2021, we have further expanded our distribution channels to e-commerce livestreaming sessions on *Douyin*, which is directly linked to our *Douyin* stores and conduct marketing and promotion activities through, among other things, product placement in livestream broadcasting sessions of Mr. Liu on *Douyin*. Since July 2022, we have commenced increasing in the frequency in the organization of e-commerce livestreaming sessions to two to four e-commerce livestreaming sessions each month in general in collaboration with Ms. Vivi Wang and other KOLs to promote the sale of our new products. We are of the view that the expansion of our distribution channels would effectively enhance (i) our ability to conduct online marketing activities for the promotion of our products; and (ii) our geographical presence across different regions in the PRC, which in turn diversify our risks in respect of regional outbreak of the pandemic.

With the pandemic being more contained in 2022, there was lift of large-scale restrictive measures. Since 2023, large scale activities and events have gradually resumed in the PRC. With relaxation of restrictions in the PRC, it is expected that the consumer spending and demand in healthcare and skincare products would return to normal in the near future. As at the Latest Practicable Date, we were planning to organize the fitness-related performance tour featuring Mr. Liu, Ms. Vivi Wang and other celebrities in various PRC cities, with the first part of the tour to be held in Chongqing in around April to May 2023 and followed by the remaining part in Guangzhou, Qingdao and Haikou in 2023. Our Directors are of the view that the impact of the outbreak of COVID-19 is temporary in nature and the pandemic is not expected to have a material adverse impact on our Group going forward.

We will continue to monitor the development of the pandemic and actively take measures to mitigate potential negative impacts on our business. Nevertheless, the COVID-19 pandemic remains an evolving situation, and there remain uncertainties as to the future development of the pandemic, which is beyond our control. If there are further waves of large-scale outbreaks of the pandemic in the PRC, there may be further suspension of the services provided by our delivery service providers. The pandemic may also continue to affect the overall economy and demand for our products. In such circumstances, our operations and financial performance maybe adversely affected. Please also see to the section headed “Risk factors – Risk relating to our business and industry – Our financial condition and results of operations may be materially and adversely affected by the outbreak of COVID-19 pandemic” in this document.

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QUALITY CONTROL

We believe that our commitment to product quality and safety is vital to our success. We place strong emphasis on product quality and safety by implementing a comprehensive quality control system in order to maintain our competitive edge, including the New Product Development Procedures (《新產品及助銷品開發流程》), the Procurement Management Rules (《採購管理制度》), the OEM Supervision Rules (《委外代工監督規範》) and the System Customer Service Guidelines (《客戶服務規範》). Although we do not conduct the day-to-day manufacturing of our products, we conduct inspection on our third-party manufacturers to ensure they are in compliance with the product safety compliance standards in China. We take great care to ensure that our third-party manufacturers share our commitment to quality and ethics.

We cooperate with Société Générale de Surveillance, an international quality inspection company to ensure that our products meet the applicable quality standards. Generally, our manufacturers reserve sample products for our products for inspection and issue reports on the results of inspection. In addition, we may conduct on-site ad hoc inspection on our manufacturers to check whether the raw materials used are in compliance with the relevant laws, regulations and standards, and to monitor the manufacturing processes and ensure compliance with our quality control procedures. For details, please refer to the section headed “Risk factors – Risks relating to our business and industry – We outsource our product manufacturing to third-party manufacturers. The limited control that we have over the process may present risks to our business, and any failure in the product quality control could adversely affect our reputation, business prospects and results of operations” in this document. To the best knowledge of our Company, all of our third-party manufacturers obtained the requisite licenses and complied with our internal standards during the Track Record Period and as of the Latest Practicable Date.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material incidences in the course of our sales operation nor were there any material claims for personal or property damages or compensation arising from our sales of products. Further, our supply contracts with our suppliers usually provide that product liability in respect of any product supplied to us will be borne by the suppliers. We did not suffer from any product liability claims which were, individually or on an aggregate basis, material during the Track Record Period. To enhance customers’ satisfaction on our products, we have hotlines and WeChat accounts for handling inquiries or complaints from our distributors, the sub-distributors and end consumers. For details, please refer to the section headed “Risk factors – Risks relating to our business and industry – Product quality is crucial to our business. Failure to maintain the quality, safety and effectiveness of the products could harm our reputation, adversely affect our financial condition and results of operations” in this document.

