
DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

INTRODUCTION

During the Track Record Period, we engaged Kunshan Tingshe as the Distribution Agent of our *MODONG* coffee and other Kunshan Tingshe Distributed Products under the Distribution Agent Assisted Distribution Model. Under such distribution model, Kunshan Tingshe is responsible for, amongst others, the development and management of the distribution network for the sale of the relevant products. 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, representing 89.0%, 93.3%, 84.4% and 69.8% of our revenue from new retail business in the corresponding year.

BACKGROUND LEADING TO OUR DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

Kunshan Tingshe is our first and largest Distribution Agent. At the time when we introduced the Distribution Agent Assisted Distribution Model in 2019, we separately established Kunshan Tingshe as our 80%-owned subsidiary in June 2019 which was appointed and positioned by us as the Distribution Agent for *MODONG* coffee (which is supplied by our wholly-owned subsidiary, Kunshan Star Plus Action). Kunshan Tingshe, which is led by Li Ting, principally engages in the development and management of the distribution network for *MODONG* coffee and provision of trainings for our distributors mainly on sales and marketing techniques. In addition, given that Kunshan Tingshe directly managed and contacted our distributors as a subsidiary of our Company at the relevant time, we designated Kunshan Tingshe to be the entity responsible for the sale of *MODONG* coffee to our distributors and therefore, as part of our internal intra-group arrangement, Kunshan Tingshe purchased *MODONG* coffee from Kunshan Star Plus Action, for the purpose of onward sales to our distributors.

Legal and contractual relationship

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

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

Relationship from accounting perspectives

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

- Under HKFRS 15, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The Main Distribution Agreement entered into between our Group and Kunshan Tingshe; and the distribution agreements entered into between Kunshan Tingshe and our distributors merely set out the framework of the transactions between the respective parties and did not specified the details of the individual transactions. Accordingly, the existence of such agreements alone is not adequate to conclude the identity of the customers under HKFRS 15, as each party’s rights and obligations regarding the specific goods to be transferred are not identifiable. On the contrary, the orders placed by our distributors through the Ordering System contain details of the products to be transacted and we are committed to fulfill the obligations under such orders, thereby creating enforceable rights and obligations between our Group and our distributors, and consisted of a contract under HKFRS 15;
- Selling price of the Kunshan Tingshe Distributed Products and any discount offered to our distributors are determined by Kunshan Star Plus Action, not Kunshan Tingshe. Kunshan Tingshe has no discretion to determine the selling price of the Kunshan Tingshe Distributed Products and it has to strictly comply with the selling price determined by Kunshan Star Plus Action. After *MODONG* coffee is sold to our distributors, our distributors will have discretion in establishing the selling price for *MODONG* coffee to the sub-distributors and their end consumers, as long as they comply with our pricing guidelines unless our prior approval has been obtained, and our distributors are the primary obligor for providing *MODONG* coffee to the sub-distributors and the end consumers;

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

- Kunshan Star Plus Action, rather than Kunshan Tingshe, retains the primary responsibility for the provision of the Kunshan Tingshe Distributed Products to each of our distributors. Kunshan Tingshe never had control or ownership of the goods throughout the entire process. Once our distributors place orders on our Ordering System, Kunshan Tingshe Distributed Products will be delivered by independent logistics service providers engaged by us directly from Kunshan Star Plus Action’s warehouses to our distributors’ designated addresses. Kunshan Tingshe does not maintain any inventories of the Kunshan Tingshe Distributed Products and bears no inventory risk in the arrangement; and
- When a box of the Kunshan Tingshe Distributed Products is delivered by independent logistics service providers engaged by us and accepted by a distributor (or at the address designated by the distributor or sub-distributor), the legal title of the box sold will be transferred to such distributor, who will then assume all the inventory risks associated with the box sold. Save for returns for defective products within 30 days after delivery of the products subject to the provision of the relevant details and proofs from distributors, no product can be returned to us after the seven-day return period as prescribed by the Consumer Protection Law. We will not reclaim any unsold products from our distributors. For more details, please refer to the section headed “Business – Distribution network – Distribution Agent Assisted Distribution Model – Management of our distribution network – (I) Product return policies” in this document.

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

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

Disposal of Kunshan Tingshe as our subsidiary and our continuous engagement of it as our Distribution Agent

In May 2020, we divested our interest in Kunshan Tingshe. For details on the background and reasons for the disposal, please refer to the section headed “History, development and reorganization – Our history and development – Our major subsidiaries – Kunshan Tingshe – Disposal of our interest in Kunshan Tingshe” in this document.

