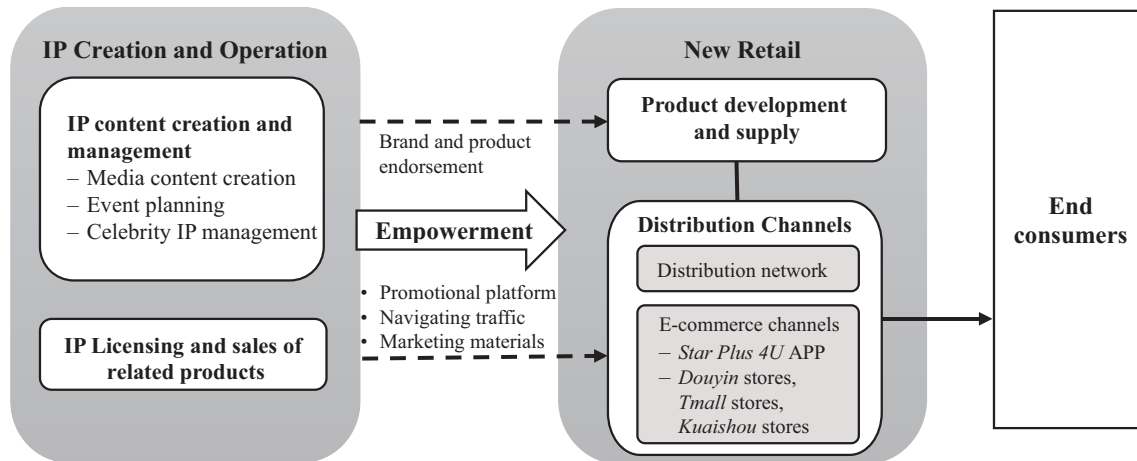


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OVERVIEW

Our business operations consist of two segments, namely new retail segment and IP creation and operation segment. 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.

The diagram below illustrates our business model:



We (i) develop and introduce suitable products to the market; (ii) establish extensive sales channels, including extensive distributorship network and e-commerce channels; (iii) cooperate with celebrities for IP content creation; and (iv) utilize our celebrity IPs and associate IP contents for the marketing and promotion of our products, along with other sales and marketing strategies and activities.

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.

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, which is a type of beverage containing high-fat 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%.

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 2022, we launched our matcha powder under a new product line, *Ai Chi Xian Mo Ren* (愛吃鮮摩人), featuring healthy and additive-free food products. In addition, we launched multiple product

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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.

We primarily distribute our products through (i) a network of distributors and sub-distributors; and (ii) other e-commerce channels such as online stores operated on social media platforms. We conduct E-commerce Livestreaming through our *Douyin* account from time to time to promote the sale of our products. During the Track Record Period, we generated a substantial portion of revenue from sale of our products under the new retail segment through a network of distributors and sub-distributors. We consider our sales of products as a new retail business, as 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 a combination of online commerce elements (through social e-commerce channels, such as WeChat, *Douyin* and *XiaoHongShu*) and offline channels (through offline meetings among our distributors, sub-distributors and end consumers, such as annual events, conferences and/or face-to-face sales at distributors promotion meetings). Our distributors and sub-distributors are also consumers of our products. Some of them have further developed into KOCs and promote our products in their respective private domain traffic or PDT through word-of-mouth by invoking their personal experience and exerting their personal influence over their followers, through which we can effectively extend the consumer reach of our products. Apart from our use of KOCs, we also collaborate with KOLs to promote our products through sharing and posts and/or sell our products through E-commerce Livestreaming sessions on online platforms.

Our IP creation and operation business

Our IP creation and operation business comprises:

- (i) IP content creation and management business, including provision of (a) media content creation; (b) event planning; and (c) celebrity IP management services; and
- (ii) IP licensing and sales of related products.

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, which is a 12-episode reality show starring Mr. Jay Chou 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. We were also 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 Keng-hung.

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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 media content, as well as music concerts and other events.

In celebrity IP management, we collaborate with celebrities and/or KOLs where we are responsible for the development of their respective IPs. We are involved in the planning and development of the public persona of celebrities and/or KOLs in, among others, Livestreaming sessions, online short videos and other online and offline performances on social media platforms, in order to attract audiences and/or followers with similar interests or concerns.

For celebrity IP licensing and sales of related products, we created bespoke brands and associated IP contents based on our proprietary unique celebrity IPs, including a nijigen-style personality, namely *ChouMate*. Nijigen-style personality is two dimensional anime, manga or real-life person inspired fictional character. We may license our celebrity IPs to our customers and receive licensing fees and create and sell products related to the celebrity IPs.

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, enhances the brand recognition of our products, and maintains the trust and confidence of our distributors and customers. In 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 Livestreaming sessions of Mr. Liu Keng-hung and Ms. Vivi Wang, 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. In addition to *ChouMate*, we started to use nijigen-style personalities of Mr. Liu Keng-hung and Ms. Vivi Wang, namely “Coach Liu (劉教練)” and “Vivi” in the promotion 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 Track Record Period.

We plan to continue to create more media contents and concerts, which may empower our new retail business through creating promotional effect to promote our products. With our capability and 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 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..

Our unique celebrity IPs empowers our product branding, our distribution network expansion and consumer procurement. We have created and operated a portfolio of various forms of proprietary IPs. We promoted our *MODONG* coffee 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, as well as using the nijigen (二次元)-style personification of Mr. Jay Chou, namely *ChouMate*, as one of the means to market *MODONG* coffee. 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 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 Keng-hung. 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, cooperation with Mr. Liu Keng-hung, Ms. Vivi Wang and other KOLs to promote our products. With (a) the Group’s historical success in IP creation and operation; (b) the management’s extensive network/experience in the Chinese entertainment industry; and (c) our collaboration with various celebrities and creation of TV programs and music concerts in the PRC, we believe we will be able to continue to create celebrity IPs by cooperating with celebrities.

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We believe the involvement of celebrity IPs 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 within a short period of time after the product launched, but also to maintain high consumer loyalty for our products.

Going forward, we can leverage the experience in our success with *MODONG* coffee and adapt the growth strategies to new product launched and the promotion of other products.

Quickly established leading marketing position in China’s bulletproof drink market resulted from our extensive research and development 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 analyzes 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.

Rapid and organic growth of the distribution network with a focus on KOC development and PDT 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 between celebrity and our

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products can enhance visibility and affinity to such products. Such PDT refers to private-controlled net traffic flow through private channels such as WeChat where a community of subscribers who share similar purchase behavior and preference participate in group chat. 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 by invoking their personal experience and influence. 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.

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 social e-commerce is a relatively new industry. As an early entrant to this new industry, we actively educated our distributors and communicated with competent authorities about the legitimacy of 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 section. We believe such recognition of our Group by the government authority could have long-term benefits on our business development.