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AWARDS

As of the Latest Practicable Date, we attained the following awards in recognition of our products:

<u>Certificates/Description</u>	<u>Awarding organization</u>	<u>Year of grant</u>
Annual Popular Bulletproof Coffee Award (年度暢銷防彈咖啡)	Rayli Fashion List (瑞麗潮流大番榜)	2020
Excellent Quality Bulletproof Coffee (品質卓越防彈咖啡)	OnlyLady Beauty Award (OnlyLady美容天后大賞)	2020
Popularity Award (人氣口碑獎)	PCLADY Beauty Award (太平洋時尚網美容風雲榜)	2019

INTELLECTUAL PROPERTY

Intellectual property is fundamental and crucial to our success, and it enables us to maintain our competitive position in the rapidly evolving market. Our IP creation and operation capabilities empower us to create, develop and own IP contents, in particularly those in association with our unique celebrity IPs. For details, please refer to the section headed “– Summary of business model – IP creation and operation” of this document. We rely on trademark, copyright and patent law, confidential contractual arrangements, invention assignment and non-compete agreements with our employees and others to protect our proprietary rights. As of the Latest Practicable Date, our Group registered 1,115 trademarks and 148 copyrights (including software copyrights in the PRC), and we were also applying and undergoing the registrations of other intellectual property rights. For details, please refer to the section headed “Statutory and general information – B. Further information about our business – 2. Intellectual property rights of the Group” in Appendix V to this document. We believe our copyrights, trademarks and domain names are unique and valuable assets that support our brand and help to elevate public’s perception of our products.

In order to better protect our intellectual property rights from third-party infringements, we have implemented various measures and strictly followed the relevant internal protocols and complied with the corresponding laws and regulations. We regularly detect the malicious registrations of our intellectual properties by third parties, counterfeit products and contents on e-commerce platforms, and any other forms of infringements of our intellectual properties. Since our intellectual properties may be maliciously registered by the third parties, we timely register our intellectual properties with the competent governmental authorities. We actively respond to any infringements by warnings, notices, administrative claims and sometimes escalate to litigations.

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Additionally, for our proprietary IPs, our in-house design team carefully examines the originality of our new products with the assistance of our in-house legal team. Our in-house legal team is also responsible for the registration, consulting and other business or legal support of our intellectual property related affairs.

During the Track Record Period and up to the Latest Practicable Date, we did not have any material disputes or any other pending legal proceedings of intellectual property rights with other third parties. To the best knowledge of our Directors, they are not aware of any potential or threatened litigations and claims in relation to any intellectual property infringement that was material during the Track Record Period and up to the Latest Practicable Date.

COUNTERFEIT PRODUCTS

We are aware that certain counterfeit products bearing our brand exist in the market. Please refer to the section headed “Risk factors – Risks relating to our business and industry – Our brands and products may be subject to counterfeiting, imitation, and/or infringement by third parties, and we may not be able to prevent the existence of counterfeit products on the market” in this document for further details.

We have adopted a number of internal control measures to prevent counterfeit products and infringement of our intellectual property rights, including internal policies setting out procedures of how to handle counterfeit products and infringement incidents, our cooperation with professional anti-counterfeit product organizations and law firms specializing in intellectual property laws (“**IP Professionals**”). We have included confidentiality provisions in the agreements with our employees, distributors and OEM suppliers.

We operate a flagship store on *Tmall*. Apart from its primary function to launch our new products and attract new fans, it also serves as an official e-commerce channel for sales of our products.

Apart from delegating our business partners, such as distributors, to monitor infringement activities, we have a dedicated team responsible for overseeing the implementation of our internal control measures related to counterfeit products and infringement of our intellectual property rights, coordinating with external IP Professional to resolve the disputes related to counterfeit products and protect our legal rights as well as engaging in any potential legal proceedings related to counterfeit products. IP Professionals are responsible for identifying any possible infringement activities in the market from time to time. In addition, we encourage our distributors and sub-distributors, which form an extensive distribution network comprising more than 15,000 distributors/sub-distributors in aggregate, who are also stakeholders of our products, to monitor and report to us any infringement activities in the market.

When we, through notification from IP Professionals and distributors/sub-distributors or by ourselves, become aware of the possible infringement activity(ies), the authenticity of the product in subject would be verified by us. If the product in subject is confirmed to be a counterfeit product, we, through our business partner (in case such IP Professional is engaged by

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our business partner), we may collect evidence on the mainstream e-commerce platforms such as Taobao, Pinduoduo and JD.COM and notarize the infringement facts. We also communicate with these platforms and ask for the removal of the relevant counterfeit products.

Where appropriate, we inform and cooperate with the relevant authorities, including the Administration for Market Regulation and the police, of the existence of such counterfeit products and request appropriate actions to be taken, including confiscation of the counterfeit products, imposition of fines and commencement of proceedings against the counterfeiting party. We will continue to take appropriate actions to defend our intellectual property and our products against potential infringements. During the Track Record Period and up to the Latest Practicable Date, there was no material adverse effect by counterfeit products on our business, financial condition or results of operations.

