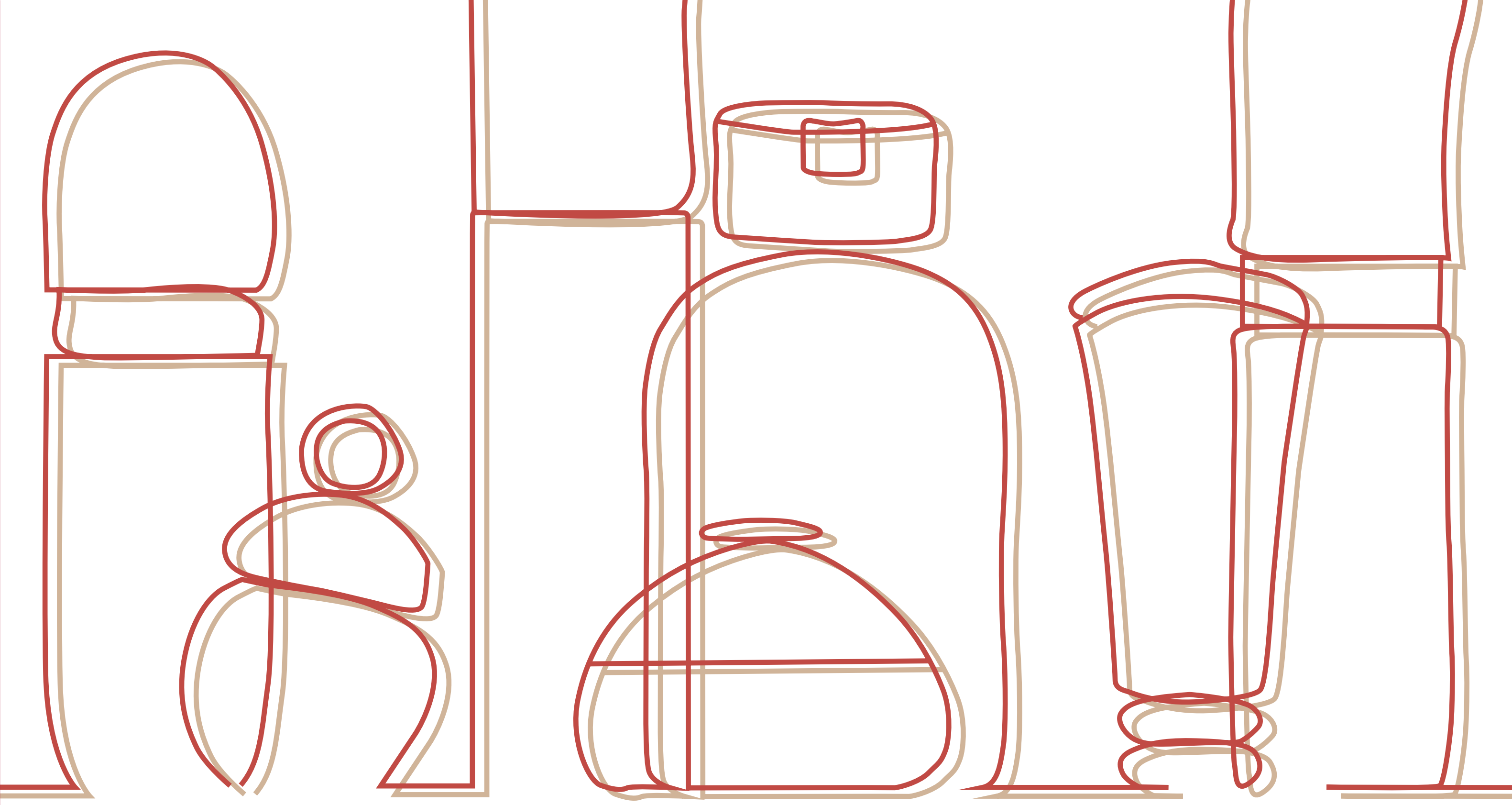

CHICMAX

上海上美化妝品股份有限公司

Shanghai Chicmax Cosmetic Co., Ltd.

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

Stock Code: **2145**

2022

Annual Report

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Corporate Information

Board of Directors

Executive Directors

Mr. Lyu Yixiong (呂義雄先生)
(Chairman of the Board and Chief Executive Officer)
Ms. Luo Yan (羅燕女士)
Mr. Feng Yifeng (馮一峰先生)
Ms. Song Yang (宋洋女士)

Non-executive Directors

Ms. Li Hanqiong (李寒窮女士)
Mr. Sun Hao (孫昊先生)

Independent Non-executive Directors

Mr. Leung Ho Sun Wilson (梁浩新先生)
Ms. Luo Yan (羅妍女士)
Mr. Liu Yi (劉毅先生)

Supervisors

Mr. Li Tao (李濤先生) *(Chairman)*
Ms. Shi Tenghua (施滕花女士)
Ms. Cao Ying (曹瑛女士)

Joint Company Secretaries

Mr. Lian Ming (廉明先生)
Mr. Li Kin Wai (李健威先生) *(ACG, HKACG)*

Audit Committee

Mr. Leung Ho Sun Wilson (梁浩新先生) *(Chairman)*
Ms. Luo Yan (羅妍女士)
Mr. Liu Yi (劉毅先生)

Remuneration and Appraisal Committee

Ms. Luo Yan (羅妍女士) *(Chairman)*
Mr. Lyu Yixiong (呂義雄先生)
Mr. Liu Yi (劉毅先生)

Nomination Committee

Mr. Lyu Yixiong (呂義雄先生) *(Chairman)*
Ms. Luo Yan (羅妍女士)
Mr. Liu Yi (劉毅先生)

Authorised Representatives

Mr. Feng Yifeng (馮一峰先生)
Mr. Li Kin Wai (李健威先生) *(ACG, HKACG)*

Auditors

Ernst & Young
(Certified Public Accountants and Registered Public Interest Entity Auditor)
27/F, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

Legal Advisors

as to Hong Kong laws

Clifford Chance
27/F, Jardine House
One Connaught Place
Central
Hong Kong

as to PRC laws

Commerce & Finance Law Offices
10/F, Tower 1
Jing An Kerry Centre
1515 West Nanjing Road
Shanghai
PRC

Compliance Adviser

Maxa Capital Limited
Unit 1908 Harbour Center
25 Harbour Road
Wanchai
Hong Kong

Registered Office

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No. 515 Yinxiang Road
Nanxiang Town
Jiading District, Shanghai
PRC

Head Office and Principal Place of Business in the PRC

25 Floor, Building B
No. 3300 Zhongshan North Road
Putuo District, Shanghai
PRC

Principal Place of Business in Hong Kong

5/F, Manulife Place
348 Kwun Tong Road
Kowloon
Hong Kong

Principal Bankers

Shanghai Pudong Development Bank Co., Ltd.
(Fengxian Sub-Branch)
No. 7557 Nanfeng Road
Fengxian District
Shanghai, PRC

China Merchants Bank Co., Ltd.,
Shanghai (Century Avenue Sub-Branch)
No. 1589 Century Avenue
Pudong New District
Shanghai, PRC

Hong Kong H Share Registrar and Transfer Office

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

Stock Code

2145

Company's Website

http://www.chicmaxgroup.com

Chairman's Statement

I am pleased to present our annual report for the year ended 31 December 2022.

FINANCIAL HIGHLIGHTS

Our revenue decreased to RMB2,675.3 million in the full year of 2022 from RMB3,618.9 million in the full year of 2021. Our gross profit decreased to RMB1,699.6 million in the full year of 2022 from RMB2,360.6 million in the full year of 2021. Our profit for the full year of 2022 was RMB137.1 million whereas our profit for the full year of 2021 was RMB338.8 million. Final Dividend of RMB0.25 per share was proposed by the Board for the year ended 31 December 2022. The final dividend for the year ended 31 December 2021 of approximately RMB0.56 per share was approved by the shareholders at shareholder's meeting general meeting held on 2 April 2022.

BUSINESS REVIEW AND OUTLOOK

Business Review

We are a multi-brand cosmetics company, focusing on research and development, manufacturing and sales of skincare and maternity and childcare products. We focus on the implementation of multi-brand strategy and have remained dedicated to it since our establishment. With an operational history of more than 20 years, today we are one of the front runners in China's cosmetics industry, possessing comprehensive multi-brand development and operational capability and expertise, and we have successfully built a variety of popular cosmetic brands. Our decisive strategy originally to embark on and persist with a multi-brand strategy gives us an advantage to timely grasp market opportunities and sets us apart from our peers.