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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 media content creation, event planning, celebrity IP creation and licensing, and celebrity IP management. To maximize the potential of our unique proprietary celebrity IP assets, we developed the capacity and expertise to create different types of IPs that enable us to operate with a relatively new product distribution model. 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. We believe our IP creation and operation business will continue to provide critical empowerment for our new retail business.

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 artistic personifications of Mr. Jay Chou. 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 have collaborated with other celebrities, such as Mr. Liu Keng-hung and Ms. Vivi Wang, regarding the creation and usage of nijigen-style personalities inspired by them, and are continuously exploring feasibility of designing and creating nijigen-style personality for other celebrities as well. Please refer to the section headed “Cooperation with celebrities” in this document 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. For example, 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.

Livestreaming sessions

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 Keng-hung’s public persona and profile on social media platform since November 2021. In particular, we are involved in selecting the target audience and preparing the contents and presentation of his Livestreaming sessions, such as development of ideas and production of content of the Livestreaming sessions that links the different brands to their respective target audience in order

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to create promotional effect. Given Livestreaming is a consumer-interaction focused promotional tool, our Directors believe our involvement in preparing the contents and presentation of Mr. Liu Keng-hung’s Livestreaming sessions is an important contributing factor to Mr. Liu Keng-hung’s increased popularity in 2022. Our contribution to the contents and presentation of the Livestreaming sessions includes, among others, advise on how Livestreaming sessions shall be conducted, including Mr. Liu Keng-hung’s outfit, the guest(s) to be invited, how the rhythm of Livestreaming sessions are controlled, and how Mr. Liu Keng-hung and his guest(s) interact with audiences of Livestreaming 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). For details regarding cooperation with Mr. Liu Keng-hung, please refer to the section headed “Cooperation with celebrities – cooperation with Mr. Liu Keng-hung and Ms. Vivi Wang” in this document.

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

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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.

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 formulas for the product through or in collaboration with our suppliers, 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. 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, 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 products, including production machineries for trial production and equipment and temperature and humidity control facilities. We believe this would further strengthen our growth, our product offerings shall be diversified to appeal to a broadening demographic of end consumers and distribution channels.

More health management products and skincare products

We plan to expand our research and development capabilities and collaboration with third party institutes, and offer the low-carb series of popular food and drinks to our consumers by further launching no fewer than 30 food and beverages and 30 skincare products in the three years ending December 31, 2025, after taking into account (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

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markets. We believe such strategy will solidify our market position and realize our vision to offer a holistic low-carb diet regime to our consumers.

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.

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.

Other product lines

We plan to develop other product lines. 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, with 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 utilize approximately HK\$[REDACTED] million of the [REDACTED] from the [REDACTED] on the research and development products associated with our proprietary IPs.

At the current stage, we plan to utilize a total of 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.

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Increase our brand exposure and product sales through online platforms

During the Track Record Period, we (a) emphasized product promotion on social e-commerce channels by KOC distributors; and (b) successfully developed Mr. Liu Keng-hung and Ms. Vivi Wang into famous KOLs on the online short videos platforms, of which we collaborated with them in the promotion of certain health management products, such as low-carb beverages, protein powder and sports related health management products launched by us.

Going forward, we plan to increase our brand exposure and product sales by hosting more E-commerce Livestreaming sessions on e-commerce channels and online short video platforms, such as *Douyin*. We could either host our own E-commerce Livestreaming sessions or cooperate with selected KOLs on their E-commerce Livestreaming sessions, and the contents of the sessions will center around our unique celebrity IPs and associated contents we create in our IP creation and operation business, to empower the sales of our products.

We consider such strategy to be important as E-commerce Livestreaming (a) is a type of platform where KOLs wield significant power of influence and can reach a large audience and potential consumers through their PDT; and (b) has experienced significant growth in recent years. We plan to increase our brand exposure and product sales online platforms which involves a combination of methods, including:

- *Enter into cooperation with well-known KOLs and e-commerce platforms to promote our products:* Our ownership of unique celebrity IPs, including those associated with different celebrities (such as Mr. Liu Keng-hung and Ms. Vivi Wang) lend us credibility in the new retail industry, which in turn could give well-known KOLs and e-commerce platforms incentives to cooperate with us in a mutually beneficiary and cost-effective manner. Towards that end, we plan to cooperate with well-known KOLs to utilize their influence on online platform to promote products for us for performance-based fees which shall be based on product sales volume.
- *Cultivate our own KOLs and develop Livestreaming 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 E-commerce Livestreaming sessions featuring such KOCs and KOLs cultivated by us to promote and sell our products. Towards that end, we plan to further develop our own Livestreaming accounts and programs, including operating Livestreaming accounts on social media platforms such as *Douyin* and creating Livestreaming contents. We will also cultivate KOLs and KOCs for the purpose of product promotion.

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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.

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

IP content creation and event planning

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 programs in our pipeline 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.

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Celebrity IP and licensing

We plan to actively explore strategic collaboration opportunities with selected celebrities and create and register bespoke and 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. 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). Towards that end, we plan to create (a) new designs of our existing IPs such as *ChouMate*; and (b) additional IPs by cooperating with other celebrities or KOLs to create nijigen-style personality(ies) associated with them. Efforts would also be placed on IP registration and operation, including renewing the registration of our existing IPs and, registration of new IPs and our existing IPs in other jurisdictions to safeguard our rights.

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).

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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.

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).

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OUR BUSINESS

Our business operations consist of two segments, namely new retail segment and IP creation operation segment. The table below sets forth a breakdown of our revenue by business segments:

	Year ended December 31,							
	2019		2020		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
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								
IP content creation and management	4,761	5.5	86,567	19.0	54,399	14.9	95,026	27.6
IP licensing and sales of related 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. Our products are sold through various distribution network as discussed under the paragraph headed “Distribution network” in this section below. 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 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
<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> (盈養博士膠原蛋白肽飲品)	December 2021		Beverage contains combination of collagen peptides

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<u>Products</u>	<u>Launch Time</u>	<u>Image</u>	<u>Product feature</u>
<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
<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.

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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, for the development of *MODONG* coffee. For more details, please refer to the paragraph headed “Suppliers – Selection and management of supplier – Our relationship with 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, for the operation of a mobile App “*MODONG* Health (魔胴健康)” to help monitoring the progress of our end consumers’ low-carb diet plan. 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, such as strawberry multivitamin effervescent tablets to complement *MODONG* coffee. 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.

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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 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 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.

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Matcha powder (抹茶粉)

Our Matcha powder is under our product line named *Ai Chi Xian Mo Ren* (愛吃鮮摩人), which features healthy and additive-free food products. 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.

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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	
<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.