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

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

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

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

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

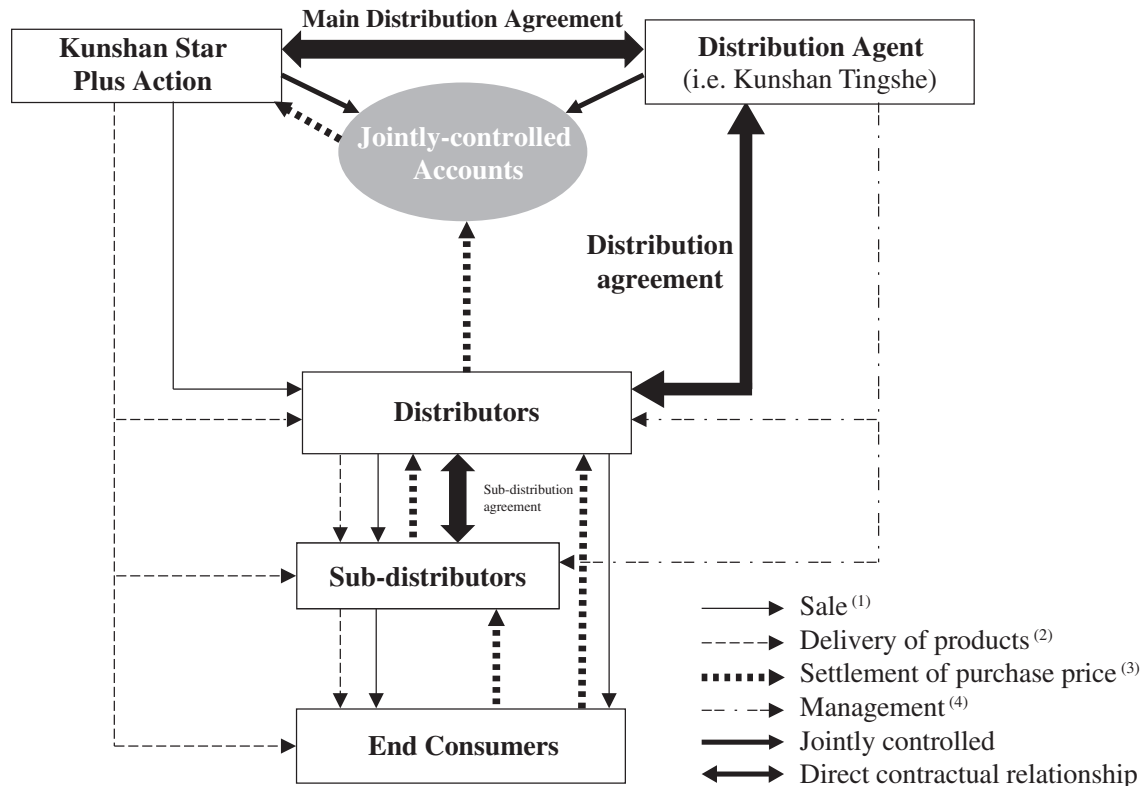
	Year ended December 31,			
	2019	2020	2021	2022
Employees and senior management of Kunshan Tingshe (including Li Ting)	1	9	17	13
Selected Distributors with managerial responsibilities ^(Note)	–	13	15	21

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

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

BUSINESS FLOW AND KEY PARTICIPANTS

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



Notes:

- (1) Our revenue from sales is recognized upon delivery of products to distributors, sub-distributors and/or end consumers (as the case may be).
- (2) Our Group is responsible for the delivery of our products to the distributors or sub-distributors. We may also arrange direct delivery to end consumers from time to time at the specific requests of the distributors or sub-distributors. Where our products were delivered to the distributors or the sub-distributors for their onward delivery to the end consumers, our distributors and the sub-distributors are encouraged to scan the QR code using our QR Code System immediately before delivery to sub-distributors or end consumers. For details regarding the QR Code System, please refer to the section headed “Business – Data privacy and cybersecurity – Ordering Management System” in this document.
- (3) Purchase price for our products shall be settled by the distributors by way of transfer to the Jointly-controlled Accounts, which have been jointly-controlled by us and Kunshan Tingshe since June 1, 2020 after Kunshan Tingshe was disposed of by us. For details, please refer to the paragraph headed “Settlement arrangement among our Group, Kunshan Tingshe and our distributors” in this section below.
- (4) Kunshan Tingshe is responsible for the development and management of the distributors and the sub-distributors of our products, including providing training on sales and marketing techniques to the distributors and sub-distributors and monitoring their performance.

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

MAIN DISTRIBUTION AGREEMENT WITH KUNSHAN TINGSHE

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

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

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

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

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

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

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

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

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

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

Change of distribution agent: Pursuant to the Main Distribution Agreement, the management rights and obligations of the distribution channels of Kunshan Tingshe will be transferred to us or our designated party(ies) if Kunshan Tingshe no longer distributes products for us.

In the event that the management rights and obligations of the distribution channels of Kunshan Tingshe is to be transferred to other parties, our distributors agreed that they shall cooperate with Kunshan Tingshe or its assignees to take necessary measures to complete the assignment or transfer. We will immediately identify alternative candidates which are capable to perform such function, such candidates include entities which are controlled by our other well-performing distributors or other service providers in the market which have similar experience and expertise, and in such case we do not expect our underlying policies and mechanisms for the distribution of Kunshan Tingshe Distributed Products pursuant to the distributor agreement to undergo major changes should an alternative Distribution Agent be engaged in place of Kunshan Tingshe. Further, we do not have any plans to manage our distributors by allocating our internal human resources as that would not be in line with our business strategy.