Based on the monitoring activities carried out by our Group’s legal and compliance department and external IP-protection company since December 2020, over 1,200 online stores had been identified on major e-commerce platforms which distributed counterfeit version of our products, and some of these products were widely distributed. We reported certain stores with serious infringement activities to the local AMRs and brought approximately 62 lawsuits against them (including their suppliers) as of December 31, 2022, (i) 15 of which were settled between us and the relevant defendants, with approximately RMB1.7 million of damages being agreed to be payable to us; (ii) 18 of which were ruled in favour of us, with approximately RMB1.8 million of damages being held to be payable to us; (iii) three of which were withdrawn by us; and (iv) the remaining remained ongoing. Notwithstanding the insignificant amount of damages being claimed by us in the above lawsuits, we believe our continuous measures to prevent counterfeit products and infringement are necessary as such measures are important to us for (i) protecting and safeguarding our brand reputation; and (ii) reducing the business threat of counterfeit products so that loss of sales of our new retail products will be minimized as consumers are not able to purchase counterfeit products at a lower price in general. In addition to protecting our intellectual properties, our enforcement actions also provide us valuable information on potential demand of our products and insight into how to reach out to potential consumers.

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EMPLOYEES

We had a total of 68, 150, 190 and 250 employees as of December 31, 2019, 2020, 2021 and 2022, respectively. Substantially all of our employees are based in the PRC. The following table sets forth a breakdown of our employees as at December 31, 2022 by functions:

	<u>Number of employees</u>
New retail operations	98
IT operations and maintenance	31
IP content creation	17
IP licensing	20
Finance	9
Design	11
Product development	8
Human resources and administration	14
Legal and compliance	7
Risk management and internal control	3
Strategic management and financing	4
President office	7
Group branding	9
Talent Planet-related affairs	<u>12</u>
Total	<u><u>250</u></u>

Our success depends on our ability to attract, retain and motivate qualified personnel. We have invested significant resources in the recruiting of the suitable candidates for our Company and we primarily recruit our employees through online channels and social networking platforms. Further, we provide internal training program, which covers topics on our business operations, corporate culture, products and the industry trends etc., which we believe will allow our employees to envision their career paths and growth potential with us.

As required by the laws and regulations in China, we participate in various government statutory employee benefit plans, including social insurance funds, namely a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan, a maternity insurance plan, and a housing provident fund. We are required under the PRC laws to contribute to employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees up to a maximum amount specified by the local government from time to time.

We enter into standard employment contracts and standard confidentiality agreements with our permanent employees.

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We did not establish a labor union. We are of the view that we maintain a good and friendly working relationship with all our employees, and we have not experienced any material labor disputes or any difficulties in recruiting employees for our business operations during the Track Record Period.

We have implemented the new product development procedures to manage product design and development activities. Our product development team is focused on developing new products, including both health management products and skincare products as well as expanding the formats of our existing products. After [REDACTED], we plan to strengthen our capabilities for the research and development of new products by expanding our in-house team as well as cooperating with research institutes.

INSURANCE

As of the Latest Practicable Date, we maintained various insurance policies to safeguard against risks and unexpected events. We consider our insurance coverage to be adequate as we have in place all the mandatory insurance policies required by the PRC laws and regulations and in accordance with the commercial practices in our industry. We have purchased property insurance covering our fixed assets such as equipment, furniture and office facilities. We also provide social security insurance including pension insurance, unemployment insurance, work-related injury insurance and medical insurance for our employees.

In line with the general market practice in the PRC, we do not maintain business interruption insurance or key-man life insurance. We do not have insurance related to the COVID-19 pandemic either. For details, please refer to the section headed "Risk factors – Risks relating to our business and industry – We have limited business insurance coverage which could expose us to significant costs and business disruptions" in this document.

During the Track Record Period and up to the Latest Practicable Date, we did not make any material claims on any insurance policies maintained by us.

PROPERTIES

Owned properties

In December 2020, we entered into sale & purchase contracts with Kunshan Jiabao, an Independent Third Party real property developer, to purchase 69 units in a commercial complex under construction in Kunshan, Jiangsu Province, with an aggregate gross floor area of 3,507.63 sq.m. at a consideration of RMB53.5 million, which will be used as staff quarters. As at the Latest Practicable Date, we obtained the title certificates and the corresponding land use right certificates of these 69 units. As at the Latest Practicable Date, each of these 69 units were subject to mortgages. As advised by our PRC Legal Advisors, apart from the mortgages, we have full legal ownership to the said units.

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The consideration was agreed after arm’s length negotiation between the parties with reference to the price list published by Kunshan Jiabao, and was funded by a mortgage loan from an Independent Third Party financial institution.

In February 2021, we also entered into sale and purchase agreements with Kunshan Jiabao to purchase another 48 units in the same complex in Kunshan, Jiangsu Province, with an aggregate gross floor area of 3,166.26 sq.m. at a consideration of RMB50.0 million, which will be used as office premises. As at the Latest Practicable Date, we had not obtained the title certificates and the corresponding land use right certificates of the aforesaid 48 units as construction work had just finished and we were in the process of making the relevant completion filing.