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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.

Pipeline products

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	Red Ginseng drink	Dietary supplements	A dietary supplement containing ginsenoside (人參皂苷)
	Chocolate coffee bean	Low-carb diet	A low-carb snack made with coffee beans with chocolate coating
	Matcha series products (抹茶系列食品)	Healthy diet	A series of products made with Matcha powder, including cakes, protein bar and ice-cream
Second half of 2023	Konjac foods (魔芋食品)	Low-carb diet	Foods made of Konjac which are low in carbohydrate
	Natural cereal and vegetable powder (天然穀蔬粉)	Wholefood	Convenient dietary supports containing various serving of vegetables and cereal
	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

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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.

For details on our research and development function, please refer to the paragraph headed “Product research and development” in this section below.

IP creation and operation

Our IP creation and operation segment primarily comprises:

- (i) IP content creation and management business, including provision of (a) media content creation; (b) event planning; and (c) celebrity IP management services; and
- (ii) IP licensing and sales of related products.

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.

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 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. For details, please refer to the section headed “Cooperation with celebrities – Cooperation relationship with Mr. Jay Chou” in this document.

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.

IP content creation and management

Our IP content creation and management business include there sub-segments, including, the provision of (a) media content creation; (b) event planning; and (c) celebrity IP management

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services. Revenue generated from our IP content creation and management business was RMB4.8 million, RMB86.6 million, RMB54.4 million and RMB95.0 million in 2019, 2020, 2021 and 2022, respectively.

Media content creation

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.

(i) 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 travelog and performances to the audience. Each episode featured a special guest including famous artists, singers and pianist. This is the first outdoor reality show 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.

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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.

(ii) Others

In 2021, we also planned and produced 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 Keng-hung. 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.

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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.

During the Track Record Period, we provided concert planning services to Zhanjiang Superstar Concert in August 2019 and provided concert planning services to and invested approximately RMB4.4 million 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 significant marketing expenses. Our provision of concert planning services at these concerts did not involve any bidding process.

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.

Celebrity IP management

We have been expanding our IP creation and operation business by providing celebrity IP management services, 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 persona of celebrities and KOLs in, among others, Livestreaming sessions, online short videos and other online and offline performances on social media platforms, in order to attract audiences and/or followers with similar interests or concerns. We mainly 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 during Livestreaming sessions of celebrities whom we cooperate with; and (ii) sharing of commission from sale of products of third party brand owners by different celebrities and KOLs during the E-commerce Livestreaming sessions conducted on our *Douyin* account.

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We firstly tapped into the celebrity IP management business in late 2021 when we were involved in the development of Mr. Liu Keng-hung into a KOL in the fitness and body-building sector in the PRC. We entered into cooperation agreements with Mr. Liu Keng-hung 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 Keng-hung in the PRC and we would be entitled to certain percentage of income generated therefrom. For details, please refer to the section headed “Cooperation with celebrities – Cooperation with Mr. Liu Keng-hung and Ms. Vivi Wang – Cooperation under our IP creation and operation business” in this document.

The use of Livestreaming and E-commerce Livestreaming in our business

In recent years, Livestreaming has become one of the increasingly popular means to deliver information to and/or attract public audiences for entertainment, education and marketing purposes. In view of its growing popularity, we also make use of Livestreaming, as well as E-commerce Livestreaming, in our business operation.

(i) Livestreaming

During the Track Record Period, we mainly provide celebrity IP management services in relation to the Livestreaming sessions of Mr. Liu Keng-hung, where we were involved in originating and preparing the contents and presentation of the Livestreaming sessions. Brand owners may engage us to promote their products during the Livestreaming sessions of Mr. Liu Keng-hung by, for example, placement of products during such Livestreaming sessions. We, in turn, generate revenue from the sponsorship or promotion fees from the brand owners.

(ii) E-commerce Livestreaming

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 mainly generate revenue from the commission for the sale of products of third party brand owners during the E-commerce Livestreaming sessions. On the other hand, we would pay commissions to celebrities or KOLs who cooperate with us.

We also utilize Livestreaming and/or E-commerce 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.

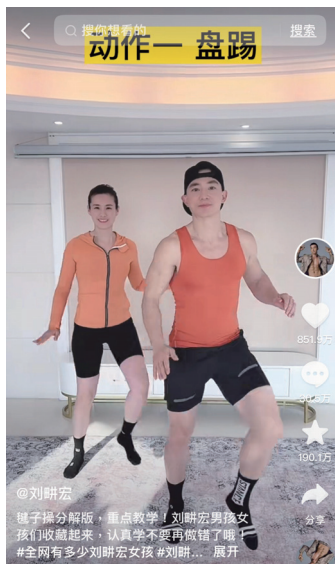
We leverage on the popularity of Mr. Liu Keng-hung and Ms. Vivi Wang to empower the sale of our products. For example, the name of our *Douyin* account “劉畊宏肥油咔咔掉” was originated from a popular slogan that is featured in Mr. Liu Keng-hung’s Livestreaming session. Nevertheless, it is our strategy that Mr. Liu Keng-hung would not participate in any E-commerce

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Livestreaming as we consider that it would create the best value for him to devote his time in developing his popularity through Livestreaming, brand endorsement and participation in other IP programs. As advised by our PRC Legal Advisors, based on the confirmation of our Company and according to the public information search, no search results showed that, as of the Latest Practicable Date, Mr. Liu Keng-hung and Ms. Vivi Wang are subject to any restrictions imposed by the competent governmental authorities under the relevant laws and regulations in the PRC to conduct either Livestreaming or E-commerce Livestreaming. As part of our celebrity IP management, we would advise on the activities that would create the best value for the celebrities we cooperate with, including whether or not to participate in E-commerce Livestreaming.

Even though Mr. Liu Keng-hung does not participate in E-commerce Livestreaming sessions of our products, we rely on his popularity to attract potential audiences and customers to our *Douyin* account through, amongst others, (i) promotion of concepts relating to healthy eating and lifestyle in Mr. Liu Keng-hung's videos and Livestreaming sessions; (ii) posting videos of Mr. Liu Keng-hung's previous Livestreaming sessions; and (iii) arranging Ms. Vivi Wang and other KOLs who had appeared in Mr. Liu Keng-hung's videos and Livestreaming sessions to participate in E-commerce Livestreaming on our *Douyin* account from time to time.

The following screen shots illustrate the Livestreaming sessions conducted on Mr. Liu Keng-hung's *Douyin* account and E-commerce Livestreaming sessions conduct on our *Douyin* account:



Livestreaming on Mr. Liu Keng-hung's Douyin account



E-commerce Livestreaming on our Douyin account with a link to our Douyin store

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IP licensing and sales of related products

We actively explore strategic collaboration opportunities with selected celebrities and create and register bespoke and unique celebrity IPs. We may license our celebrity IPs to our customers and receive licensing fees and create and sell products related to the celebrity IPs. For 2019, 2020, 2021 and 2022, our revenue generated from IP licensing and sale of related products was RMB1.0 million, RMB5.2 million, RMB9.6 million and RMB9.0 million, respectively.