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

CONTROL MEASURES AGAINST RISK OF DEFAULT OF KUNSHAN TINGSHE

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

(a) Jointly-controlled Accounts

Kunshan Tingshe ceased to be our subsidiary on May 31, 2020. Given the contractual buyer and seller relationship between Kunshan Tingshe and our distributors in relation to the sales of the Kunshan Tingshe Distributed Products pursuant to the distribution agreements entered into between Kunshan Tingshe and our distributors prior to the disposal of Kunshan Tingshe, immediately before and after disposal of Kunshan Tingshe by us, Kunshan Tingshe has continued to be the legal entity being primarily responsible for receiving the prepayments for purchases from our distributors.

In view of the settlement arrangement, in order to have a better control over the cash received by Kunshan Tingshe regarding the distribution of the Kunshan Tingshe Distributed Products and reduce the amount due from Kunshan Tingshe to us (being Kunshan Tingshe’s credit risk to us), we entered into the Jointly-controlled Accounts Agreements with Kunshan Tingshe. Pursuant to such Jointly-controlled Accounts Agreements, the Jointly-controlled Accounts which were designated for the receipt of payments for the Kunshan Tingshe Distributed Products from the distributors shall be jointly-controlled by us and Kunshan Tingshe. Since November 2022, Kunshan Tingshe has agreed to transfer the amount payable to us in respect of the prepayment received from the distributors on the working day immediately following the date of such prepayment commencing. For details of the settlement arrangement between our Group, Kunshan Tingshe and our distributors, please refer to the paragraph headed “Settlement arrangement among our Group, Kunshan Tingshe and our distributions” in this section.

The following summarizes the salient terms of the Jointly-controlled Accounts Agreements:

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

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

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

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

account or pledge the account as collateral in any way, and we are entitled to seek damages from Kunshan Tingshe for any breach.

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

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

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

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

(b) Control over product formula

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

(c) Control over order placement

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

(d) Control over contractual relationship

We entered into a five-year Main Distribution Agreement with Kunshan Tingshe, and the term will be automatically extended for another five-year unless we decide otherwise. In addition, the Main Distribution Agreement provides that, and Li Ting has reciprocally undertaken that she will continue to provide sales and marketing services to our Group during the term of the agreement. More importantly, in the event that such Main Distribution Agreement is terminated, the management rights and obligations of the

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

distribution channels controlled by Kunshan Tingshe shall be transferred back to us or our designated third party(ies).

MUTUAL RELIANCE BETWEEN OUR GROUP AND LI TING

Li Ting is the shareholder and key personnel of Kunshan Tingshe (the distribution arm of Kunshan Tingshe Distribution Products), and she has been heavily involved with us in (i) establishing, developing and managing the distribution network for our Kunshan Tingshe Distributed Products, and (ii) conducting product promotion for expansion of the distribution network since the launch of *MODONG* coffee.

We first commenced business relationship with Li Ting when our products (including *LA DEW* facial masks) were first introduced to Li Ting and her team in January 2018. For details regarding our relationship with Li Ting, please refer to the section headed “History, development and Reorganization – Our major subsidiaries – Kunshan Tingshe – Li Ting” in this document.

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

DISTRIBUTION ARRANGEMENT WITH OUR DISTRIBUTORS

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

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

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

Salient terms of Kunshan Tingshe's distribution agreements with its distributors

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

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

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

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

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

Advertising

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

Security deposit

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

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

Return policy

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

Distributor's other responsibilities

The distributor is also required to, among other thing:

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

Distribution Agent's responsibilities

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

Term of contract

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

No minimum sales targets

As Kunshan Tingshe does not set any mandatory sales targets for the distributors and sub-distributors, the distribution agreements do not set any minimum purchase amount for the distributors.

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

THE SUB-DISTRIBUTORS

We permit our distributors to engage sub-distributors during the ordinary course of business to extend their consumer reach. The sub-distributors are only permitted to sell our products to consumers and are prohibited from further engaging other distributors to conduct sales. We do not have direct contractual relationships with the sub-distributors and we manage these sub-distributors through our distributors, who have direct contractual relationship with the Distribution Agent and their respective sub-distributors.