The consideration was agreed after arm’s length negotiation between the parties with reference to the price list published by Kunshan Jiabao. As of the Latest Practicable Date, we settled the consideration to Kunshan Jiabao.

For details, please refer to the section headed “Financial information – Related party transactions and balances – Balances with related parties – Non-trade in nature – Prepayment for purchase of staff quarters” of this document. All of the above properties are or will be used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. As our business operations continue to grow, we will need more staff quarters and office premises to accommodate our expanding team of staff. After searching for possible sites, we believe the above properties are suitable venue for such purpose as the area in which the properties located will become a developed residential and commercial area.

Except for the property interests described in the property valuation report prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, our Group has no other owned single property interest that forms part of our non-property activities that has a carrying amount of 15% or more of total assets pursuant to Rule 5.01B(2)(b) of the Listing Rules. For details, please refer to the property valuation report in Appendix III to this document. As advised by our PRC Legal Advisors, there is no legal impediment in obtaining the title certificates.

Leased properties

Our principal executive offices are located on leased premises in Kunshan, Jiangsu Province, comprising approximately 1,050 sq.m..

As of the Latest Practicable Date, we leased and occupied 27 properties in Kunshan, Beijing, Shanghai, Guangzhou and Hangzhou with an aggregate gross floor area of approximately 6,235.58 sq.m.. Our leased properties are leased from Independent Third Parties, with a lease term ranging from one year to three years. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules as office premises, warehouses and staff dormitories.

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Title certificates or relevant authorization documents of 21 leased properties have been duly obtained by the relevant landlords. With respect to the remaining six leased properties with an aggregate gross floor area of 1,090 sq.m., or 17.5% of the total gross floor area of our leased properties, the landlords failed to provide the relevant building ownership certificates, as a result of which, there may be risks that these leases may be held invalid, and therefore we may not be able to continue to occupy and use such properties. Our Directors believe that our use of these six properties individually or collectively will not have a material adverse effect on our business, financial condition or results of operations. Even if we are required to vacate from the properties, we believe we will be able to readily find comparable properties to relocate and the costs and expenses that we may incur for relocation will be immaterial. As of the Latest Practicable Date, we were not aware of any ownership controversy or dispute or third party claims, nor had we been imposed any administrative penalties.

In addition, these 27 leases have not been registered with the relevant competent authorities. As advised by our PRC Legal Advisors, despite the leases not having been registered with the relevant competent authorities, they remain valid and legally binding and enforceable under the applicable PRC laws and regulations, according to the Civil Code of the PRC (《中華人民共和國民法典》). A maximum penalty of RMB10,000 may be imposed for non-registration of each lease, and the estimated total maximum penalty would be RMB270,000 as advised by our PRC Legal Advisors.

In order to ensure on-going compliance with the PRC laws and regulations relating to the registration of executed lease agreements, where we are the tenant to an executed lease agreement, we will continue to seek cooperation from the landlords of the leased properties to register executed lease agreements with the relevant PRC governmental authorities and will adopt a variety of risk control measures to mitigate such regulatory risk in the future. We have established a checklist of our leased properties with detailed information, including the status of the lease registration of office premises, to continue to liaise with the landlords with the aim of pursuing registration of our leased properties. Our Directors confirmed that the facts above would not materially and adversely affect our business operations because if we have to relocate from such leased property, we should be able to locate qualified alternative premises within a short period of time under comparable terms without incurring substantial additional costs.

As of the Latest Practicable Date, we had no single property with a carrying amount of 15% or more of our total assets. Therefore, we are not required to prepare a valuation report with respect to our property interests in reliance upon the exemption provided by Section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectus from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

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LICENSES, REGULATORY APPROVALS AND PERMITS

As of the Latest Practicable Date, as advised by our PRC Legal Advisors, we had obtained all the requisite licenses, approvals and permits from the relevant authorities that are material to our current operations. The following table sets out details of our material licenses and permits.

<u>License/Permit holder</u>	<u>License</u>	<u>Issuing authority</u>	<u>Effective date</u>	<u>Expiry date</u>
Kunshan Star Plus Action	Administrative Measures for Food Operation Licensing 《食品經營許可證》	Kunshan AMR	June 29, 2018	June 28, 2023
Kunshan Star Plus Action	Approval of the National Administrative License for Special Purpose Cosmetics 《國家特殊用途化妝品行政許可批件》	National Medical Products Administration (國家藥品監督管理局)	March 12, 2020	March 11, 2024
Beijing Star Plus Master	Commercial performance license 《營業性演出許可證》	Beijing Municipal Bureau of Culture and Tourism (北京市文化和旅遊局)	April 24, 2022	April 23, 2024
Kunshan Talent Planet	Commercial performance license 《營業性演出許可證》	Kunshan Municipal Bureau of Culture, Sports, Radio, Television and Tourism* (昆山市文體廣電和旅遊局)	January 16, 2023	January 15, 2025

To the best of our knowledge and belief, there is no material risk that any of such licenses, permits and approvals will be revoked prior to their expiration dates. For further information relating to the risks associated with obtaining and renewing licenses, permits and approvals, please refer to the section headed “Risk factors – Risks relating to our business and industry – We require various approvals, licenses, permits and registrations to operate our business and any failure to obtain or renew any of these approvals, licenses, permits and registrations or any failure to attain the above pursuant to the new enactment of government policies, laws or regulations could materially and adversely affect our business and results of operations” in this document.