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). 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 business partner(s).

During the Track Record Period, we created and licensed our celebrity IPs on nijigen personification. The following summarize the major 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. For details of our cooperation with JVR Music on *ChouMate*, please refer to the section headed “Cooperation with celebrities – Cooperation relationship with Mr. Jay Chou – Cooperation agreements with JVR Music on *ChouMate*” in this document.

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 June 1, 2020, an official account for Mr. Jay Chou labeled *ChouMate* was set up on *Kuaishou*. The account had over 51 million followers as of the Latest Practicable Date.

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We generate profits from licensing of the *ChouMate* trademarks to parties not controlled by JVR Music or us (the “**non-connected parties**”), and such revenue shall be shared with JVR Music. 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.

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*. 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.

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

Apart from *ChouMate*, we have been 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 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 entered into cooperation agreements with certain Taiwan artists, namely, Chang Chieh (張傑), Lara Liang Xin-Yi (梁心頤) and Chan Yu-Hao (詹宇豪) for, among other things, the design and creation of nijigen style personalities related to them. We will apply the same business model that we use on *ChouMate* with other celebrity-inspired nijigen-style personality(ies).

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		Year ended December 31,														
		2020			2021			2022								
		Gross profit margin		Gross profit		Revenue		Gross profit margin		Gross profit		Revenue				
		%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000			
m.	A World-cup related online music show (動感世界杯音樂盛典) ⁽¹⁾	-	-	-	-	-	-	-	-	-	-	9,433	9.1	5,030	53.3	
n.	Livestreaming sessions, online short videos and other performance(s) that were centered around Mr. Liu Keng-hung and his related IP(s) ⁽⁵⁾	-	-	-	-	-	-	-	-	-	-	41,708	40.1	31,545	75.6	
	o. Others	760	13.1	752	99.0	472	0.5	470	99.6	2,172	3.4	1,293	59.5	2,479	64.1	
	Sub-total	4,761	82.3	1,290	27.1	86,567	94.3	(24,011)	(27.7)	54,399	85.1	18,222	33.5	95,026	91.3	65,497
	IP licensing and sales of related products	1,027	17.7	187	18.2	5,202	5.7	2,312	44.4	9,551	14.9	3,690	38.6	9,032	8.7	6,585
	TOTAL	5,788	100.0	1,477	25.5	91,769	100.0	(21,699)	(23.6)	63,950	100.0	21,912	34.3	104,058	100.0	72,082

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Notes:

1. We were responsible for creating Mr. Jay Chou-related content for such programs, which featured many other celebrities as guests.
2. 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 Keng-hung who was the host thereof.
3. We were involved in the planning of such programs, which were hosted by Mr. Jay Chou.
4. We were engaged by the online platform which produced and broadcasted the relevant program for planning and preparing Mr. Liu Keng-hung-related contents of such Livestreaming session. Such Livestreaming session was streamed on Mr. Liu Keng-hung’s *Douyin* account. Our revenue represented the service fees paid by the online platform after excluding the portion entitled by Mr. Liu Keng-hung and W&V.
5. Celebrity IP management business that centered around Mr. Liu Keng-hung. Pursuant to the relevant agreements between Mr. Liu Keng-hung 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 section headed “Cooperation with celebrities – Cooperation with Mr. Liu Keng-hung and Ms. Vivi Wang – Cooperation under our IP creation and operation business” in this document.

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. Liu Keng-hung and Mr. Harlem Yu.

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 and/or online programs

1) *Yue Lai Yue Kuai Le* (樂來樂快樂)

Yue Lai Yue Kuai Le is a music talk show centered around Mr. Harlem Yu and 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. Mr. Harlem Yu is one of the most acclaimed singers and songwriters in Chinese pop music industry, given that he won the Outstanding Singer-Songwriter in Asia from the Billboard Music Awards in 1996 and 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.

Apart from Mr. Jay Chou, none of the guests currently invited in this program 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 with a contract amount of approximately RMB42.5 million, of

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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, which 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.

Our Directors believe that the popularity of the host and guests can attract audiences to watch such program, 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 will continue to be centered around Mr. Jay Chou and is expected to be aired in the second half 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 second half 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.

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) our 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, we are not required to obtain any governmental approval for broadcasting the above IP programs in the PRC, and the television channels and/or Internet broadcasting platforms with the license for publication of audio-visual programs (信息

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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 events

We were involved in the planning of a fitness-related performance event featuring Mr. Liu Keng-hung, Ms. Vivi Wang, together with other celebrities held in Qingdao on May 20, 2023. As at the Latest Practicable Date, our Group was seeking appropriate venue to hold similar performance events in other cities in the PRC, and we expect such performance events will be held in various cities in the PRC, including Haikou, Beijing and Sanya in 2023. Such performance events 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 performance events to promote our products and/or IPs.

Cooperation with celebrities is important to our business growth

During the Track Record Period, we heavily relied on Mr. Jay Chou on both our new retail business and IP creation and operation business. Nevertheless, our Directors are of the view that the sustainability, profitability and success of our Group’s business are attributable to our capability in our different business components instead of solely relying on Mr. Jay Chou and such reliance would not materially affect our business. Please refer to the section headed “Cooperation with celebrities” of this document for further details of our relationship and cooperation with Mr. Jay Chou and assessment of his significance to our business sustainability.

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.

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

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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 Livestreaming Marketing Measures was adopted to regulate Livestreaming room operators and Livestreaming marketers, which includes our Group and those we engage to promote our products through Livestreaming 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 Livestreaming marketing” in this document.

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, insultation 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, brand owners 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 KOLs who promotes products, instead of the companies which produce, and/or own the brand of, the product. 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, for example, in respect of the *Douyin* account managed or registered by us, 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 Livestreaming Marketing Measures.

In addition, none of the celebrities or KOLs 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 Livestreaming and E-commerce Livestreaming will not be affected by the implementation of such regulations. As

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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 [REDACTED].

Nevertheless, laws and regulations concerning Livestreaming and influences in the PRC are relative new and evolving, and their interpretation and enforcement involve significant uncertainties. Please refer to the section headed “Risk factors – If the contents contained in videos, live broadcasting and other content formats published by us or celebrities or KOLs that we collaborate with are deemed to violate any PRC laws or regulations or are considered inappropriate, or there is any changes in the applicable laws and regulations, our business, financial condition and results of operations may be materially and adversely affected” in this document.