Brands and Products

We have successfully launched a couple of cosmetics brands in China, primarily including *KANS*, *One Leaf* and *Baby Elephant*, targeting various groups of consumers with different needs. We have been and will be solidifying the leading position of our three major brands to promote overall business growth.

KANS: Launched in 2003, *KANS*, being positioned as a **scientific anti-aging** skincare brand, focuses on addressing the evolving anti-aging needs of Asian females of various age groups and is positioned to be a go-to brand in the anti-aging skincare market, with a broad target customer base, including females aged from 25 to 40. *TIRACLE*, a core ingredient developed by us using dual strain fermentation technology, has been widely applied in products under *KANS*, which is proven to have unique efficacy in addressing certain skin issues.

Note: unless otherwise indicated, the capitalized terms used in this Annual Report shall have the same meaning as those defined in the prospectus issued by the Company on 12 December 2022.

In 2022, we released new series of *Copper Peptide Firming Essence* (藍酮肽系列) and *Polypeptide Collagen Softening* (紅蠻腰系列) under *KANS*. The *Copper Peptide Firming Essence* series, which is a combination of the exclusive specialized ingredient *TIRACLE PRO* and the ingredient of *Copper Peptide Firming Essence*, can more effectively stabilize and repair the skin, and mildly resist early aging. *TIRACLE PRO* and *Copper Peptide Firming Essence* cream respectively won the "Award for Scientific and Technological Ingredient Innovation" and the "Award for Technological Product Innovation" issued by CICI AWARD. The *Polypeptide Collagen Softening* series, in which collagen and peptides as well as active substances such as VC and carnosine have been added, can help achieve anti-wrinkle and firming effects through anti-oxidation, anti-glycation, promotion of collagen production, etc. The series obtained "Top 1 in Douyin's Annual Gold Chart for Facial Care Sets". In addition, *KANS* was awarded the "Consumers' Preferred Skin Care Brands" by Kantar Worldpanel.

The revenue generated from *KANS* in 2022 was RMB1,267.4 million, representing a decrease of 22.3% as compared to 2021 and accounting for 47.4 % of our total revenue for the year.

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

One Leaf: *One Leaf* was launched in 2014. Targeting young women aged from 18 to 35, *One Leaf* blends ingredients from nature using advanced techniques, creating effective and natural skincare products.

In 2022, we started to upgrade *One Leaf* comprehensively and repositioned *One Leaf* as a clean beauty skincare brand for **skin barrier repairing** and exploring the beauty of natural plants. We are dedicated to combining active ingredients from plants with our patented technology to establish *One Leaf* as an environmental skincare brand for young consumers enabled by botanical science. *One Leaf*, together with the Shanghai Daily Chemistry Trade Association and industry experts, formulated the group standard Technical Definition and Calculation Guideline for Natural Ingredients in Cosmetics (化妝品中天然成分的技術定義和計算指南), and officially released it at the "One Leaf Clean Beauty Skincare" conference on 30 August 2022. Starting from the ingredient side, *One Leaf* joins hands with Beauty Evolution and China National Geographic in entering Longnan in Gansu to explore a Chinese ingredient – Gansu Longnan olea europaea leaf. Being in a unique geographical location and growth environment and having an abundance of oleuropeins, bioflavonoids and olive polyphenols cause Longnan olea europaea leaf to have highly effective anti-inflammatory, soothing and redness-reducing effects. On these bases, we released new series named Repair and Embellish, containing Longnan olea europaea leaf extract, has effects on skin barrier repairing and reducing redness.

The revenue generated from *One Leaf* in 2022 was RMB529.9 million, representing a decrease of 36.2% as compared to 2021, accounting for 19.8% of the total revenue for the year.

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

Baby Elephant: We launched *Baby Elephant* in 2015, which is a professional maternity and childcare brand for Chinese babies and children applying technologies developed in our Japan Hondo R&D Center. Positioned as a brand to accompany each baby during its happy and healthy growth, *Baby Elephant* with "**Simple ingredients, safe and effective**" as its core, commits to using technology-based and additive-free natural ingredients.

In 2022, *Baby Elephant* launched some new products of *Ultra Protection series* (安心臻護系列), such as *Ultra Protection Shampoo*, *Ultra Protection Wash&Shampoo* and *Ultra Protection Lotion*. Based on the principle of "4S Safe and Simple Skincare Standard" created by *Baby Elephant*, they have moisturizing and soothing effects. In 2022, *Baby Elephant* won the Seventh Cherry Awards – Best Performance Award for Baby Skincare Brands and the Eighth Cherry Awards – Annual Outstanding Performance Award for Baby Bathing Brands, and was listed in the FUTURE FMCG – Annual Innovative Product Chart.

In September 2022, *Baby Elephant* made the official announcement of its new spokesperson Ziwen Wang and put forward the parenting concept of "light childrearing" – using the simplest ingredients to support Chinese parents to achieve "light childrearing", helping China's new – generation parents and children on their growing path.

The revenue generated from *Baby Elephant* in 2022 was RMB655.1 million, representing a decrease of 24.8% as compared to 2021, accounting for 24.5% of the total revenue for the year.

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

In 2022, we primarily generated revenue from these three brands with the amount of RMB2,452.4 million, representing a decrease of 26.4% as compared to 2021, which in aggregate contributed 91.7% of our total revenue.

Other Brands

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

We have been continuously refreshing our product portfolio through introducing new products under new brands. To address the heightened demands of consumers for high-quality functional products, we launched *BIO-G*, *asnami* and *KYOCA*, expanding our offerings for sensitive skincare, middle-to-high-end maternity skincare, and hair product categories.

In 2022, our new brands and brand pipeline included *newpage*, *ARMIYO* and *TAZU*. Our new brands *newpage* and *ARMIYO* were launched in May 2022 and June 2022, respectively. *Newpage* is positioned as a functional skincare brand focusing on sensitive skins of babies and children. *ARMIYO* is a professional skincare brand targeting sensitive skin issues cooperating with artemisinin research team. The revenue generated from *newpage* increased rapidly monthly since their launch. In 2022, the revenue generated from *newpage* exceeded RMB25.5 million. Our pipeline brand *TAZU* is positioned as a high-end anti-aging skincare brand, developed in cooperation with the scientist, Kosaku Yamada.

In 2022, our products were mainly focused on the mass market. We currently manufacture and offer skin care products, maternity and childcare products and toiletries products, with some other categories as a supplement:

Research and Development

Our strong independent R&D capabilities are critical to our success and will drive our sustainable development and innovation activities in the future. We started our independent R&D activities in 2003 and have insisted on product self-development. Our approximately 20 years of experience and expertise are underscored by our Sino-Japan dual R&D center system, which enables us to stay close to the latest technological developments in the global cosmetics industry. Our dual R&D centers are dedicated to building power platforms for advanced fundamental research and product development work. Staying close to consumers’ needs, we focus on product development and new technology applications in response to the changing market. We strive to attract and cultivate talents and have formed a strong team with rich R&D experience.

We maintained high and effective R&D investment persistently. In 2021 and 2022, we incurred R&D expenses of RMB104.7 million and RMB110.3 million, respectively, accounting for 2.9% and 4.1% of our revenue, respectively.

In 2022, *KANS (Double Serum)* received the awards of *Creator Product Innovation Awards-Best Innovation on Technology (造物者產品創新大獎－最佳技術創新)*, *One Leaf (Repair and Embellish Essence)* received the awards of *Creator Product Innovation Awards-Best Innovation Package Design (造物者產品創新大獎－最佳包裝設計創新)* and *Baby Elephant (Ultra Protection Cream)* received the awards of *Creator Product Innovation Awards-Best Innovation on Raw Materials (Ingredients) (造物者產品創新大獎－最佳原材料創新(成分))* by Top Marketing.

Outlook

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

Our three major brands, *KANS*, *One Leaf* and *Baby Elephant*, are key to our multi-brand strategy and long-term development. In 2023, we will keep enhancing their brand awareness and maintain their attractiveness to existing and new customers.

Develop new brands to enrich our brand matrix and product portfolios

We will continue to closely monitor the development trends of market segments, and prudently plan development of new brands targeting emerging concerns, to meet diverse consumer demands, and ultimately create more growth opportunities.

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

Leveraging our advanced R&D and production capabilities in China and Japan, we will increase investments in fundamental research projects on trendy core ingredients in the skincare area, for example, anti-aging technologies, skin barrier repairing technologies. We will continue to conduct pilot projects for new brands and new products to improve consumer experience.