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

PRICING ARRANGEMENT AND DISCOUNTS, INCENTIVES AND FEES IN RELATION TO THE SALES OF KUNSHAN TINGSHE DISTRIBUTED PRODUCTS

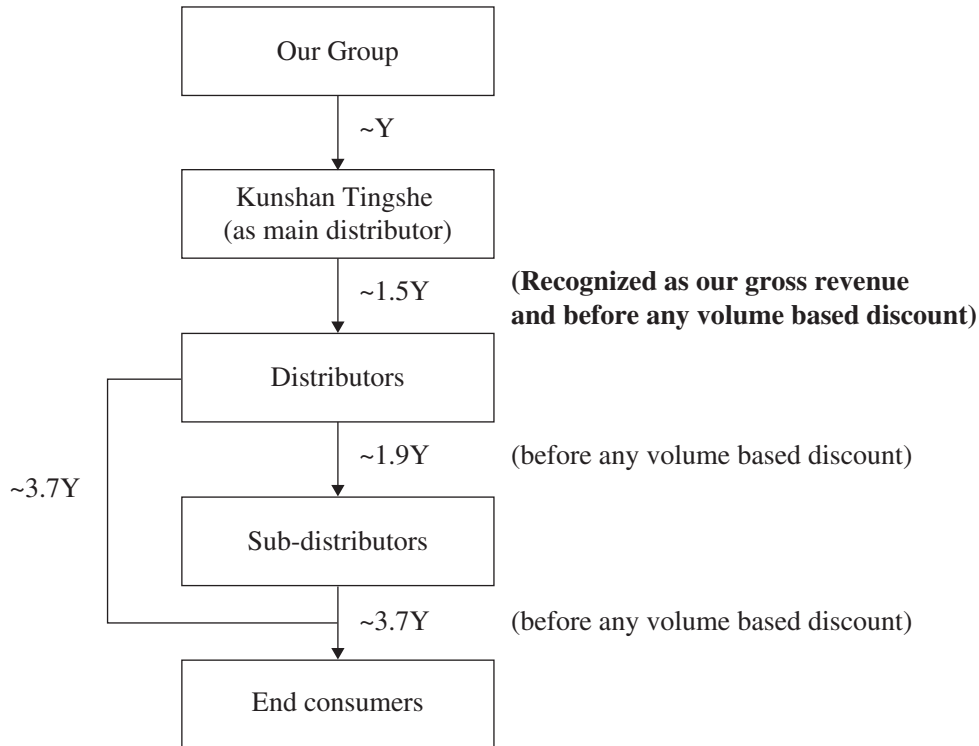
Pricing arrangement for sales from our Group to Kunshan Tingshe, distributors, sub-distributors and end consumers

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

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

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

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



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

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

Discounts, incentives and fees to distributors and Li Ting

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

1.1 various volume discounts and incentives given to our distributors. Volume discounts are given to our distributors if they meet certain purchase targets in terms of the number of boxes of the *MODONG* coffee as pre-determined by us. Incentives will also

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

be given to distributors (“**Introducing Distributors**”) for their services provided to assist Kunshan Tingshe to for, amongst others, extending our distribution network by procuring new distributors (“**Procured Distributors**”), including their assistance and guidance provided to the Procured Distributors in relation to our products and marketing strategies. Such discounts and incentives amounted to approximately 20–24% of Kunshan Tingshe’s gross sales for the years ended December 31, 2019, 2020, 2021 and 2022 (i.e. approximately 20–24% of 1.5Y); and

- 1.2 sales volume based fees are given to a few distributors as selected by Kunshan Tingshe (according to certain criteria including the distribution network they assisted to develop, and the number of distributors they referred to Kunshan Tingshe) to provide services to assist Kunshan Tingshe in promoting the sales of the *MODONG* coffee and expanding the distribution network in order to incentivize the Selected Distributors to promote sales through the distribution networks which they assisted to develop. Such sales volume based fees to Selected Distributors amounted to approximately 3–4% of Kunshan Tingshe’s gross sales for 2020 (i.e. approximately 3–4% of 1.5Y) as the Selected Distributors achieved a high completion rate of the sales targets. In 2021 and 2022, as the sale volume of the *MODONG* coffee by the Selected Distributors had decreased, thereby lowering the sale volume based fees to 1.4% and 1.0% of Kunshan Tingshe’s gross sales for 2021 and 2022, respectively (i.e. approximately 1.4% and 1.0% of 1.5Y).

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

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

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

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

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

Additional incentive fee to Kunshan Tingshe

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

ACCOUNTING TREATMENT IN RELATION TO THE SALES OF THE KUNSHAN TINGSHE DISTRIBUTED PRODUCTS

Before the disposal of Kunshan Tingshe on May 31, 2020, Kunshan Tingshe was our subsidiary and therefore all its sales, cost of sales as well as all operating costs (after inter-companies eliminated) were consolidated in our Group’s consolidated financial statements. In particular,

- (A) our Group’s consolidated sales of the *MODONG* coffee were equal to the sales of Kunshan Tingshe (i.e. Kunshan Tingshe’s unit selling price to our distributors, or 1.5Y), net of the discounts, incentives and fees to distributors as mentioned in the above items (1.1) and (1.2) (which actually represent the discounts, incentives and fees given to distributors by our Group as Kunshan Tingshe was part of our Group);

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

- (B) all the cost of sales as well as all operating costs (after inter-companies eliminated) were consolidated as part of the related costs or expenses of our Group. In particular, the Service Fee to Li Ting (which is part of such operating costs of Kunshan Tingshe) was recorded as part of the selling and marketing expenses of our Group; and
- (C) the Additional Incentive Fee to Kunshan Tingshe which was paid by our Group (excluding Kunshan Tingshe) was eliminated upon consolidation.