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. 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

Save as disclosed below, to our best knowledge after due and careful enquiries, other celebrities and KOLs that we have entered into preliminary or definitive cooperation agreements with (such as Mr. Fang, Mr. Harlem Yu and Mr. Liu Keng-hung) were not subject to any investigation or penalty for activities prohibited pursuant to the relevant regulations or any

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significant negative publicity. For details of our internal control measures relating to activities of the celebrities and KOLs whom we cooperate with, please refer to the paragraph headed “Risk management and internal control – IP creation and operation segment” in this section below.

Incident relating to products promoted by Mr. Liu Keng-hung and Ms. Vivi Wang prior to our cooperation with them

In September to October 2020, during their cooperation with a third-party agency company, Mr. Liu Keng-hung and Ms. Vivi Wang hosted three E-commerce Livestreaming sessions to promote the sale of certain bird’s nest products. Such products were subsequently involved in disputes relating to false and misleading trade description (the “**Incident**”). To the best knowledge of our Directors, after the Incident, the agency company has been assisting the consumers who purchased the bird’s nest products through the relevant E-commerce Livestreaming sessions to arrange for refunds.

We are of the view that the Incident did not and will not have any material adverse impacts on the reputation and publicity of Mr. Liu Keng-hung and Ms. Vivi Wang or our business operations and financial performances on the following basis:

- (a) the Incident occurred before we established any business relationship with Mr. Liu Keng-hung and Ms. Vivi Wang and is not related to any of our products, online stores or platforms;
- (b) as advised by our PRC Legal Advisors, as the Online Livestreaming Marketing Measures (which was effective on May 25, 2021) were not yet implemented at the time of the relevant E-commerce Livestreaming sessions, Mr. Liu Keng-hung and Ms. Vivi Wang should not be liable for the Incident under the then PRC laws and regulations merely by promoting the bird’s nest products during their E-commerce Livestreaming sessions without knowledge of the defects in such products. Since the effective date of the Online Livestreaming Marketing Measures and up to the Latest Practicable Date, neither Mr. Liu Keng-hung nor Ms. Vivi Wang was blacklisted or subject to investigations or fines from any online platform or government authority and there has never been any request for suspension of their social media accounts as a result of the Incident;
- (c) no similar incident has occurred since our cooperation with Mr. Liu Keng-hung and Ms. Vivi Wang. In addition, Mr. Liu Keng-hung no longer participated in E-commerce Livestreaming since February 2022 as we consider that it would create the best value for Mr. Liu Keng-hung to devote his time in developing his popularity through Livestreaming, brand endorsement and participation in other IP programs. Please refer to the paragraph headed “Our business – IP creation and operation – IP content creation and management - Celebrity IP management – Empowerment of our new retail sales” in this section for further details; and

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- (d) the Incident did not have any material adverse impact on the publicity or reputation of Mr. Liu Keng-hung. In particular, the number of followers of Mr. Liu Keng-hung's social media accounts has remained relatively stable even after the reports of the Incident has gone public. Up to the Latest Practicable Date, the Incident did not have any material adverse effect on our cooperation with Mr. Liu Keng-hung, including but not limited to the operation of our celebrity IP management business. In addition, given that the *Douyin* account “劉畊宏肥油咔咔掉” is owned by our Group, in the event of any negative publicity of Mr. Liu Keng-hung or Ms. Vivi Wang or the suspension of their accounts on any online platforms, we can still conduct E-commerce Livestreaming sessions on other *Douyin* accounts owned by us. We may also change the name of our *Douyin* account to mitigate the effect of such negative publicity.

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 Distribution 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 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

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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.

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	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:

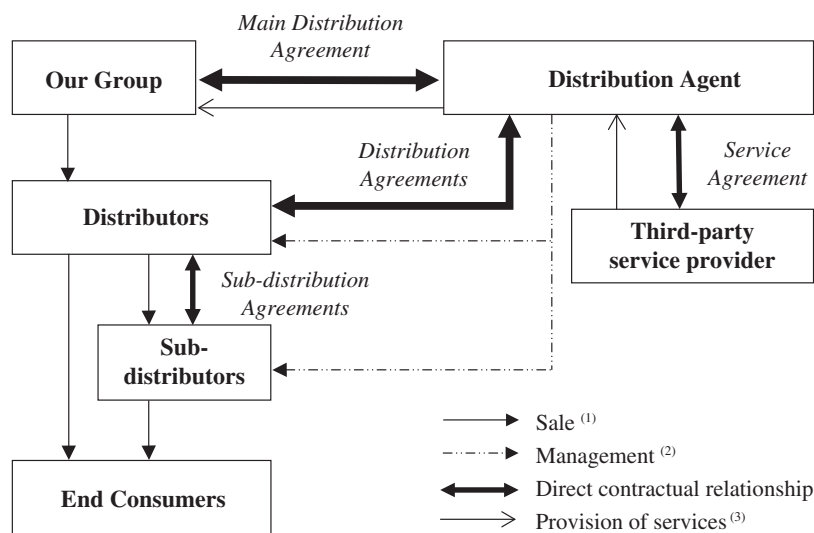
- (1) Representing our revenue from sale under the Distribution Agent Assisted Distribution Model and the general distribution model.
- (2) Mainly included sales made directly to end consumers through other e-commerce platforms.

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Distribution Agent Assisted Distribution Model

We introduced the Distribution Agent Assisted Distribution Model in 2019 initially 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 Agents would be responsible for developing and managing the distribution network for the respective products.

The diagram below illustrates the business flow of the Distribution Agent Assisted Distribution Model:



Notes:

- (1) Distributors are considered as our customers who would place sale orders directly with our Group and onward sell the products to the sub-distributors procured by them and/or the end consumers.
- (2) Our Distribution Agent is responsible for the development and management of the distributors and sub-distributors, including but not limited to providing trainings on sales and marketing techniques to, and monitoring the performance of, the distributors and sub-distributors.
- (3) Our Distribution Agent would engage a third party service provider to provide assistance in the management of the distribution network. Services provided by such service provider mainly include, inter alia, (i) providing trainings and assistance to the distributors regarding the business registration under the applicable laws and regulations; (ii) calculating the discounts and incentives entitled by the distributors; and (iii) conducting marketing and advertising activities for the development of the distribution network; and (iv) arrange settlement of certain discounts and incentives payable to our distributors.

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 of December 31, 2022, there were 742 distributors and 16,044 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

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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.