Enhance and expand sales and distribution networks

We plan to take the following measures to increase the breadth and depth of our channel sales to enhance the penetration of our products. We will continue to strengthen our collaboration with major e-commerce platforms such as *Tmall* and *JD.com*. Meanwhile, we plan to apply our successful experience with respect to the cooperation between *KANS* and emerging media platforms, such as *Douyin* and *Kuaishou*, to our other brands.

Looking forward, we are committed to conveying Chinese branding power to the world and promoting the brand image of Chinese domestic cosmetics products. Through developing our international R&D capabilities, business presence and brand awareness, we aim to become a world-class cosmetics group.

Best regards,
Lyu Yixiong
Chairman of the Board, Executive Director and Chief Executive Officer
上海上美化妝品股份有限公司
Shanghai Chicmax Cosmetic Co., Ltd.

Shanghai, the PRC
30 March 2023

Financial Summary

Our revenue decreased to RMB2,675.3 million in the full year of 2022 from RMB3,618.9 million in the full year of 2021. Our gross profit decreased to RMB1,699.6 million in the full year of 2022 from RMB2,360.6 million in the full year of 2021. Our profit for the full year of 2022 was RMB137.1 million whereas our profit for the full year of 2021 was RMB338.8 million. Final dividend of RMB0.25 per share was proposed by the Board for the year ended 31 December 2022. The final dividend for the year ended 31 December 2021 of approximately RMB0.56 per share was approved by the shareholders at shareholder's general meeting held on 2 April 2022.

(Except per share data)	FY2019 RMB'000	FY2020 RMB'000	FY2021 RMB'000	**FY2022** **RMB'000**
Revenue	2,874,321	3,381,633	3,618,882	**2,675,331**
Cost of sales	1,124,948	1,195,042	1,258,243	**975,699**
Gross profit	1,749,373	2,186,591	2,360,639	**1,699,632**
Profit before tax	52,921	279,626	408,124	**154,232**
Profit for the year	59,398	203,182	338,771	**137,080**
Dividends	–	–	200,000	**99,489**
Earning Per Share (EPS)	0.17	0.57	0.94	**0.41**
Dividend Per Share (DPS)	–	–	0.56	**0.25**
Total assets	2,323,838	2,224,288	2,274,563	**3,145,667**
Total liabilities	2,517,505	1,639,898	1,319,525	**1,439,022**
Net asset value	(193,667)	584,390	955,038	**1,706,645**
Return on Equity (ROE)	NA	34.8%	44.0%	**10.3%**
Return on Assets (ROA)	2.6%	8.9%	15.1%	**5.1%**

Management Discussion and Analysis

FINANCIAL REVIEW

Overview

We generated revenue primarily from the manufacture and sale of cosmetic products. Revenue of the Group in 2022 decreased by 26.1% to RMB2,675.3 million compared to RMB3,618.9 million in 2021 owing to factors including the domestic and foreign economic and public health situations in 2022 which in turn significantly impacted the Group's product manufacturing and logistics and led to the decrease in demand in the consumer market (collectively, the "**2022 Macro-environment**").

Revenue by brands

	Year ended 31 December			
	2022		2021	
	Amount	% of Revenue Amount	Amount	% of Revenue Amount
	(RMB in millions, except percentages)			
KANS	**1,267.4**	**47.4**	1,631.1	45.1
One Leaf	**529.9**	**19.8**	830.7	23.0
Baby Elephant	**655.1**	**24.5**	871.2	24.1
Other brands(Note)	**222.9**	**8.3**	285.9	7.8
Total	**2,675.3**	**100.0**	3,618.9	100.0

Note: Other brands primarily consist of *BIO-G, asnami, KYOCA, newpage* and *ARMIYO*.

Our revenue attributable to *KANS* decreased by 22.3% from RMB1,631.1 million in 2021 to RMB1,267.4 million in 2022, primarily due to decrease in revenue generated from online direct sales channels in relation to the 2022 Macro-environment.

Our revenue attributable to *One Leaf* decreased by 36.2% from RMB830.7 million in 2021 to RMB529.9 million in 2022, primarily due to decrease in sales revenue from online and offline channels as a result of brand transformation and adjustment.

Our revenue attributable to *Baby Elephant* decreased by 24.8% from RMB871.2 million in 2021 to RMB655.1 million in 2022, primarily due to 2022 Macro-environment and competitive environment in the maternity and childcare industry, resulting in a decrease in sales revenue from online direct sales and online retail channels.

Revenue by sales channels

	Year ended 31 December			
	2022		2021	
	Amount	**% of Revenue Amount**	Amount	% of Revenue Amount
	(RMB in millions, except percentages)			
Online channels	**2,004.8**	**74.9**	2,697.9	74.6
Online direct sales	**1,059.9**	**39.6**	1,532.6	42.4
Sales to Online Retailers	**474.8**	**17.7**	514.0	14.2
Sales to Online Distributors	**470.1**	**17.6**	651.3	18.0
Offline channels	**614.9**	**23.0**	829.4	22.9
Sales to Offline Retailers	**330.7**	**12.4**	471.4	13.0
Sales to Offline Distributors	**284.2**	**10.6**	358.0	9.9
Others(Note)	**55.6**	**2.1**	91.6	2.5
Total	**2,675.3**	**100.0**	3,618.9	100.0

Note: Others primarily consist of our ODM business. During the Reporting Period, we provided the OEM services to third-party cosmetics companies in order to optimize the usage of production facilities to achieve economic benefits.

Online direct sales. Revenue decreased by 30.8% from RMB1,532.6 million in 2021 to RMB1,059.9 million in 2022 primarily due to the decreased revenue generated from *Tmall* and *Kuaishou*.

Sales to online retailers. Revenue decreased by 7.6% from RMB514.0 million in 2021 to RMB474.8 million in 2022.

Sales to online distributors. Revenue decreased by 27.8% from RMB651.3 million in 2021 to RMB470.1 million in 2022, primarily due to dynamic adjustment of our online sales strategies corresponding to the significant transformation of e-commerce industry.

Sales to offline retailers. Revenue decreased by 29.8% from RMB471.4 million in 2021 to RMB330.7 million in 2022, primarily due to the changes in consumption habits.

Sales to offline distributors. Revenue decreased by 20.6% from RMB358.0 million in 2021 to RMB284.2 million in 2022, primarily due to the changes in consumption habits and channels.

Revenue by categories

	Year ended 31 December			
	2022		2021	
	Amount	% of Revenue Amount	Amount	% of Revenue Amount
	(RMB in millions, except percentages)			
Skin Care	**1,944.8**	**72.7**	2,679.7	74.0
Maternity and childcare	**706.7**	**26.4**	901.9	24.9
Others	**23.8**	**0.9**	37.3	1.1
Total	**2,675.3**	**100.0**	3,618.9	100.0

Our revenue attributable to skin care decreased by 27.4% from RMB2,679.7 million in 2021 to RMB1,944.8 million in 2022, maternity and childcare decreased by 21.6% from RMB901.9 million in 2021 to RMB706.7 million in 2022, primarily due to multiple factors such as brand transformation and adjustment, changes in channels and consumption habits, and 2022 Macro-environment.

Gross Profit and Gross Profit Margin

Our gross profit decreased by 28.0% from RMB2,360.6 million in 2021 to RMB1,699.6 million in 2022. Our gross profit margins were 63.5% and 65.2% in 2022 and 2021, respectively, primarily due to (i) the changes in gross profit margins of *KANS*, *One Leaf*, and *Baby Elephant*, and (ii) the promotion activities and our dynamic adjustment of our online sales.

Other Income and Gains

Our other income and gains increased by 34.4% from RMB91.4 million in 2021 to RMB122.8 million in 2022, primarily due to (i) the increase in government grants, and (ii) the increase in other gains as a result of our receipt of a compensation in relation to the enforcement of a civil judgement.

Selling and Distribution Expenses

Our selling and distribution expenses as a percentage of the Group's revenue increased to 47.0% in 2022 compared with 43.4% in 2021. The selling and distribution expenses decreased by RMB314.6 million from RMB1,572.3 million in 2021 to RMB1,257.7 million in 2022. Marketing and promotion expenses decreased by RMB185.6 million to RMB848.4 million in 2022 from RMB1,034.0 million in 2021, primarily due to the effect of multiple factors, such as the 2022 Macro-environment. Employee benefits expenses in relation to distribution work decreased by RMB84.8 million to RMB284.6 million in 2022 from RMB369.4 million in 2021. Other key expenses included transportation expenses of RMB106.9 million, travelling and entertainment expenses of RMB12.8 million and others of RMB5.0 million in 2022.