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

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

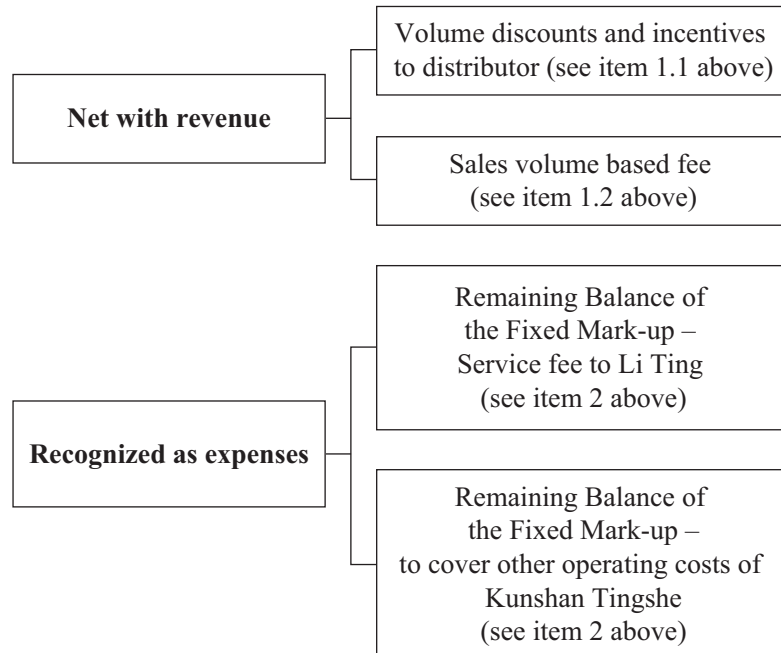
		Year ended December 31,							
		% to our gross sales		% to our gross sales		% to our gross sales		% to our gross sales	
		2019	2020	2021	2022	2019	2020	2021	2022
Notes		<i>(in RMB thousands)</i>							
Gross revenue	(a)	90,319	467,926	331,441	222,557	100%	100%	100%	100%
Volume discounts and incentives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

Notes:

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

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

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



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

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

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

Notes:

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

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

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

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

SETTLEMENT ARRANGEMENT AMONG OUR GROUP, KUNSHAN TINGSHE AND OUR DISTRIBUTORS

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

Our Directors consider that it is commercially reasonable to continue with the above settlement arrangement after the disposal of Kunshan Tingshe. Thus, we entered into one of the Jointly-controlled Accounts Agreements with Kunshan Tingshe, pursuant to which the Jointly-controlled Account, which was designated for the receipt of payments for the Kunshan Tingshe Distributed Product from the distributors. For further details on the Jointly-controlled Account and the security deposit, please refer to the paragraph headed “Control measures against risk of default of Kunshan Tingshe – (a) Jointly controlled Accounts” in this section.

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

To further lower our credit risk in respect of the fund in the Jointly-controlled Accounts which have not been transferred to our Group, in or around September 2022, Kunshan Tingshe and our Group agreed to accelerate the settlement of prepayment received in the Jointly-controlled Accounts. On October 31, 2022, we entered into a supplemental agreement with Kunshan Tingshe, pursuant to which Kunshan Tingshe shall transfer the amount payable to us in respect of the prepayment received from the distributors on the working day immediately following the date of such prepayment commencing from November 2022 and Kunshan Tingshe would no longer be required to maintain with us the security deposit of RMB50.0 million. Upon the implementation of the aforesaid settlement arrangement, the amounts due from Kunshan Tingshe to our Group has been reduced to a relatively low level. As of December 31, 2022, there was no amount due from Kunshan Tingshe and the balance of the Jointly-controlled Accounts was RMB1.3 million.

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

THE ENGAGEMENT OF KUNSHAN JIAMENG BY KUNSHAN TINGSHE

Circumstances leading to the engagement of Kunshan Jiameng

As we are considered to be a pioneer in relation to our social e-commerce operation for sales of our products, i.e. sales of our products under the Distribution Agent Assisted Distribution Model through vast number of distributors, being individuals, via e-commerce channels, we were treated by Kunshan AMR as a social e-commerce pilot enterprise to participate in the Kunshan Pilot Program, in particular, through the development of relevant policies, laws and regulations regarding the operation of individuals/entities in the social e-commerce industry. Our Group has maintained close communication with the local government authorities in Kunshan to seek guidance from the government authorities on a regular basis to ensure our business model (including the operations of our distributors) complies with the relevant laws and regulations. Kunshan AMR has carried out pioneering work in data sharing and cooperation with entities in Kunshan Pilot Program for the purposes of encouraging social e-commerce industry players to conduct their businesses in the legally recognized manner. Based on our understanding from communication with local government authorities, the local government authorities encouraged the engagement of independent and professional service provider(s) to assist each social e-commerce enterprise in the Kunshan Pilot Program to ensure the operations of individuals involved in operations of such social e-commerce enterprise to comply with the relevant laws and regulations.

Pursuant to the E-Commerce Law, our distributors are required to be registered as Individual Proprietor or corporate entities. Further, the relevant authorities requested our distributors to use a commercial premises as the registered address for business registration (the “**Registered Address**”). Even though there will not be any legal implication on us even if our distributors did not comply with the E-Commerce Law, after being aware of such requirements under the E-Commerce Law, we explored the possibility of assisting our distributors to complete the registration process in order to ensure that they are in compliance with all applicable laws and regulations. During such process, we noticed certain obstacles were faced by our distributors, for example, it is practically infeasible for distributors to have their own Registered Address solely for the purpose of completing the registration and fulfilling applicable regulatory requirements as mentioned above.