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LEGAL PROCEEDINGS AND COMPLIANCE MATTERS

As of the Latest Practicable Date, there was no litigation or arbitration proceedings pending or threatened against our Group or any of our Directors which could have a material adverse effect on our financial condition or results of operations.

Our Directors, as advised by our PRC Legal Advisors, confirm that our Group had complied with all the relevant PRC laws and regulations, including the relevant regulations relating to online live streaming marketing, in all material respects during the Track Record Period and up to the Latest Practicable Date.

DATA PRIVACY AND CYBERSECURITY

Our information technology systems are critical to our business operations and we have implemented various data protection measures and stringent internal protocols to ensure the security of our proprietary data. All the development and maintenance of our information technology systems are currently responsible by our internal technical maintenance department (系統運維部), and we outsource certain technical operations to the third party service providers in order to better support the development of our information technology systems. For instance, our cloud service provider adopts multi-layer firewall to protect against attacks or unauthorized access of our data, and they monitor the visits of the data regularly and generate reports on any suspicious or unauthorized access or attacks to us.

Ordering System and QR Code System

In order to effectively manage our product delivery, conduct big data analysis and elevate the users’ overall purchasing experiences, we introduced the Ordering System, which is a portal in our WeChat official accounts that allows our users, namely distributors and sub-distributors to place orders and track the delivery of such products. The Ordering Management System stores information and data in relation to the purchase orders, user information, payment details and logistics status, and the users and end consumers can all authenticate the products through the scanning of QR code upon the arrival of products.

Implication of Cybersecurity Review Measures and Draft Regulations on Cyber Data Security on the Ordering System and QR Code System

The Cybersecurity Review Measures provides that, network platform operators with personal information of over one million users shall be subject to cybersecurity review before listing abroad (國外上市). As advised by our PRC Legal Advisors, it is unlikely that we would be required to undergo a cybersecurity review for the proposed [REDACTED] based on the following reasons: (i) according to a telephone consultation with the China Cybersecurity Review Technology and Certification Center (中國網絡安全審查技術與認證中心) conducted by our PRC Legal Advisors on March 9, 2023, which is the competent authority according to our PRC Legal Advisors, the term “listing abroad (國外上市)” under the Cybersecurity Review Measures exempts listing in Hong Kong from the mandatory obligation of ex-ante declaration of

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cybersecurity review; (ii) given that the Ordering System and QR Code System only open to our distributors and sub-distributors and not to the public, and only for the purposes of facilitating the ordering and delivery of our products and keeping records of the sale of our products for our business operations, we do not fall within the scope of "internet platform operator"; and (iii) we do not possess personal information of over one million users.

In addition, as of the Latest Practicable Date, we had not been notified by any authorities of being classified as a critical information infrastructure operator as stipulated under the Cybersecurity Review Measures. However, there is no clear explanation or interpretations under the Cybersecurity Review Measures as to how to determine what constitutes "affecting national security" and thus may be subject to cybersecurity review initiated by the relevant government authorities.

During the Track Record Period, we collected information of our distributors, sub-distributors and end consumers through the Ordering System and QR Code System only for the purposes of facilitating the ordering and delivery of our products and keeping records of the sale of our products for our business operations. As of the Latest Practicable Date, we had not been involved in any service, product or data processing activities that might give rise to national security risks based on the factors set out in Article 10 of the Cybersecurity Review Measures, did not process personal information of over one million users, and have not been inquired, investigated, warned or penalized by any PRC authorities in this respect. Based on the foregoing, our PRC Legal Advisors are of the view that, as of the Latest Practicable Date, the likelihood that our business operations and/or the proposed [REDACTED] give rise to national security risks which subject us to cybersecurity review under the Cybersecurity Review Measures and the Draft Regulations on Cyber Data Security is relatively low. Based on the foregoing analysis and the advice of our PRC Legal Advisors, our Directors are of the view that the Cybersecurity Review Measures and the Draft Regulations Security, if implemented in the current form, would not have a material adverse impact on our business operations or the proposed [REDACTED].