Administrative Expenses

Our administrative expenses decreased by RMB38.2 million, to RMB223.4 million in 2022 as compared to RMB261.6 million in 2021. Administrative expenses mainly comprised employee benefits expenses (including directors' emoluments) of RMB92.5 million, profession and consulting fees of RMB47.7 million, depreciation and amortisation charges of RMB40.9 million and office, utility expense of RMB25.9 million and others of RMB16.4 million in 2022.

Research and Development Costs

Our research and development costs increased by 5.3% from RMB104.7 million in 2021 to RMB110.3 million in 2022, primarily due to the increase in R&D activities.

Impairment Losses on Financial Assets, net

Our impairment losses on financial assets, net changed from RMB6.3 million in 2021 to RMB12.1 million in 2022, primarily due to the increase in impairment losses of trade receivables.

Other Expenses

Our other expenses decreased by 44.7% from RMB77.8 million in 2021 to RMB43.0 million in 2022, primarily due to decreases of inventory impairment and scrap.

Finance Costs

Our finance costs decreased by 1.9% from RMB20.9 million in 2021 to RMB20.5 million in 2022, primarily due to (i) the increase of interest on bank and other borrowings in relation to the increase of the total amount of our bank and other borrowings and (ii) the decrease in interest on lease liabilities in 2022.

Income Tax Expense

Income tax expense decreased to RMB17.2 million in 2022 as compared to RMB69.4 million in 2021. The effective tax rates of the Group in 2021 and 2022 were 17.0% and 11.1% respectively.

Profit for the Year

As a result of the foregoing, our profit for the year was RMB338.8 million and RMB137.1 million in 2021 and 2022, respectively.

Liquidity and Capital Resources

Cash generated from operating activities in 2022 was approximately RMB36.6 million (RMB335.2 million in 2021). As of 31 December 2022, the Group had cash and cash equivalents of approximately RMB1,147.7 million (RMB145.2 million as of 31 December 2021) with approximately RMB650.4 million of external bank borrowings (RMB190.1 million as of 31 December 2021).

In terms of gearing, the Group's gearing ratios (defined as total interest-bearing bank and other borrowings and lease liabilities divided by shareholders' equity) in 2021 and 2022 were 29.9% and 42.7%, respectively. The current ratios of the Group (defined as current assets divided by current liabilities) as of 31 December 2021 and 31 December 2022 were 1.2 times and 1.7 times respectively. As of 31 December 2022, the Group had no material contingent liabilities, other than those disclosed in its consolidated financial statements and the notes thereto. With the cash and bank balances in hand, the Group's liquidity position remains strong to meet its working capital requirements.

As of 31 December 2022, our interest-bearing bank and other borrowings were RMB650.4 million, which comprised of (i) secured bank loans (current) of RMB420.3 million at effective interest rates of 2.10% to 5.20% per annum and unsecured bank loans (current) of RMB100.0 million at effective interest rates of 2.55% to 3.65% per annum, (ii) the current portion of secured long-term bank loans of RMB70.0 million at effective interest rates of 4.75% to 5.39% per annum, and (iii) secured bank loans (non-current) of RMB60.1 million at effective interest rates of 4.75% per annum. Our interest-bearing bank and other borrowings increased from RMB190.1 million as of 31 December 2021 to RMB650.4 million as of 31 December 2022 mainly in response to the 2022 Macro-environment.

Pledge of Assets

As of 31 December 2022, the Group's secured short-term and long-term bank borrowings were secured by (i) machinery and buildings and right-of-use assets related to leasehold land, with carrying amounts of RMB327.4 million (RMB559.1 million as of 31 December 2021) and (ii) investment properties with a net carrying amounts values of approximately RMB9.3 million (nil as of 31 December 2021).

As of 31 December 2022, the amount of the Group's letter of credit guarantee deposits and bank guarantee deposits was RMB11.5 million (nil as of 31 December 2021).

Treasury Policies and Exposure to Fluctuations in Exchange Rates

Most of the Group's revenues are denominated in RMB as its operations are mainly located in China. As of 31 December 2022, approximately 28.5% (91.5% as of 31 December 2021) of the Group's bank balances and cash was denominated in RMB and 70% (nil as of 31 December 2021) of the Group's bank balances and cash was denominated in HKD which was proceeded from the Global Offering. The remaining 1.5% (8.5% as of 31 December 2021) was denominated in United States Dollars or Japanese Yen. The Group continues to adopt a conservative approach in its foreign exchange exposure management. For the year ended 31 December 2022, the Group did not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group reviews its foreign exchange risks periodically and uses derivative financial instruments to hedge against such risks when necessary.

Employees and Remuneration Policy

As of 31 December 2022, we had 2,572 full-time employees, 2,505 full-time employees were based in mainland China, primarily at our Shanghai headquarter and various other cities in China, and 67 full-time employees were based in Japan, where our overseas factory and R&D center located. The total remuneration cost for 2022 was 473.6 million, as compared to 564.5 million for 2021 primarily due to the decrease in share-based compensation expenses and performance-related bonuses.

We recruit our employees through on-campus recruitment, job fairs, recruitment agencies and internal and external referrals. Committed to providing fair and equal opportunities in all our employment practices, we have adopted policies and procedures including candidate competency analysis models designed by third parties to ensure a fair selection and hiring process. As part of our retention strategy, we offer our employees competitive salaries, comprehensive insurance packages and merit-based incentive schemes which are generally based on performance of the individual employees and the overall performance of our business.

We provide new hire training to new joiners on our culture, business and industry improving their understanding of the Company and their abilities to perform their duties. We also regularly provide tailor-made in-house training sessions to our employees that seek to improve their technical skills or arrange for our employees to attend training sessions provided by third parties. In addition, we provide management skills training opportunities to certain employees to help them transition into a management role.

Capital Expenditures

The Group's capital expenditure of RMB60.1 million in 2022 was mainly related to the new items of property, plant and equipment amounting to RMB54.3 million, and other intangible assets amounting to RMB5.8 million.

Right-of-use Assets and Lease Liabilities

The related right-of-use assets and lease liabilities are located in the PRC and Japan. As of 31 December 2022, the Group's right-of-use assets were RMB144.5 million (RMB161.7 million as of 31 December 2021) and its lease liabilities were RMB77.8 million (RMB95.0 million as of 31 December 2021). In 2022, depreciation charges of right-of-use assets amounted to RMB26.0 million and interest charges of lease liabilities amounted to RMB5.2 million.

Biographical Details of Directors, Supervisors and Senior Management

Executive Directors

Mr. Lyu Yixiong (呂義雄), aged 44, currently serves as the executive Director, chairman of the Board and chief executive officer of our Company and is also one of the Controlling Shareholders of our Company. Since Shanghai Chicmax (previously known as Shanghai Kaka Cosmetic Co., Ltd. (上海卡卡化妝品有限公司)) was founded in June 2004, Mr. Lyu has been its chief executive officer, responsible for general management of the Company. Mr. Lyu holds positions in various subsidiaries of our Company, including:

Name of subsidiary	Position held	Period of Appointment
Leading Investment	Legal representative and Executive director	April 2016 – Present
Nippon Shuichi	Representative director	January 2019 – Present
Shanghai KPC	Legal representative and Chairman of the board	August 2020 – Present

Mr. Lyu completed the executive management education courses at Cheung Kong Graduate School of Business (長江商學院) in the PRC in November 2018.

Ms. Luo Yan (羅燕), aged 35, is our executive Director, deputy chief executive and the general manager for *KANS* brand. Joining our Group in March 2012, Ms. Luo has been serving in various positions including the chief operation officer from January 2015 to February 2020, the deputy chief executive since March 2020, mainly responsible for e-commerce on emerging media platforms, and the general manager for *KANS* since January 2021, responsible for the overall management and marketing of *KANS*. Ms. Luo was appointed as an executive Director in May 2020.

In addition, Ms. Luo currently holds directorship in various members of the Group, including serving as the executive director of Shanghai Zhongyi since December 2018, the director of Nippon Shuichi since January 2019, the executive director of Shanghai Kans Cosmetic Sales since January 2019, the executive director of Shanghai One Leaf since February 2019, the executive director of Baby Elephant Cosmetic since March 2019, the executive director of Baby Elephant Cosmetic Sales Service since July 2019, the executive director of Shanghai Shumei since January 2021, and the executive director of Shanghai Kans Biotechnology since March 2021.

Ms. Luo obtained a college degree in international trade and economics from Shanghai Lixin University of Accounting and Finance (上海立信會計金融學院) in June 2020.