Pricing arrangement

We set benchmark prices for the sale of our products (i) by our distributors to their sub-distributors; and (ii) by our distributors or the sub-distributors to the end consumers and provide certain discounts, incentives and fees to our distributors to incentivize their sale performances. For details of our pricing arrangement under the Distribution Agent Assisted Distribution Model, please refer to the section headed “Distribution arrangement with Kunshan Tingshe – Pricing arrangement and discounts, incentives and fees in relation to the sales of Kunshan Tingshe Distributed Products” in this document. Our distributors and their sub-distributors are required to strictly comply with our pricing guidelines in the sale of our products. For details on our distributor management measures, please refer to the paragraph headed “Management of our distribution network – (V) Distributor management measures” in this section below.

Our Distribution Agents

During the Track Record Period and up to the Latest Practicable Date, we have engaged two Distribution Agents for the distribution of our products. We engaged Kunshan Tingshe as the Distribution Agent of our *MODONG* coffee, Molitone prebiotic gummy, *MODONG* herb beverage and *MODONG* probiotics lyophilized powder (i.e. the Kunshan Tingshe Distributed Products). Kunshan Tingshe is our first and the largest Distribution Agent. For the year ended December 31, 2019, 2020, 2021 and 2022, our revenue attributable to Kunshan Tingshe under the Distribution Agent Assisted Distribution Model amounted to RMB71.0 million, RMB340.8 million, RMB254.3 million and RMB167.7 million, respectively. For details of the background of, and our cooperation with Kunshan Tingshe, please refer to the sections headed “History, development and reorganization – Our history and development – Our major subsidiaries – Kunshan Tingshe – Disposal of our interest in Kunshan Tingshe” and “Distribution arrangement with Kunshan Tingshe” in this document.

On the other hand, we engaged another Distribution Agent, namely, 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.

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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 arrangement with Shouwang Xingguang is substantially the same as that with Kunshan Tingshe.

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 years 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)
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.

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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 Agents 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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Risk of channel-stuffing

During the Track Record Period, we generated a substantial portion of our revenue from the sale of *MODONG* coffee under the Distribution Agent Assisted Distribution Model. 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

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		Year ended December 31,			
		2019	2020	2021	2022
Others sale channels					
Sales revenue (<i>RMB'000</i>) ⁽²⁾	E	33	393	2,516	675
Approximate number of boxes sold		100	1,000	1,000	1,000
Total sales revenue of					
<i>MODONG</i> coffee (<i>RMB'000</i>)	F=D+E	<u>71,927</u>	<u>332,868</u>	<u>227,772</u>	<u>150,883</u>

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, approximately 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 QR code attached to each box of *MODONG* coffee (which was 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. Based on the above, we consider the risk of channel-stuffing is remote.

Management of our distribution network

We adopt a tiered and top-down distributor management model 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

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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.

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. Both our Group and our Distribution Agents may provide respective online trainings on such platform. We also conduct offline training meetings which held in different venues such as hotels and conference centers. Course materials of these trainings 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 our Group and the Distribution Agents 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.

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(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, analyzing 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 products to the end consumers, they use a unit selling price set by us. 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 canceled, 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.
- *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, distributors, who (“**Introducing Distributors**”) assist the Distribution Agent to, among others, extending our distribution network by procuring new distributors (“**Procured 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

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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) 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.

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.

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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, 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, our Distribution Agent provides guidance to our distributors on how to register oneself as an Individual Proprietor or a corporate entity. 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 when the E-commerce Law came into effect, it took a while for our distributors to complete such registration.

As at the Latest Practicable Date, approximately 99% of our distributors had registered as Individual Proprietors or corporate entities, whilst 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 failure by a small number of distributors to comply with the E-Commerce Law would not have any material impact on our business operation and distributors.

The Temporary Suspension of Bank Accounts due to alleged pyramid selling

We and Kunshan Tingshe, one of our Distribution Agents, were subject to two incidents in 2020 and 2021 in respect of our business under the Distribution Agent Assisted Distribution Model, 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

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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 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

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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.

Regulations relating to pyramid selling under our Distribution Agent Assisted Distributors Model

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.

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.
- *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.

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Our PRC Legal Advisors' views

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 protect the interests of the end consumers 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;
- (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

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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 distributors promotion meetings; and (iii) 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; and

- (d) 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.

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.

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, 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) the prompt resolutions of the Temporary Suspension of Bank Accounts have essentially proven that we are not engaged in pyramid selling; (ii) 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 (iii) adequate controls and measures had been put in place to prevent the occurrence of similar incidents. In May 2022, Ms. Ma (one of our Founders, Controlling Shareholders and executive Directors) was appointed as a member of “New Retail and Livestreaming 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.

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

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development and subject to interpretation, and their implementation involves uncertainty” in this document for the risks that we may face.

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 41 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.

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- (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 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.

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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	<i>LA DEW</i> skincare products, products under <i>Chaxiaojie</i> sub-brand and products under <i>Dr. INYOU</i> brand
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.

BUSINESS

- (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. 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.

BUSINESS

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.

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” (which is a popular slogan that is featured in Mr. Liu Keng-hung’s Livestreaming session) 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. In 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. For further details, please refer to the section headed “Cooperation with celebrities – Cooperation with Mr. Liu Keng-hung and Ms. Vivi Wang” in this document.

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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.

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, IP licensing partners and online platform operators. 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.

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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	Approximate		
				Revenue attributable to customer <i>(RMB'000)</i>	% of our total revenue <i>(%)</i>	Commencement of business relationship
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.
- (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.

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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.
- (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.

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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.
- (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.

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Year ended December 31, 2022

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 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.
- (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.

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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 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 – Our relationship with 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.

BUSINESS

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

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)	(%)	
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

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.

BUSINESS

For the year ended December 31, 2020

Supplier	Products/services provided to us	Business segment	Place of business	Purchase amount	Approximate % of our total purchase	Commencement of business relationship
				by us	(%)	
				(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

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.

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For the year ended December 31, 2021

Supplier	Products/services provided to us	Business segment	Place of business	Purchase amount	Approximate % of our total purchase	Commencement of business relationship
				by us	(%)	
				(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 <i>J-Style Trip</i> 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.
- (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.

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For the year ended December 31, 2022

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	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.
- (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.

BUSINESS

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.

Our relationship with 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 certain of our products, including our *MODONG* coffee, *MODONG* MCT coffee, *Dr. INYOU* collagen peptide beverage, matcha powder and *MODONG* lightly brewed coffee.

BUSINESS

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 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) (<i>Note</i>)	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.

BUSINESS

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.

Salient terms of our cooperation with Hangzhou Hengmei

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.

BUSINESS

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 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 licenses 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.

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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.

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 Keng-hung under our IP creation and operation segment and our Group, Customer G and Mr. Liu Keng-hung (and his artiste management company) shall be entitled to certain percentage of the fees from brand owners who engaged Mr. Liu Keng-hung 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 Keng-hung 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 Keng-hung’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.

CONNECTED TRANSACTIONS

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

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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 KOL or KOC promotion, we also devote significant efforts and invest much 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.