During the Track Record Period and up to the Latest Practicable Date, (i) there had been no material incident of data or personal information leakage, infringement of data protection and privacy laws and regulations or investigation or other legal proceeding, pending or threatened against us initiated by competent government authorities or third parties; and (ii) we had not been subject to any fines, administrative penalties or other sanctions, or received any enquiries, notices or warnings from any relevant regulatory authorities in relation to the infringement of cybersecurity and data protection laws and regulations, and had not been involved in any investigations on cyber security review by CAC. In addition, we have maintained a comprehensive and rigorous data protection program and implemented comprehensive and strict internal policies, procedures and measures to ensure our compliance practice in data protection. Moreover, we will (a) closely monitor and assess any regulatory development in relation to cybersecurity and data protection; (b) adjust and optimize our practice in data protection in a timely manner to comply with the new requirements imposed by the new laws and regulations; (c) continuously improve our data security protection technologies and internal control procedures and engage external professional consultants to advise us on cybersecurity and data

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protection requirements, if needed; and (d) proactively maintain communications with the local branches of CAC, if needed. Based on the foregoing, if the Draft Regulations on Cyber Data Security were implemented in the current form, our Directors and our PRC Legal Advisors do not foresee any material impediments for us to comply with the requirements under the Cybersecurity Review Measures and the Draft Regulations on Cyber Data Security in all material aspects.

Based on the above, including the Directors' assessment and the view of our PRC Legal Advisors, the Sole Sponsor concurs with the views of our Directors as described above.

Other information technology systems

Furthermore, we maintain the security of our information technology systems which covers cyber security, application security, data security and terminal security through various technologies including encryption, anti-virus software and firewall. Furthermore, we conduct regular information security trainings for our employees to enhance their awareness on information security and improve the implementation of our information technology risk management.

During the Track Record Period, we did not experience any material information leakage or loss of user data. For more details in relation to the risks of our information technology system, please refer to the sections headed "Risk factors – Risks relating to our business and industry – Security breaches and attacks against our systems and network may lead to the leakage and unauthorized disclosure of data and information that we gather, which may thus harm our brand image, our business and results of operations" and "Risk factors – Risks relating to our business and industry – Failure to successfully operate and upgrade our information systems and procedures, and the inability to implement new technologies in a timely fashion, either may have a material adverse effect on our business, financial condition and results of operations" in this document.

COMPETITION

As the community-based newretail industry is relatively fragmented, we compete with numerous market participants. We are of the view that we compete primarily in areas such as acquisition and engagement, quality control of products, brand recognition and distribution capability.

We believe that we are in a desirable position to compete with other competitors on the aforementioned factors. However, we cannot guarantee that we are able to predict the timing, scale and effectiveness of our competitors' actions in these areas or the timing and impact of new entrants into the marketplace, and our current/future competitors may have longer operating histories, greater brand recognition, better supplier relationships, larger user base or greater financial, technical or marketing resources than we do. For additional risks that are associated with our competitive position, please refer to the section headed "Risk factors – Risks relating to our business and industry – Social media based new retail industry is highly competitive. If we

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are unable to compete effectively with existing or new competitors, we may lose our market share, and our business, results of operations and financial condition may be materially and adversely affected” in this document. For more details on the competitive landscape of the social e-commerce business in China, please refer to the section headed “Industry overview China’s community-based social e-commerce industry – Competitive landscape” in this document.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Our business is generally subject to numerous PRC national, municipal and local environmental, health and safety laws and regulations. Nonetheless, due to the nature of our business and we do not operate any production facilities, we do not discharge or produce any industrial wastes or pollutants which are hazardous to the environment. As confirmed by our PRC Legal Advisors, we are not required to obtain any approvals or certificates that are applicable to the environment laws and regulations in the PRC.

Despite the environmental impact directly caused by us, we recognize our corporate social responsibility is a key driving factor to promote the long-term development of our Group. Therefore, we have integrated environmental, social and governance (“ESG”) matters into corporate management and operations and we are committed to comply with the ESG reporting requirements upon [REDACTED].

We are in the process of establishing ESG policies in accordance with Appendix 27 of the Listing Rules, which would cover, among others, (i) ESG policies and performance, (ii) ESG management strategy, and (iii) ESG risk management and monitoring. We focus on areas such as economic responsibility, employee responsibility, customer responsibility, environment responsibility and public responsibility. We also intend to establish communication channels with stakeholders, so that we could review the issues material to stakeholders, and monitor how our environmental, social and climate-related performance has impacted different stakeholders.

Social matters

We are committed in providing a safe and healthy environment for our employees. To ensure the compliance with the applicable laws and regulations, we have formulated workplace safety policies and procedures to erect a favorable and harmonious work environment. During the Track Record Period and up to the Latest Practicable Date, we were not subject to any fines or other penalties due to non-compliances related to work safety, social or environmental regulations, and did not have any accidents, or claims for personal or property damage made by our employees which had materially and adversely affected our business and results of operations.

In addition, we are committed to offering a fair and caring working environment to our employees. We have equal opportunities and anti-discrimination. We hire employees based on their merits and it is our corporate policy to offer equal opportunities and fair compensations to our employees. We encourage our employees who encounter any discrimination to seek immediate assistance, which also allows us to conduct timely investigation and follow up as

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needed. In addition, we provide training programs on industry and regulatory developments to our employees.