Mr. Feng Yifeng (馮一峰), aged 43, is our executive Director, deputy chief executive and chief financial officer. Mr. Feng joined our Group in July 2016, serving as the deputy chief executive since July 2016, also in charge of financial matters, and the chief financial officer since February 2021. Mr. Feng was appointed as an executive Director in June 2017 and has been serving as the director of Shanghai Yuzi Technology Co., Ltd. (上海魚子科技有限公司), a company directly held by the Company as to 60%, since July 2020; the director of Shanghai KPC Biotechnology Co., Ltd. (上海昆藥生物科技有限公司) ("Shanghai KPC"), a company directly held by the Company as to 51%, since August 2020; the director of Shanghai Teaz Cosmetic Co., Ltd. (上海茶媞化妝品有限公司), a company indirectly held by the Company as to 60% and engaging in cosmetics business, since August 2021; and the chairman of Shanghai Yiye Biotechnology Co., Ltd. (上海怡頁生物科技有限公司), a company indirectly held by the Company as to 56%, since January 2022. Mr. Feng has also been the independent director of Sinopharma-CICC (Shanghai) Private Equity Investment management Co., Ltd. (國藥中金(上海)私募股權投資管理有限公司) since September 2016.

Prior to joining the Group in July 2016, Mr. Feng was a supervisor of China National Accord Medicines Corporation (國藥集團一致藥業股份有限公司) from August 2012 to August 2016, his highest position being the chairman of the supervisory board; an employee of Sinopharm Group Co., Ltd. (國藥控股股份有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 1099), from June 2010 to June 2016, his highest position being the head of finance and asset management; and an employee of PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所) from July 2002 to June 2010, his highest position being a senior audit manager.

Mr. Feng obtained a bachelor's degree in management from Shanghai University of Finance and Economics (上海財經大學) in the PRC in July 2001 and a Master of Business Administration from China Europe International Business School (中歐國際工商學院) in the PRC in October 2015. Mr. Feng was accredited as a certified public accountant (non-practicing) by the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) and as a chartered certified accountant by the Association of Chartered Certified Accountants.

Ms. Song Yang (宋洋), aged 33, is our executive Director, deputy chief executive, the general manager of *One Leaf* brand division and is mainly responsible for research and development, and product innovation of the Company. Joining our Group in December 2013, Ms. Song has been serving in various positions including the director of projects from April 2016 to April 2018, the general manager of our Company's global new product innovation center since May 2018, and the deputy chief executive since September 2019. Ms. Song was appointed as an executive Director in February 2020. Ms. Song has also been serving as the director of Shanghai KPC since August 2020 and the general manager for *One Leaf* since June 2022, responsible for the overall management and marketing of *One Leaf*.

Ms. Song obtained a bachelor's degree in literature from Xianda College of Economics and Humanities, Shanghai International Studies University (上海外國語大學賢達經濟人文學院) in the PRC in July 2012.

Non-executive Directors

Mr. Sun Hao (孫昊), aged 32, is our non-executive Director. Mr. Sun joined Shanghai Premium Bright Global Capital Co. Ltd. (上海銘耀股權投資管理有限公司) in May 2017 where his current position is executive director and primarily focusing on investments in consumer and retail sector. Previously, Mr. Sun worked in Advisory Practice of PricewaterhouseCoopers Limited in its Hong Kong office from October 2014 to April 2017. Before that, from September 2013 to October 2014, Mr. Sun worked in Audit Department of Deloitte Touche Tohmatsu (Hong Kong office).

Mr. Sun obtained a bachelor's degree in Business Economics from City University of Hong Kong in Hong Kong in May 2013.

Ms. Li Hanqiong (李寒窮), aged 45, is our non-executive Director. Ms. Li has also been serving as the director and chief executive officer of Youngor Investment Co., Ltd. (雅戈爾投資有限公司) since April 2007, and the vice chairman of the board of Youngor Group Co., Ltd. (雅戈爾集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600177), since May 2017.

Previously, Ms. Li served as the chief executive officer of Youngor Garment Holdings Co., Ltd. (雅戈爾服裝控股有限公司) from February 2014 to June 2016 and a director of this company since January 2015, and a vice president at Youngor (Hong Kong) Industrial Company Limited (雅戈爾(香港)實業有限公司) from October 2004 to October 2006.

Ms. Li obtained a bachelor's degree in business administration from California State University (加州州立大學) in the US in December 2000 and an Executive Master of Business Administration from China Europe International Business School (中歐國際工商學院) in the PRC in September 2010.

Independent Non-executive Directors

Mr. Leung Ho Sun Wilson (梁浩新), aged 42, is our independent non-executive Director. In addition to his position in our Group, Mr. Leung has been serving as a director of Madison Pacific Trust Limited (麥迪遜太平洋信託有限公司) since December 2018. Previously, Mr. Leung worked at Credit Suisse Group (瑞士信貸銀行) and Ernst & Young (安永會計事務所).

Mr. Leung obtained a bachelor's degree in Business Administration (Accounting and Finance) from the University of Hong Kong (香港大學) in December 2002. Mr. Leung is also a member of the Hong Kong Institute of Certified Public Accountants.

Ms. Luo Yan (羅妍), aged 39, is our independent non-executive Director. In addition to her position in our Group, Ms. Luo is currently a professor at the School of Management at Fudan University (復旦大學). Ms. Luo has also been serving as an independent non-executive director of Shanghai CEO Environmental Protection Technology Co., Ltd. (上海復潔環保科技有限公司), a listed company on the Shanghai Stock Exchange (stock code: 688335), since July 2021; and an independent non-executive director of 3 Peak Incorporated (思瑞浦微電子科技(蘇州)股份有限公司), a listed company on the Shanghai Stock Exchange (stock code: 688536), since December 2019.

Ms. Luo obtained a bachelor's degree in management from Shanghai University of Finance and Economics (上海財經大學) in the PRC in June 2005 and a doctorate degree in philosophy from the University of Hong Kong (香港大學) in November 2010. She was employed as a postdoctoral fellow at the School of Economics and Finance of the University of Hong Kong (香港大學) from November 2010 to February 2013.

Mr. Liu Yi (劉毅), aged 36, is our independent non-executive Director. In addition to his position in our Group, Mr. Liu has been a senior partner of Everbright Law Firm (上海市光大律師事務所) since July 2009, and a member of the Financial Instrument Business Specialized Committee of the Shanghai Lawyers Association (上海律師協會金融工具業務研究委員會).

Mr. Liu has been a researcher at the Land and Housing Policy Law Institute of East China University of Political Science and Law (華東政法大學土地與住宅政策法律研究所) since January 2010. He participated in the translation of Contemporary National Property Management Laws《當代主要國家物業管理法》in 2014.

Mr. Liu obtained a bachelor's degree in law from Anhui University (安徽大學) in the PRC in July 2006 and a master's degree in law from East China University of Political Science and Law (華東政法大學) in the PRC in June 2009. Mr. Liu was admitted to practice law in the PRC in March 2008.

Supervisors

Mr. Li Tao (李濤), aged 47, is a Supervisor, the chairman of the Supervisory Committee and the audit director of our Company. Mr. Li has also been serving as the supervisor of various members of the Group, including Shanghai Shumei since January 2021, Shanghai Kans Biotechnology since March 2021, Leading Investment since April 2021, and Shanghai Zhongyi, Shanghai One Leaf, Baby Elephant Cosmetic, and Shanghai Kans Cosmetic Sales since May 2021.

Prior to joining our Group in November 2016, Mr. Li served as the director of audit of Opple Lighting Co., Ltd. (歐普照明股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603515), from July 2011 to April 2013, and an employee of PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所) from November 2000 to December 2008, his highest position being an audit manager.

Mr. Li obtained a bachelor's degree in physics from Nanjing University (南京大學) in the PRC in July 1998. Mr. Li is a certified public accountant, as accredited by Guam Board of Accountancy in June 2016, and a certified fraud examiner (註冊反舞弊調查師), as awarded by the Association of Certified Fraud Examiner in January 2020.

Mr. Li was further employed as the expert of Enterprise Anti-Fraud Alliance (企業反舞弊聯盟) in January 2020, and recognized as a member of Shanghai Criminology Society (上海市犯罪學學會) in April 2020.