In order to resolve the issues faced by our distributors in compliance with the relevant laws and regulations, in April 2020, a meeting (the “**KDRC Meeting**”) was organized by Kunshan Development and Reform Commission. Representatives of various government authorities (including Kunshan AMR), Kunshan Jiabao (i.e. the property developer of Dream World Park (夢世界園區), the business hub where our office is located at) and our Group, amongst others, had attended the KDRC meeting. We understand that, upon conclusion of the KDRC Meeting, the Kunshan local government authorities recommended and agreed that separate entities/individuals should be involved in different parts of the social e-commerce operation, i.e. (i) our Group shall focus on the planning and research and development of new products and brands as well as the planning and development of IP content and its licensing; (ii) Kunshan Tingshe shall focus on its operation of expanding the distribution network; and (iii) a separate

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

entity should act as a bridge between government authorities and participants in the social e-commerce industry to ensure such participants (i.e. our distributors) are properly supervised and comply with applicable laws and regulations in a timely and effective manner (i.e. an entity with roles and responsibilities similar to Kunshan Jiameng). As Kunshan Tingshe did not have the relevant experience and expertise in handling the regulatory related matters for our distributors, it engaged Kunshan Jiameng as a service provider to provide the relevant administrative and regulatory supports.

Background of Kunshan Jiameng and its shareholder

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

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

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

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

The roles and responsibilities of Kunshan Jiameng

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

Prior to our disposal of Kunshan Tingshe, Kunshan Tingshe’s operation was supported by our Group where we provided human resources, office and administrative support to Kunshan Tingshe. Since Kunshan Tingshe has been operating separately from us after its disposal, in addition to being responsible for providing regulatory support, Kunshan Jiameng also provides other administrative supports to Kunshan Tingshe to execute both offline and online advertising and promotional activities for the development of the distribution network.

To the best of our Directors’ knowledge and belief, Kunshan Tingshe entered into an agreement with Kunshan Jiameng in June 2020, pursuant to which Kunshan Tingshe engaged Kunshan Jiameng to provide administrative and supportive in relation to the management of the distribution network. Please refer to the paragraph headed “– Roles and responsibilities of our Group, Kunshan Tingshe and Kunshan Jiameng” in this section below.

Monitoring the tax filings of our distributors by Kunshan Jiameng

One of the major roles of Kunshan Jiameng is to assist our distributors in their tax filings. Our distributors have generally authorized Kunshan Jiameng to arrange registration of the account (“**Tax Account**”), which such distributors use for tax filing with the PRC tax authority, as well as authorize and grant Kunshan Jiameng to gain access and operate their respective Tax Accounts.

As Kunshan Tingshe would share the sales data withdrawn from the Ordering System with Kunshan Jiameng each month, Kunshan Jiameng would be able to assist Kunshan Tingshe in calculating the volume discounts and incentives to be granted to our distributors based on such shared sales data. Thus, Kunshan Jiameng can confirm with each of our distributors the exact amount of volume discount and incentives to be granted to each of them by cross-checking the sales data generated from the Ordering System against the sales orders provided by our distributors with respect to those orders placed by them during that particular month.

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

After Kunshan Jiameng has confirmed the volume discounts and incentives that our distributors are entitled to, Kunshan Jiameng would normally (i) inform our distributors the amount of volume discounts and incentives that the relevant distributors would be entitled to during that particular month; and (ii) log in the relevant distributor's Tax Account, and use such Tax Account to issue invoice ("Invoice") in the name of such distributor on their behalf to Kunshan Jiameng (i.e. issuances of invoices on behalf of our distributors), after that Kunshan Jiameng would arrange payment of the relevant volume discounts and incentives to our distributors according to the Invoices.

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

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

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

Payment arrangement between Kunshan Tingshe and Kunshan Jiameng

In consideration of, and for the purpose of providing the necessary funds for, the administrative and supportive services provided by Kunshan Jiameng as well as payments of volume discounts, incentives and fees to our distributors and Li Ting on behalf of Kunshan

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

Tingshe, Kunshan Tingshe shall make payments to Kunshan Jiameng based on the sale volume of the Kunshan Tingshe Distributed Products (the “**Payments to Jiameng**”). In particular with respect to the sale of *MODONG* coffee through Kunshan Tingshe, the Payments to Jiameng payable by Kunshan Tingshe is determined with reference to the sale of each box of *MODONG* coffee and is equal to approximately 73% of the Fixed Mark-up (i.e. $0.5Y \times 73\% = \sim 0.38Y$), which is financed out of the Fixed Mark-up received by Kunshan Tingshe from us (i.e. 0.5Y). During the years ended December 31, 2020 and 2021 and the six months ended June 30, 2022, based on the sale of the Kunshan Tingshe Distributed Products, the Payments to Jiameng amounted to RMB62.6 million, RMB90.4 million and RMB27.0 million, respectively.

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

After the payments of the above items (i) and (ii), the remaining amount represents the service fees to Kunshan Jiameng. Kunshan Tingshe will monitor the amounts of the above items (i) and (ii) from time to time such that the resulted services fees to Kunshan Jiameng will be at the intended rate of approximately 5% of the Payments to Jiameng (i.e. approximately RMB2.8 million, RMB4.1 million and RMB1.2 million respectively during the years ended December 31, 2020 and 2021 and the six months ended June 30, 2022 based on the aforesaid respective amounts of Payments to Jiameng during the respective year).