We believe it is our responsibility to contribute to our community and support the future development of our next generation. Among other things, we made an aggregate of RMB1.0 million donation to an education foundation in the mainland China to fund the purchase of general instruments and devices in 2020.

Environmental matters

We are dedicated in managing the environmental impacts associated with our operations, and we endeavor to minimize the negative impact on the environment. We primarily consume electricity, paper boxes and plastic wraps in our operational activities. Our current environmental footprint is relatively small and our operations do not have a significant impact on the environment. Nevertheless, we adhere to the concept of green management and actively seek low-carbon sustainable development in our operations. Energy consumption of our office premises is the main source of scope 2 greenhouse gas emissions in our operation. We will implement policy to monitor and control our electricity consumption. For details, please refer to the paragraph headed “– Environmental, social and governance – Identification and assessment of ESG risks and issues – ESG related metrics and targets” below. We also adhere to the “3R” approach to environmental conservation, i.e. reduction of waste, reuse of resources and recycling of used materials, to the largest practicable extent in our business operation as a show of care for the environment. We engage third-party manufacturers and logistic services providers in our operations. To reduce our scope 3 greenhouse gas emissions, we have taken initiatives in procuring our suppliers to accelerate more sustainable components, such as the use of environmentally-friendly packaging materials like biodegradable paper packaging materials. To further mitigate the impact of our packaging on the environment, we procure our suppliers in trying to use minimal amount of packaging materials to pack our products. We also take initiatives to shift from single-use to reusable packaging such as reusing paper boxes and replacing some packaging paper boxes with recycled paper boxes. Please also refer to the paragraph headed “Environmental, social and governance – Supply chain management and product safety” in this section below for further details.

In addition, as we engage third party logistics services providers in our delivery process, we put emphasis on the ESG performances of such service providers, in addition to the traditional parameters in procurement, such as price, quality and availability. For example, we will conduct assessment for logistics service providers against environmental and social criteria to give priority to service providers that pose fewer environmental impacts by using environmental-friendly packaging materials, generating less greenhouse gas, consuming less energy resource or having achieved relevant International Organization for Standardization (“ISO”) standards.

We will, from time to time, evaluate and, if needed, secure more appropriate services providers. We will closely monitor relevant industry developments and make management

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improvements in accordance with changes in market condition or industry standards when appropriate.

Supply chain management and product safety

We engage third-party manufacturers in the production of products under our new retail business. We evaluate our suppliers based on production management, quality control processes, delivery and other after-sales services and require our suppliers to provide us with the relevant certificates and qualifications in relation to their manufacturing practices such as Good Manufacturing Practice (GMP) and ISO. We also take into account their ESG performances in our selection of suppliers and give priority to suppliers that pose fewer environmental impacts by using environmental-friendly packaging materials, generating less greenhouse gas, consuming less energy resource or having achieved relevant ISO standards. We have also obtained the relevant government approval for the environmental impact review of our major suppliers in order to evaluate and monitor their ESG performances. To the best knowledge of our Directors, third-party manufactures of our products did not have any material ESG issue during the Track Record Period. We would continuously monitor the quality of products produced by the third-party manufacturers. Our suppliers are required to provide to us their internal quality control reports for each of our orders and we also cooperate with an external quality inspection company to perform annual inspection on the products supplied by our suppliers on a sampling basis. We also conduct on-site ad hoc inspections on our major suppliers periodically. For details, please refer to the paragraph headed “Quality control” in this section.

Identification and assessment of ESG risks and issues

Based on our management’s judgment and with reference to the materiality maps provided by well-known external institutions including the ESG Industry Materiality Map by MSCI and SASB Materiality Map by Sustainability Accounting Standards Board (SASB), we have identified the following material environmental, social and climate-related issues and their respective potential impacts that are highly related to our business:

Material issues

Product safety and quality

Potential risks

Our product safety guidelines and policies, standards and procedures, inspections and checks, and training on proper product safety practices, among others, may not be adequate. As a result, we may be subject to risks of receiving consumer complaints or governmental penalties and our reputation may be adversely impacted.

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Material issues

Potential risks

Supply chain management

Responsible sourcing and sound supply chain management are essential for us to ensure reliable product quality and sustainability along our supply chain. If we are unable to select quality third-party suppliers or monitor, audit and manage different parties in the supply chain, we may be subject to risks of suppliers’ non-compliance with applicable laws and regulations and unethical practices, which could diminish our competitiveness and harm our reputation.

Physical impacts of climate change

Climate change may lead to risks like more extreme weather conditions. Floods, typhoons, storms, and other extreme weather conditions and natural disasters may cause price volatility of raw materials, fluctuation in supply and physical damages to our office facilities and our suppliers’ facilities, pose safety risks to our staff and lead to delayed product delivery by our suppliers, among other consequences.