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KOL/KOC marketing initiatives

KOL is a type of traditional influencers who are popular persons followed by the public audience, while 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 through their own PDT. 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. KOLs and 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. These influencers 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 influencers 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 KOLs and 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 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.

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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 customers 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*.

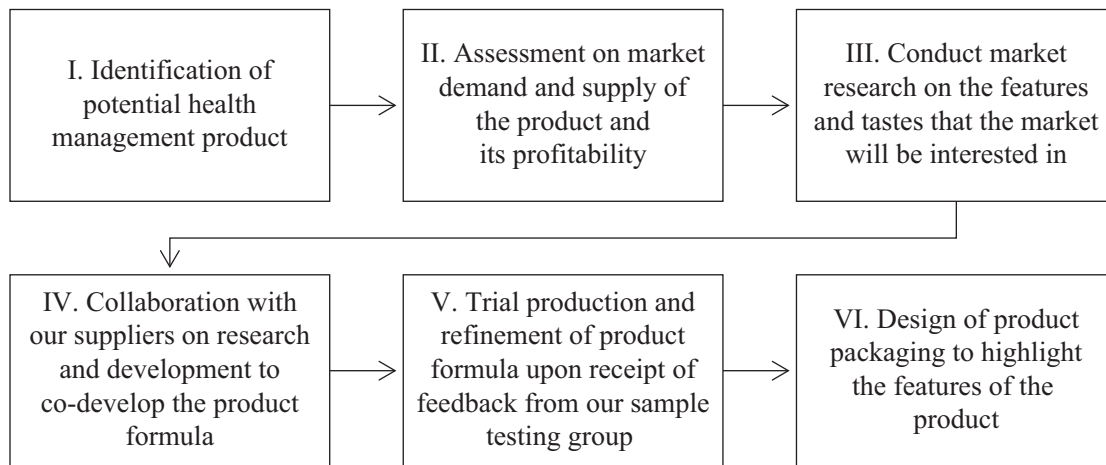
In addition, unique celebrity IPs with a vast fan base may be an incentive for our end consumers, KOLs or KOCs to try our products and share their reviews on social media platforms. By creating our own IPs, we may boost our influencers’ marketing capabilities at the same time.

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PRODUCT RESEARCH AND DEVELOPMENT

We believe that product research and development is crucial to our success and sustainable growth. We are continuously developing new products for our new retail business to enhance and diversify our product offerings. Our product development department would conduct market research to identify any particular demands in the market towards health management products and skincare products.

The following illustrate the major steps we will go through for research and development with respect to our health management products as an example:



During the Track Record Period, we mainly collaborated with external institutions 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. The OEM manufacturers we engaged 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, during the Track Record Period, we engaged Hengmei Group for the co-development of various products, including (without limitation) *MODONG* coffee and matcha powder 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 above.

During the Track Record Period, the research and development costs incurred by us 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. As at December 31, 2022. Our product development team has eight employees.

Please also see to the paragraph headed “Our strategies and future plans – Further diversify our product portfolio through product development” in this section.

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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.

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 labeling 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.

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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. 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 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 traveling 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

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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	Second half of 2023
A fitness-related performance events featuring Mr. Liu Keng-hung, Ms. Vivi Wang and other celebrities	Fourth quarter of 2022	Middle of 2023

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 Livestreaming sessions of Mr. Liu Keng-hung 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. We were involved in the planning of a fitness-related performance event featuring Mr. Liu Keng-hung, Ms. Vivi Wang and other celebrities held in Qingdao on May 20, 2023. As at the Latest Practicable Date, we

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were also planning similar events to be held in various cities in the PRC, including Haikou, Beijing and Sanya 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.

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

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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.

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 paragraph headed “– Our business – IP creation and operation” in this section. 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 1,116 trademarks and 149 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. Based on the advice of our PRC Legal Advisors and to our best knowledge and belief, there is no material impediment in renewing the registration of our

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trademarks or domain names upon their expiry as long as we comply with the relevant legal requirements and take all necessary steps and submit the relevant applications in accordance with the requirements prescribed by the applicable PRC laws and regulations.

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.

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.

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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 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 favor 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.

BUSINESS

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.

We entered into a preliminary agreement in February 2021, and sale and purchase agreements subsequently in August 2021, 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 34 properties in Kunshan, Beijing, Shanghai, Guangzhou and Hangzhou with an aggregate gross floor area of approximately 6,880.3 sq.m.. Our leased properties are leased from Independent Third Parties, with a lease term ranging from 11 months 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 28 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 15.8% 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 34 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 RMB340,000 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 (Exemption of Companies and Prospectuses 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. In addition, based on the advice of our PRC Legal Advisors and to our best knowledge and belief, there is no material impediment in renewing the above licenses or permits upon their expiry as long as we comply with the relevant legal requirements and take all necessary steps and submit the relevant applications in accordance with the requirements prescribed by the applicable PRC laws and regulations. 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 Livestreaming marketing, in all material respects during the Track Record Period and up to the Latest Practicable Date.

DATA PRIVACY AND CYBERSECURITY

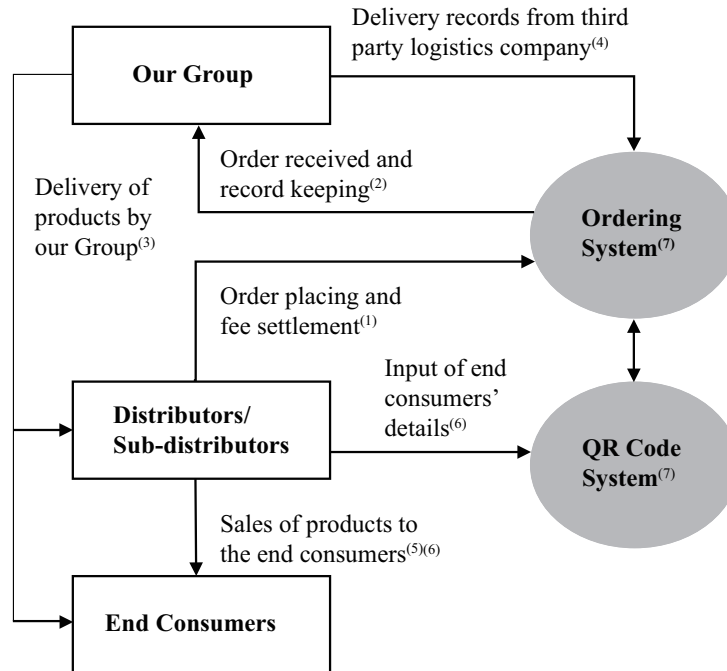
Our information technology systems are critical to our business operations and we have implemented various data protection measures and stringent internal protocols to ensure the security of our proprietary data. All the development and maintenance of our information technology systems are currently 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 Management System

To support our sales through the Distribution Agent Assisted Distribution Model, we operate the Ordering Management System which provides a centralized system to manage the ordering and delivery of our major products. The Ordering Management System comprises two sub-systems, namely (i) the ordering system, which enables our distributors and their sub-distributors to place orders and allows us to record 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).