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

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

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

Size of operation of Kunshan Jiameng

As at December 31, 2022, Kunshan Jiameng had 10 staff being responsible for the above roles, and it did not provide any similar services to its other clients, save as Shouwang Xingguang. Apart from the above services provided to Kunshan Tingshe, Kunshan Jiameng mainly engages in provision of consultation services, design, production and publication of advertisements. To the best knowledge, information and belief of our Directors, the following table sets forth certain key financial information of Kunshan Jiameng for the year/period indicated:

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

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

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

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

Companies providing similar services as Kunshan Jiameng

Based on the administrative directive issued by the Jiangsu Kunshan Huaqiao Economic Development Zone Management Committee in March 2022 (“**Administrative Directive**”), Kunshan Guozhen Enterprise Management Company Limited* (昆山國臻企業管理有限公司), (“**Service Provider A**”) and Kunshan Hanhong Technology Investment Development Company Limited* (昆山瀚泓科技園投資發展有限公司) (“**Service Provider B**”) are the other two service providers in addition to Kunshan Jiameng recognized by Jiangsu Kunshan Huaqiao Economic Development Zone Management Committee* (江蘇昆山花橋經濟開發區管理委員會) to assist the other two groups of e-commerce enterprises and related entities/individuals engaging in e-commerce business at the other two business hubs in Kunshan Digital E-commerce Business Hub* (巨星數字電商產業園) within Kunshan Pilot Zone. Based on the Administrative Directive, the main role of each of Service Provider A, Service Provider B and Kunshan Jiameng is to assist with the regulation of entities/individuals engaging in e-commerce business for the local government authorities. To the best of our Directors’ knowledge and belief, customers of Service Provider A are mainly e-commerce enterprises with relatively larger scale of operation. Thus, Service Provider A is not requested by its customers to provide some services similar to those provided by Kunshan Jiameng, i.e. coordinating and facilitating the execution of the advertising and promotional activities/events contemplated by Kunshan Tingshe and verifying, and arranging settlement.

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

1. based on a press release of the Kunshan Huaqiao Economic Development Zone Administration Committee* (昆山花橋經濟開發區管理委員會) dated June 28, 2022, customers of Service Provider A are mainly mid-to-large size enterprises. As they are comparatively sizable than our Group’s distributors, which are mainly small scale business operators, it is reasonable that Service Provider A is not engaged to provide administrative support services similar to those provided by Kunshan Jiameng; and

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

2. all of Kunshan Jiameng, Service Provider A and Service Provider B act as a bridge between local government authorities in Kunshan Pilot Zone and the three respective groups of e-commerce enterprises and related entities engaging in e-commerce business at the respective business hubs in Kunshan Pilot Zone for compliance matters.

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

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

ROLES AND RESPONSIBILITIES OF OUR GROUP, KUNSHAN TINGSHE AND KUNSHAN JIAMENG

The below table summarizes the respective roles and responsibilities of each of our Group, Kunshan Tingshe and Kunshan Jiameng in relation to the Kunshan Tingshe Distributed Products, where (i) our Group generally serves as the brand owner which focuses on product development and brand building, (ii) Kunshan Tingshe generally serves as our Distribution Agent which focuses on the manner and effectiveness of the sales of Kunshan Tingshe Distributed Products by our distributors and their sub-distributors, and (iii) Kunshan Jiameng mainly provides support to Kunshan Tingshe and monitors the compliance of our distributors with the applicable laws and regulations.

	Our Group	Kunshan Tingshe	Kunshan Jiameng
Product development	<ul style="list-style-type: none"> - Conduct product and market research - Engage independent third party(ies) to co-develop new products - Introduce new products 	<ul style="list-style-type: none"> - Provide our Group with end consumers' feedback on the use of our products 	<ul style="list-style-type: none"> - N/A

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

Our Group	Kunshan Tingshe	Kunshan Jiameng
<p>Development and management of distribution network</p>	<p>- Determine the pricing policies, including discounts, incentives and fees, in relation to the sales of Kunshan Tingshe Distributed Products and additional incentives payable to Kunshan Tingshe to motivate Li Ting and distributors to expand our distribution network</p> <p>- Provide guidance to our distributors in organizing distributors promotion meetings</p> <p>- Assist us in organizing annual events by inviting our distributors and their sub-distributors to join such annual events</p> <p>- Monitor the performance of our distributors, e.g. how our distributors sell the Kunshan Tingshe Distributed products to sub-distributors or end consumers (where applicable) and whether our distributors set price in violation of pricing guidelines sets by us</p>	<p>- Provide guidance to our distributors as to how to register themselves as Individual Proprietors or companies (where applicable) and answer any compliance-related enquiries from our distributors from time to time in order to ensure their compliance with relevant PRC laws and regulations</p> <p>- Assist our distributors to perform general record keeping and to issue the invoices on behalf of our distributors</p> <p>- Assist our distributors in preparing tax filing to the governmental authority in relation to the discounts, incentives and fees received by them. Please refer to the paragraph headed “The engagement of Kunshan Jiameng by Kunshan Tingshe – The roles of Kunshan Jiameng – monitoring the tax filings of our distributors by Kunshan Jiameng” in this section for further details</p> <p>- Liaise with the relevant governmental authority(ies) and provide them with the latest industry development, such as any complaints filed against our products and sales channel thereof, in order to assist the governmental authority(ies) to fine tune the regulations on social e-commerce industry players</p>