Ms. Shi Tenghua (施滕花), aged 38, is a Supervisor of our Company. Ms. Shi served as the manager of the finance department of our Company from September 2017 to October 2019, the senior manager of our finance department from November 2019 to March 2020, our deputy financial director from April 2020 to June 2020, and the general manager of the e-commerce department II (電商二部) from July 2020 to July 2021. She has also been the deputy general manager for *One Leaf*, responsible for the overall brand management and marketing of *One Leaf*, since July 2021.

Prior to joining our Group in September 2017, Ms. Shi was an employee of Shanghai Robam Electric Appliance Sales Co., Ltd. (上海老闆電器銷售有限公司) from August 2007 to September 2017, her highest position being the manager of the finance department.

Ms. Shi obtained a bachelor's degree in finance from Shandong University (山東大學) in the PRC in July 2007.

Ms. Cao Ying (曹瑛), aged 44, is an employee representative Supervisor and the director of legal department of our Company.

Prior to joining our Group in June 2020, Ms. Cao worked at Shanghai Milkground Food Tech Co., Ltd. (上海妙可藍多食品科技股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600882), from February 2017 to May 2020, her highest position being the director of legal department and representative of securities-related matters; at Shanghai OCJ Co., Ltd. (上海東方希傑商務有限公司) from May 2004 to February 2017, her highest position being the deputy general manager of the general management center and the director of the audit and legal department; and as a lawyer with Watson & Band (上海市華誠律師事務所) from August 2000 to August 2003.

Ms. Cao obtained a bachelor's degree in law from Shanghai University (上海大學) in the PRC in July 2000 and a master's degree in law from Fudan University (復旦大學) in the PRC in January 2014. Ms. Cao was admitted to practice law in the PRC in March 2001.

Senior Management

Mr. Lyu is our executive Director, chief executive officer and the chairman of the Board. See "Executive Directors" in this section for the biographical details of Mr. Lyu.

Ms. Luo Yan (羅燕) is our executive Director and deputy chief executive. See "Executive Directors" in this section for the biographical details of Ms. Luo.

Mr. Feng is our executive Director, deputy chief executive, and chief financial officer. See "Executive Directors" in this section for the biographical details of Mr. Feng.

Ms. Song is our executive Director and deputy chief executive. See "Executive Directors" in this section for the biographical details of Ms. Song.

Mr. Lian Ming (廉明), aged 39, is the secretary of the Board of our Company. Prior to joining our Group in September 2020, Mr. Lian served as the director, secretary of the board of directors and executive assistant of Guangdong Marubi Biotechnology Co., Ltd. (廣東丸美生物技術股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603983) and specialized in research, development and production of cosmetics, from July 2010 to July 2020, and an employee of the Jiangsu branch of the China Petroleum and Chemical Corporation (中石油化工股份有限公司江蘇石油分公司) from July 2009 to July 2010.

Mr. Lian was recognized as "Guangzhou High-tier Financial Talent" by the Guangzhou Municipal Financial Regulatory Bureau in June 2020.

Mr. Lian obtained a master's degree in law from Tsinghua University (清華大學) in the PRC in July 2009.

Joint Company Secretaries

Mr. Lian is the secretary of the Board, and was appointed as the joint company secretary of our Company ("**Joint Company Secretaries**") on 21 December 2021 with his appointment taking effect on the Listing Date. See "Senior Management" above for the biographical details of Mr. Lian.

Mr. Li Kin Wai (李健威), has been appointed as the Joint Company Secretary of our Company since 21 December 2021 with his appointment taking effect on the Listing Date where he is responsible for company secretarial matters of the Company.

Mr. Li Kin Wai has over 10 years of experience in the corporate secretarial and compliance services field. He is a manager of Corporate Services of Tricor Services Limited ("**Tricor**"), a global professional service provider. He currently serves as company secretary or joint company secretary for a number of Hong Kong listed companies.

Mr. Li Kin Wai is a Chartered Secretary and a Chartered Governance Professional. He is also an associate of both The Hong Kong Chartered Governance Institute (HKCGI) (formerly known as The Hong Kong Institute of Chartered Secretaries (HKICS)) and the Chartered Governance Institute (CGI) (formerly known as the Institute of Chartered Secretaries and Administrators (ICSA)) in the United Kingdom. Mr. Li obtained a bachelor's degree and a master's degree in corporate governance from the Open University of Hong Kong (香港公開大學) in August 2010 and November 2020, respectively.

Corporate Governance Report

The board (the "**Board**") hereby presents this corporate governance report (the "**Corporate Governance Report**") in the Company's annual report for the year ended 31 December 2022.

Corporate Governance Culture

Built on our vision, values and culture, we are committed to developing a positive corporate governance culture that allows employees across the Group to thrive, meet their full potential, and that enables our Company to deliver long-term sustainable growth and success.

OUR VISION Our vision is to become a world-class influential cosmetics company that makes popular products enjoyed by consumers around the world.

OUR VALUES Diversity, optimism, innovation and legacy.

OUR CULTURE Because we love.

Corporate Governance Practices

The Board is committed to maintaining high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of the shareholders of the Company (the "**Shareholder(s)**"), enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and code provisions of the Corporate Governance Code on the The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as the basis of the Company's corporate governance practices.

The Board is of the view that during the period from 22 December 2022 (the "**Listing Date**") to 31 December 2022 (the "**Relevant Period**"), the Company has complied with all the applicable code provisions as set out in the CG Code, except for Code Provision C.2.1 described in the paragraph headed "Chairman and Chief Executive Officer". The Board will continue to review and monitor the code of corporate governance practices of the Company with an aim to maintaining a high standard of corporate governance.

Model Code for Securities Transactions

Since the Company's Shares were listed on the Stock Exchange on the Listing Date, the provisions regarding compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") are only applicable to the Company since the Listing Date.

Following the listing of the Shares on the Main Board of the Stock Exchange (the "**Listing**"), the Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding dealings in the securities of the Company by the directors (the "**Director(s)**") and the supervisors of the Company (the "**Supervisors**"), and the Group's employees who, because of his/her office or employment, are likely to possess inside information in relation to the Group or the Company's securities. Specific enquiries have been made to all Directors and Supervisors and the Directors and Supervisors have confirmed that they have complied with the Model Code during the Relevant Period.

No incident of non-compliance of the Model Code by the employees was noted by the Company for the Relevant Period.

Board of Directors

The Company is headed by an effective Board which assumes responsibility for its leadership and control and be collectively responsibility for promoting the Company's success by directing and supervising the Company's affairs. Directors take decisions objectively in the best interests of the Company.

The Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business and regularly reviews the contribution required from a Director to perform his responsibilities to the Company and whether the Director is spending sufficient time performing them that are commensurate with their role and the Board responsibilities. The Board includes a balanced composition of executive directors and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

Board Composition

The composition of the Board as at the date of this annual report is as follows:

Executive Directors

Mr. Lyu Yixiong *(Chairman of the Board and chief executive officer)*
Ms. Luo Yan (羅燕女士)
Mr. Feng Yifeng
Ms. Song Yang

Non-executive Directors
Mr. Sun Hao
Ms. Li Hanqiong

Independent Non-executive Directors
Mr. Leung Ho Sun Wilson
Ms. Luo Yan (羅妍女士)
Mr. Liu Yi

The biographical information of the Directors is set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" on pages 16 to 21 of this annual report. Save as disclosed therein, there is no other relationships (including financial, business, family or other material/relevant relationship(s)) between the Board members and in particular, between the Chairman and the Chief Executive Officer.

Board Meetings and Directors' Attendance Records

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

Since the Company was only listed on the Stock Exchange on 22 December 2022, the Board only held one Board meeting between the Listing Date and the date of this annual report.

The attendance record of each Director during their respective tenure of office at the Board meeting of the Company held during the period from the Listing Date to the date of this annual report is set out in the table below:

Name of Director	Attendance/Number of Board Meetings
Executive Directors	
Mr. Lyu Yixiong	1/1
Ms. Luo Yan (羅燕女士)	1/1
Mr. Feng Yifeng	1/1
Ms. Song Yang	1/1
Non-executive Directors	
Mr. Sun Hao	1/1
Ms. Li Hanqiong	1/1
Independent Non-executive Directors	
Mr. Leung Ho Sun Wilson	1/1
Ms. Luo Yan (羅妍女士)	1/1
Mr. Liu Yi	1/1

General Meeting

Due to the fact that the Company was listed on 22 December 2022, no general meeting was held during the period from the Listing Date to the date of this annual report.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound corporate governance, internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors, Supervisors and senior management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

Chairman and Chief Executive Officer

Code Provision C.2.1 of the CG Code states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Lyu Yixiong is both the chairman of the Board and the chief executive officer of the Company. Notwithstanding the deviation from Code Provision C.2.1 of the CG Code, given Mr. Lyu Yixiong's extensive knowledge and experience of the Group's business, the Board considers that vesting the roles of both chairman of the Board and chief executive officer of the Company in the same person brings the benefit of ensuring consistent leadership within the Group and enabling more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and efficiently.