We have established in place various mitigation and measures to prevent and manage the risks from ESG-related issues from causing unnecessary impact on our operations. To mitigate climate-related risks such as more frequent extreme weather conditions, we have in place emergency plans against extreme weather conditions where employees and other personnel are notified promptly with any related measures. To ensure that all personnel are well prepared for such extreme weather conditions, regular evacuation drills are conducted.

Furthermore, we are willing to consult third-party professional entities to improve its compliance and quality on emission disclosures, and regularly communicates with different stakeholders on their views on climate-related issues.

ESG related metrics and targets

As our business does not relate to manufacturing and production, and a large portion of resources are provided by our suppliers and third party logistics service providers, our operations does not have any direct negative impacts on the environment. Nevertheless, we will regulate ourselves to reduce indirect negative impacts on the environment in our operations. In implementing our ESG related strategies, we will use certain key performance indicators (“KPIs”) to evaluate our ESG performance annually to help ensure that we meet our targets and take corrective actions when necessary.

Energy consumption of our office premises is the main source of our indirect greenhouse emissions. Considering the nature of our business operation, the Board considers electricity

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- replace all energy-intensive lighting with high luminous efficacy light set such as LED lights at our office premises by the end of 2024;
- setup a record-keeping system for internal teams to monitor and keep record of relevant environmental metrics of our Group, such as electricity consumption, for future improvement and reporting by the end of 2023; and
- fully implement our ESG policy in respect of raw material procurement by requiring all of our suppliers and/or service providers to obtain relevant quality certifications from third-party by the end of 2025.

We will regularly review the progress of achieving the targets and liaise with key stakeholders to help map a more comprehensive view of the major indicators of our ESG performances.

RISK MANAGEMENT AND INTERNAL CONTROL

We have established risk management and internal control systems consisting of policies and procedures that we consider to be appropriate for our business operations. In particular, we have adopted and implemented risk management policies in various aspects of our business operations.

Financial reporting risk management

We have adopted comprehensive accounting policies in connection with our financial reporting risk management, such as financial management, budget management and financial statement preparation. We also have procedures in place to carry out such accounting policies, and our finance department reviews our management accounts in accordance with such procedures. In addition, we provide ongoing trainings to our finance staff to ensure that these policies are well-observed and effectively implemented.

Operational risk management

In order to effectively manage our compliance and legal risks, we have adopted internal procedures to ensure the compliance of our business operations with the relevant rules and regulations, including specific measures to ensure compliance with the regulations in relation to live streaming marketing and the PRC entertainment industry, such as (i) designating the director of our legal and compliance department to closely monitor any changes in the relevant laws and regulations and bring the change to senior managements’ attention for discussion on the risk faced by us and the plan to respond to such change; (ii) consulting our legal advisors on any changes in the laws and regulations regularly (at least bi-annually); (iii) closely monitoring the behavior of celebrities and KOLs which have a working relationship with us in the public domain and maintain a list of celebrities and KOLs which have been cautioned or blacklisted by relevant authorities; and (iv) terminating our cooperation with the relevant celebrity or KOL or taking other disciplinary actions, if we discover content or promotions by our celebrities or

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KOLs to be in violation of our agreements with them. According to our internal guidelines on cooperation with celebrities and KOLs, our agreements with celebrities and KOLs shall require them to ensure the information relating to products they promote in live streams are true, not misleading and in compliance with all PRC laws and regulations. We shall procure the timely removal of any false or misleading information. In accordance with these procedures, our legal and compliance department examines the contractual terms and reviews all the relevant documents for our business operations, including licenses and permits obtained by the counterparties to perform their obligations under the business contracts and all necessary underlying due diligence materials, before we enter into any contracts or business arrangements.

Human resource risk management

We have established internal control policies covering various aspects of human resource management such as recruitment, trainings, work ethics and legal compliance. We adopt high standards in recruitment with strict procedures to ensure the quality of new hires. Our internal management policies contain guidelines regarding best commercial practice, work ethics and prevention of fraud, negligence and corruption. We have also made available an anonymous reporting channel through which potential incidents of fraud in our Group can be timely reported to the internal control department and appropriate measures can be taken to minimize damage.

Audit committee experience and qualification and Board oversight

We have established an audit committee to monitor the implementation of our risk management policies on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our business operations. The audit committee consists of three independent non-executive Directors. For the professional qualifications and experiences of the members of our audit committee, please refer to the section headed “Directors and senior management – Board of Directors” of this document.

Our senior management is responsible for reviewing the effectiveness of internal controls and reporting to the audit committee on any issues identified. The audit committee then discusses the issues and reports to the Board if necessary.

Ongoing measures to monitor the implementation of risk management policies

Our audit committee and internal control department monitor the implementation of our risk management policies across our Group on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating the risks involved in our operations.