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

Our Group	Kunshan Tingshe	Kunshan Jiameng
<p>Marketing and promotional activities</p>	<p>According to the respective roles and responsibilities of our Group and Kunshan Tingshe in respect of the sale of the Kunshan Tingshe Distributed Products, with our Group focusing on the development of products and Kunshan Tingshe being responsible for the development and day-to-day management of the distribution network, the marketing and promotion activities conducted by our Group mainly focus on the promotion of our brand and products; whereas Kunshan Tingshe (with assistance from Kunshan Jiameng) mainly conducts marketing and promotion activities for the development of the distribution network.</p>	<p>Coordinate with and assist in engaging independent third party service providers to execute offline and online marketing and advertising activities and events contemplated by Kunshan Tingshe</p>
<ul style="list-style-type: none"> - Conduct marketing and promotional activities for our products - Create celebrity IPs which have synergy to promote our retail products as well as enhance our brand awareness - Organize large-scale annual events which aim to foster brand loyalty amongst our distributors and their sub-distributors and motivate them to further enhance their sale performance and serve as a marketing tool to enhance our brand awareness through announcing upcoming development of our Group such as IP programs or events to be launched by us, launch of new products and/or promotion activities of our products. 	<ul style="list-style-type: none"> - Conduct marketing and advertising activities for the development of the distribution network such as distributors promotion meetings for the sharing of KOC experience by the distributors and distributors recruitment events - Form ideas for advertisements and promotional social media contents and production of promotion video for image building and promotion of our distributors in order to enhance the effectiveness of promotion and sales of our products by the relevant distributors 	<ul style="list-style-type: none"> - Coordinate with and assist in engaging independent third party service providers to execute offline and online marketing and advertising activities and events contemplated by Kunshan Tingshe

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

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

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

Our Group	Kunshan Tingshe	Kunshan Jiameng
<p>Development and use of the Ordering System</p>	<p>The Ordering System was originally developed and launched by our Group in 2019. Our Group utilizes the Ordering System to manage the orders placed by our distributors and their sub-distributors. Subsequent to our disposal of Kunshan Tingshe, the Ordering System is continuously used by our Group and Kunshan Tingshe where:</p> <p>(i) Kunshan Tingshe is responsible for overall management of the orders placed by our distributors on behalf of us, such as receiving the prepayment from our distributors immediately before and after the disposal of Kunshan Tingshe by us as discussed below, arranging settlement of product price as discussed below, providing discounts and incentives to distributors and sub-distributors etc.; and</p> <p>(ii) our Group uses the data in the Ordering System to arrange delivery of our products</p>	<p>N/A</p>
<p>Settlement of product price and the corresponding discounts, incentives and fees in relation to the sales of Kunshan Tingshe Distributed Products</p>	<p>We designate the product settlement function to Kunshan Tingshe and we will settle the fee with Kunshan Tingshe on a regular basis based on the records in the Ordering System</p> <p>Calculate, with the assistance from Kunshan Jiameng, volume discount and incentives, sales volume-based fees to be granted to distributors and the Service Fee to Li Ting based on the sales data being withdrawn from the Ordering System, and arrange the settlement with them</p>	<p>Verify certain volume discounts, incentives and fees payable to Li Ting and our distributors</p> <p>Provide assistance to Kunshan Tingshe with respect to payment of the volume discounts, incentives and fees to the distributors and Li Ting</p>

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

Our Group	Kunshan Tingshe	Kunshan Jiameng
<p>Arrangement of the Jointly-controlled Accounts</p> <p>- Approve jointly with Kunshan Tingshe regarding any remittance of cash out of the Jointly-controlled Accounts</p>	<p>- Approve jointly with our Group regarding any remittance of cash out of the Jointly-controlled Accounts</p> <p>- Be, immediately before and after disposal of Kunshan Tingshe by us, primarily responsible for receiving prepayments for sales (which are normally non-refundable) from our distributors through the Jointly-controlled Accounts, and transfer purchase price for such products to us on the working day immediately following the date of such prepayment</p>	<p>N/A</p>
<p>-</p>	<p>- Receive, hold and manage the refundable security deposit from distributors to secure the distributors' compliance of the distribution agreements. The refundable security deposit will be retained in the Jointly-controlled Accounts and refunded to the distributors when they ceased to be our distributor</p>	<p>-</p>
<p>-</p>	<p>- Receive, hold and manage the refundable purchase deposit from distributors for each purchase order placed by them, as a guarantee for performance of contractual obligations imposed on them through the Jointly-controlled Accounts, at the time when prepayment for the purchase price of our products is made by the distributors and return such refundable purchase deposit to the said distributors in the following month if no breach of contractual obligation occurred</p>	<p>-</p>

DISTRIBUTION ARRANGEMENT WITH KUNSHAN TINGSHE

Our Group	Kunshan Tingshe	Kunshan Jiameng
<p>Delivery of products</p>	<p>Process and arrange delivery of our products directly to our distributors, sub-distributors or end consumers by engaging independent logistics service provider(s), upon receipt of orders placed directly from distributors or sub-distributors through the Ordering System</p>	<p>-</p>
<p></p>	<p>N/A</p>	<p>Given that the refundable security deposit and the refundable purchase deposit are fully refundable to the distributors if there is no breach of the relevant distribution agreement, Kunshan Tingshe will not transfer such amounts to our Group</p>
<p></p>	<p>N/A</p>	<p>N/A</p>