The Board will nevertheless continue to review the structure from time to time and consider the appropriate move to take when appropriate.

Independent Non-executive Directors

During the period from the Listing Date to the date of this annual report, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Board Independence Evaluation

The Company has established a Board Independence Evaluation Mechanism which sets out the processes and procedures to ensure a strong independent element on the Board, and allows the Board effectively exercises independent judgment to better safeguard Shareholders' interests.

The objectives of the evaluation are to improve Board effectiveness, maximise strengths, and identify the areas that need improvement or further development. The evaluation process also clarifies what actions of the Company need to be taken to maintain and improve the Board performance, for instance, addressing individual training and development needs of each Director.

Pursuant to the Board Independence Evaluation Mechanism, the Board will conduct annual review on its independence.

Since the Company was only listed on the Stock Exchange on 22 December 2022, the Board will review conduct the annual review on the implementation and effectiveness of the Board Independence Evaluation Mechanism in 2023.

Appointment and Re-election of Directors

Under the Articles of Association of the Company (the "**Articles**"), Directors (including non-executive Directors) shall be elected at the general meeting with a term of three years. Each of the current non-executive Directors have been appointed for a term of three years commencing on the following dates:–

Directors	Appointment Date
Non-executive Directors	
Mr. Sun Hao	30 September 2022
Ms. Li Hanqiong	16 December 2020
Independent Non-executive Directors	
Mr. Leung Ho Sun Wilson	21 December 2021
Ms. Luo Yan (羅妍女士)	21 December 2021
Mr. Liu Yi	21 December 2021

A Director may serve consecutive terms if re-elected upon the expiry of his/her term. A Director shall continue to perform his duties in accordance with the laws, administrative regulations and Articles until a duly re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office, or if the resignation of directors results in the number of directors being less than the quorum. The Articles also provides that each Director appointed to fill a casual vacancy or as addition to the Board shall hold office until the first general meeting after his/her appointment. The retiring Directors shall be eligible for re-election.

Each of the executive Directors, non-executive Directors, independent non-executive Directors and Supervisors has entered into a service contract or appointment letter with the Company with a specific term. Such service contracts are for a term commencing from the date of appointment to the expiry of the current session of the Board.

Save as disclosed above, the Company did not sign any relevant unexpired service contract which is not terminable within a year without payment of any compensation, other than statutory compensation.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate.

All Directors are encouraged to attend relevant training courses at the Company's expenses.

Prior to the Listing and during the Relevant Period, the Company organized training sessions conducted by the qualified professionals/legal advisers for all Directors. The training sessions covered Directors' duties and responsibilities. In addition, relevant reading materials covering Directors' duties and responsibilities have been provided to the Directors for their reference and studying.

The training records of the Directors up to date of this annual report are summarized as follows:

Directors	Type of Training Note
Executive Directors	
Mr. Lyu Yixiong	B
Ms. Luo Yan (羅燕女士)	B
Mr. Feng Yifeng	B
Ms. Song Yang	B
Non-executive Directors	
Mr. Sun Hao	A&B
Ms. Li Hanqiong	A&B
Independent Non-executive Directors	
Mr. Leung Ho Sun Wilson	A&B
Ms. Luo Yan (羅妍女士)	B
Mr. Liu Yi	B

Note:

Types of Training

A: Attending training sessions, including but not limited to briefings, seminars, conferences and workshops
B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

Board Committees

The Board has established three committees, namely, the Audit Committee, Remuneration and Appraisal Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration and Appraisal Committee and Nomination Committee are published on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

Audit Committee

The Audit Committee consists of three members, namely Mr. Leung Ho Sun Wilson, Ms. Luo Yan (羅妍女士) and Mr. Liu Yi. All Audit Committee members are independent non-executive Directors. Mr. Leung Ho Sun Wilson is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the Corporate Governance Code and the PRC laws. The primary responsibilities of the Audit Committee are (a) to make recommendations to the Board on the appointment, replacement and removal of the external auditor, to consider and approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee shall discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commences; (c) to develop and implement policy on engaging an external auditor to provide non-audit services; (d) to monitor internal audit system of the Company and ensure the implementation of such systems; (e) to facilitate communications between the internal audit department and external auditors; (f) to review the financial information and relevant disclosures of the Company; and (g) to monitor the Company in respect of financial reporting system, risk management and internal controls system. The Audit Committee shall report to the Board on its work.

As the Company was listed on the Stock Exchange on 22 December 2022, no Audit Committee meeting was held during the Relevant Period.

Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee consists of three members, namely Mr. Lyu Yixiong (executive Director), Ms. Luo Yan (羅妍女士) (independent non-executive Director) and Mr. Liu Yi (independent non-executive Director). Ms. Luo Yan is the chairperson of the Remuneration and Appraisal Committee.

The terms of reference of the Remuneration and Appraisal Committee are of no less exacting terms than those set out in the Corporate Governance Code and the PRC laws. The primary functions of the Remuneration and Appraisal Committee include (a) to make recommendations to the Board on our Company's remuneration policy and structure for all Directors, Supervisors and senior management, and on the establishment of a formal and transparent procedure for developing the remuneration policy; (b) to review and approve the remuneration proposals of senior management with reference to the Board's corporate goals and objectives; (c) to make recommendations to the Board on the remuneration packages of the executive Director and senior management or to determine, with delegated responsibility, the remuneration packages of the executive Director and senior management. The remuneration packages shall include benefits in kind, pension rights and compensation payments (including compensation for loss or termination of their office or appointment); (d) to make recommendations to the Board on the remuneration of non-executive Directors; (e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in our Group; (f) to review and approve the compensation payable to the executive Director and senior management for their loss or termination of office or appointment to ensure that such compensation is consistent with the contractual terms and is otherwise fair and not excessive; (g) to review and approve the compensation arrangements relating to dismissal or removal of the Directors for misconduct to ensure that such compensation is consistent with the contractual terms and is otherwise fair and not excessive; and (h) to ensure that no Director or any of his associates is involved in deciding his own remuneration.

The remuneration of the Directors, Supervisors and senior management of the Company, whose biographical details are included in section headed "Biographical Details of Directors, Supervisors and Senior Management" of this annual report, for the year ended 31 December 2022 falls within the following bands:

Remuneration (RMB)	Number of Individuals
0-500,000	5
500,001-1,000,000	2
1,000,001-1,500,000	4
1,500,001-2,000,000	2

The Company's remuneration policy is to ensure that the remuneration offered to the Directors, Supervisors and senior management, is based on skill, knowledge, responsibilities and involvement in the Company's affairs. The remuneration and compensation packages of the Directors, Supervisors and senior management are also determined with reference to account salaries paid by comparable companies, time commitment and responsibilities of the Directors and Supervisors and the performance of the Group. The remuneration for the Directors and Supervisors comprises fees, salaries, allowances, benefits in kind, performance-related bonuses, equity-settled share-based compensation expense and pension scheme contributions. Non-executive Directors and Independent Non-executive Directors shall not receive options and awards to be granted under the Company's share option scheme and share award scheme. Individual Directors and senior management have not been involved in deciding their own remuneration.

As the Company was listed on the Stock Exchange on 22 December 2022, no Remuneration and Appraisal Committee meeting was held during the Relevant Period.

Nomination Committee

The Nomination Committee consists of three members, namely Mr. Lyu Yixiong (executive Director), Ms. Luo Yan (羅妍女士) (independent non-executive Director) and Mr. Liu Yi (independent non-executive Director). Mr. Lyu Yixiong is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the Corporate Governance Code and the PRC laws. The principal duties of the Nomination Committee include (a) to review the structure, size and composition of the Board (including the skills, knowledge and experience) at least annually and make recommendations on any proposed changes to the Board to complement our Company's corporate strategy; (b) to identify individuals suitably qualified to become board members and select and make recommendations to the Board on the selection of individuals nominated for directorships; (c) to assess the independence of the independent non-executive Directors; and (d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors (in particular the chairman of the Board and the chief executive officer).

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out as set out in the Board Diversity Policy that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

As the Company was listed on the Stock Exchange on 22 December 2022, no Nomination Committee meeting was held during the Relevant Period.