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The below illustrates the operation of the Ordering Management System in the sale and distribution of our products under the Distribution Agent Assisted Distribution Model:



- (1) Our distributors or sub-distributors are required to make orders of our products through their own respective accounts in the Ordering System. The Ordering System also allows the sub-distributors to place orders with their respective distributors in the system, the order of which will be approved by their distributors. 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.
- (2) Based on the record in the Ordering System, we would be able to receive the orders from the distributors and sub-distributors and match their orders with relevant settlement records.
- (3) 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.
- (4) After the delivery of our products, we will be able to track the deliveries of and completion of the orders based on the delivery records of logistics service providers engaged by us and such records would be linked up with the order records in our Ordering System.

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- (5) 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. 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. However, we are not involved in the scanning of the QR code by our distributors and sub-distributors.
- (6) For each delivery to end consumers with QR code scanning, 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.
- (7) Data in the two systems are linked so that we can trace the sale of our products from order placing until the sale by the distributors/sub-distributors to the end consumers if they have performed the QR code scanning process.

Reasons for adopting the QR Code System

Since the launch of *MODONG* coffee in 2019, we have implemented the QR Code System mainly for the following purposes:

- (i) *keep track of the movement of our inventory* – under the QR Code System, the QR codes printed on the boxes of our 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;
- (ii) *detect any counterfeit products being sold in the market* – 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 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 such product could be found from the sales record of the Ordering System;
- (iii) *facilitate marketing activities directly to end consumers* – 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 arrangements are also beneficial to our distributors and sub-distributors to boost sales to end consumers during promotional campaign periods; and

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- (iv) *facilitate the recruitment of new sub-distributors and prevent any competition amongst distributors and sub-distributors (where appropriate)* – information of each end consumer can only be recorded under one distributor in the QR Code System. Therefore by scanning the QR code and recording details of its end consumers, the distributors and sub-distributors would be able to ensure 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.

We consider that the above factors would also 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.

We believe the engagement of distributors is commonly adopted across various industries, even if the brand owners have the contact details of their existing end consumers so that they may have direct access to these end consumers. Given our focus on the new retail segment is to generate revenue through product design and development, even we possess the contact details of our existing end consumers, we do not have the intention and the required resources, including manpower, to sell our products directly to these end consumers or to develop new end consumers on our own. We believe our distributors and sub-distributors, who have direct access to their customers, 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 for the reasons discussed above.

Verification of information of end consumers

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.

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Implication of Cybersecurity Review Measures and Draft Regulations on Cyber Data Security

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 Listing 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 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 on Cyber Data 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

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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 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.

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COMPETITION

As the community-based social e-commerce 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 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.

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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 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

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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 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.

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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:

<u>Material issues</u>	<u>Potential risks</u>
Product safety and quality	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.
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.

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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 consumption to be our KPI to evaluate ESG performance. The following table sets for the information in relation to the electricity consumption of our office premises in the PRC during the Track Record Period:

	Year ended December 31,			
	2019	2020	2021	2022
	<i>(kWh)</i>			
Total consumption amount	60,094	107,027	78,630	258,791
Average consumption amount per employee(<i>Note</i>)	1,167	1,070	491	1,232

Note: Calculated based on the total consumption amount divided by the average number of employees of our PRC offices as at the beginning and the end of each financial year.

We expect that our total electricity consumption to increase during the next three years as we will expand our business operations through E-commerce Livestreaming sessions and other online marketing activities. Nevertheless, we will implement policy to monitor and control our electricity consumption. Taking into account the expected increase in the number of our employees and expansion of our business operations through E-commerce Livestreaming sessions and other online marketing activities, we target to maintain the annual average electricity consumption of employees of PRC offices at approximately 2,000 kWh.

Going forward, the Board will continue to monitor the ESG implications of our business and set metrics and targets for material KPIs for each financial year with reference to the disclosure requirements of Appendix 27 to the Listing Rules.

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To better protect the environment, we have been gradually adopting more sustainable and eco-friendly measures in our operations including product design. In particular, we have established the following targets in respect of our ESG performances in addition to our target on electricity consumption:

- implement recycling policy to ensure at least 80% of the packaging cartons for our products will be collected and recycled by our Group or by qualified third parties by the end of 2024;
- refine the design of our products and adopt and use eco-friendly and/or biodegradable packaging materials for at least 20% of our products by the end of 2025;
- enhance the use of online marketing and promotion and reduce the resources consumption level of offline marketing activities;
- fully implement the use of online system for internal administrative procedures to reduce the use of paper documents by the end of 2023, and avoid waste of paper by promoting printing on both sides;
- replace all energy-intensive lighting with high luminous efficacy light set such as LED lights at our office premises by the end of 2024;
- set up 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

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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

New retail segment

As advised by the PRC Legal Advisors, pursuant to the Food Safety Law of the PRC (中華人民共和國食品安全法) and other relevant PRC laws and regulations, health supplements (保健食品) are food products claiming the specific functions that fall within the catalogs promulgated by the food safety supervisory and administrative department of the State Council and other competent governmental authorities authorized by the Food Safety Law of the PRC, and shall be registered or filed with the competent governmental authorities for the manufacture and sales.

We have adopted a number of internal control measures at different stages (e.g. raw materials procurement, research and development, manufacturing, advertising, sale and distribution of the Group's health management products) to ensure that they shall not be classified as health supplements as stipulated under the relevant PRC laws and regulations, including, amongst others, (a) involving legal counsels to check the description of the products on the package, and advertising materials against the applicable laws for the compliance, (b) strict selection or formulation of the ingredients or formulas of our products fully in compliance with the laws during the research and development stage, and (c) communication with, and request of internal quality control reports from, the third party manufacturer, to ensure the compliance of the manufacturing process.

Based on the foregoing and the advice of the PRC Legal Advisors, the Directors confirmed that our health management products do not fall within any of the aforementioned catalogs under the applicable PRC laws and regulations regulating health supplements (保健食品), and hence our Directors are of the view that, and the PRC Legal Advisors concurred, our health management products shall not be considered as health supplements (保健食品), which shall subject to the regulations of the Food Safety Law of the PRC, and other applicable laws and regulations.

IP creation and operation segment

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 Livestreaming 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

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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 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 Livestreaming 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.

In order to ensure the information relating to products they promote in Livestreaming sessions 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) arrange our staff to view and monitor 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 Livestreaming activities.

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.

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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.