Supervisory Committee

The Supervisory Committee is a supervisory body of the Company which is responsible for the supervision of the Board and its members and senior management so as to prevent them from the misuse of authority and infringement upon lawful rights of the Shareholders, the Company and the Company's employees. The number of members and the composition of the Supervisory Committee are in line with the provisions and requirements of the laws, regulations and the Articles. The Supervisory Committee is comprised of three Supervisors, of whom one was an employee representative democratically elected by the employees of the Company.

The biographical information of the Supervisors is set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" on pages 16 to 21 of this annual report.

Board Diversity Policy

The Company has adopted a Board Diversity Policy in order to enhance the effectiveness of the Board and to maintain a high standard of corporate governance.

Pursuant to the Board Diversity Policy, the Company seeks to achieve diversity of the Board through the consideration of a wide range of factors, including but not limited to gender, age, cultural and educational background, industry experience, technical capabilities, professional qualifications and skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Board have a balanced mixed of knowledge and skills, including overall management and strategic development, finance, accounting and risk management in addition to industry experience in cosmetics. The Directors obtained degrees in various majors including business administration, finance, accounting, economics and laws. The Company have three Independent Non-executive Directors with different industry background, representing one-third of the members of the Board.

For the purpose of implementation of the Board Diversity Policy, the Board has set the following measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives:

(A) at least one of the members of the Board shall be female;

(B) at least one-third of the members of the Board shall be independent non-executive Directors;

(C) at least one of the members of the Board shall have obtained accounting or other professional qualifications/knowledge of environmental issues.

An analysis of the Board's current composition based on the measurable objectives is set out below:

Gender	
Male:	5 Directors
Female:	4 Directors
Designation	
Executive Directors:	4 Directors
Non-executive Directors:	2 Directors
Independent Non-executive Directors:	3 Directors
Business Experience	
Accounting & Finance:	2 Directors
Legal:	1 Director
Experience Related to the Company's Business:	3 Directors

The Nomination Committee and the Board are of the view that the current composition of the Board has achieved the objectives set in the Board Diversity Policy.

The Nomination Committee will review the Board Diversity Policy annually to ensure its effectiveness.

Gender Diversity

The Company values gender diversity across all levels of the Group. The Company has taken, and will continue to take, steps to promote gender diversity at all levels of the Company, including but not limited to the Board and the senior management levels.

The following table sets out the gender ratio in the workforce of the Group as at the date of this annual report:

	Female	Male
Overall workforce	84.91% (2,184)	15.09% (388)

The Board had targeted to achieve and had achieved at least 1/9 of female Directors, and considers that the above current gender diversity is satisfactory.

The Company will continue to work to enhance gender diversity of the Board. The Board will use its best endeavors to appoint female Directors to the Board and the Nomination Committee will use its best endeavors to identify and recommend suitable female candidates to the Board for its consideration of appointment of Directors. The Company will also continue to ensure that there is gender diversity when recruiting staff from mid to senior level, such that it will have a pipeline of female management and potential successors to our Board in due time to ensure gender diversity of the Board. The Group will continue to emphasise training of female talents and provide long-term development opportunities for the female staff.

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a Director Nomination Policy, as contained in the terms of reference of the Nomination Committee, which sets out the selection criteria and nomination process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The nomination process of appointment of new Director set out in the Director Nomination Policy is as follows:

(i) the human resources department and the Nomination Committee shall actively communicate with the relevant departments of the Company to assess the Company's demand for new directors and senior management, and produce materials in writing;

(ii) the Nomination Committee may extensively seek for candidates for directors and senior management within the Company, its holding (shareholding) enterprises as well as the job market;

(iii) the Nomination Committee shall collect and learn the information of the occupation, education background, job title, detailed working experience and all the part-time jobs of the initially proposed candidates, and produce materials in writing;

(iv) to seek for the nominee's written consent to the nomination, otherwise, he/she shall not be considered as a candidate for directors and senior management;

(v) to convene Nomination Committee meetings to review the qualifications of the initially proposed candidates according to the job requirements of directors and senior management;

(vi) to submit proposals and the relevant materials to the Board in respect of candidates of directors and senior management within a reasonable period of time prior to the election of new directors and senior management; and

(vii) to carry out other follow-up work according to the decision and feedback of the Board.

The Nomination Committee and shall submit its decisions, recommendations and/or proposals to the Board for consideration and decision. Among which, the nomination of director candidates must be submitted to the general meeting of shareholders for review and approval after being reviewed by the Board and before implementation.

The criteria for assessing the suitability and the potential contribution to the Board of a proposed candidate as set out in the Board Diversity Policy, including but not limited to the following, are gender, age, cultural and educational background, industry experience, technical capabilities, professional qualifications and skills, knowledge and length of service.

During the period from the Listing Date to the date of this annual report, there was no change in the composition of the Board.

The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

Corporate Governance Functions

In accordance with Code Provision A.2.1 of the CG Code, the Board is responsible for performing the corporate governance duties including:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with Appendix 14 to the Listing Rules (CG Code) and disclosure in the Corporate Governance Report.

The Board has performed the above duties from the Listing Date up to and including the date of this annual report.

Risk Management and Internal Controls

The Board has established a risk management and internal control system in accordance with the requirements of paragraph D.2 under Section II of the CG Code, which is responsible for independently reviewing the adequacy and effectiveness of the risk management and internal control system of the Company, and continuously monitoring and reviewing the effectiveness of its operation once a year. The system aims to manage rather than eliminate the risk of failure to achieve business objectives, promote effective and efficient operations, reasonably ensure the reliability of financial reports and comply with applicable laws and regulations and protect the assets of the Group. The Board can only give reasonable but not absolute assurance that there will be no material misrepresentation or loss.

Characteristics of the Risk Management and Internal Control Organization System

In accordance with the requirements of code provision D.2.2 under Section II of the CG Code, the Group has established a sound risk management and internal control organization system which includes the Board, the Audit Committee, the Supervisory Committee, the management of the Group, the office of the Board, the internal audit department, the legal department and other departments to ensure that the Group has sufficient resources, qualified and experienced staffs, training courses and related budget for risk management and internal audit. The various departments of the Group are the first line of defense for risk management and internal control; the office of the Board and the management of the Group are the second line of defense; while the internal audit department, the legal department, the Audit Committee and the Supervisory Committee are the third line of defense. The Board bears the ultimate responsibility for the establishment and improvement of the Group's risk management and internal control system as well as the effective implementation of the risk management work, and serves as the highest decision maker for the Group's risk management and internal control.

Implementation of Risk Management and Internal Control

The Group reviews the effectiveness of the risk management and internal control systems every year and assesses all important monitoring aspects including supervision on financial, operation and compliance affairs, etc. based on the elements of internal control such as the internal environment, risk assessment, control activities, information and communication as well as internal supervision, and optimizes and updates the risk control mechanism. After risk assessment, the Company's major risks during the Relevant Period mainly involve business risks, financial risks, compliance risks, inside information and internal control risks. According to our actual situation, we have formulated practical and feasible response plans to effectively manage risks:

Business risks: The business risks the Group mainly faces in respect of its operations in the PRC include macro-environmental risks such as the pandemic, competition risks, supply chain risks, reputation risks and sustainability risks. The Board regularly reviews and identifies potential risks of the Group, and adjusts strategies and policies in a timely manner, to ensure that the business risks are controlled and managed.

Financial risks: The Group has adopted financial risk management policies to control the Group's financial risk exposure, such as taxation risks and financial reporting risks. Also, the Board monitors the financial results and key operating statistics with the assistance of the Group's internal finance department on a regular basis.

Compliance risks: The Group has adopted internal procedures to monitor the Group's compliance risks to ensure that the Group has complied with the laws and regulations of the regions where the Group conducts business. In addition, the Group engages professional advisers from time to time to keep the Group updated with the latest development in the regulatory environments.

Formation of a Long-term Mechanism for Risk Management and Internal Control

We continue to improve risk management policies and procedures, specify the risk management structure and responsibilities. We identify major risks that hinder the achievement of objectives and control them within acceptable levels to ensure the achievement of business objectives, the improvement of operational efficiency, the reliability of financial reports and compliance with national regulations and other compliance requirements. We evaluate and check the effectiveness of our risk management and internal control systems through channels such as the management, business units in the risk management system, audit and inspection teams of the Group, external auditors, and external legal advisor to improve risk response measures. Meanwhile, in order to ensure the effective operation of the risk management system, the Audit Committee reviews and supervises the risk management work.

Our management focuses on business risks, financial risks and compliance risks. Through agile audits, it achieves more comprehensive and accurate risk control, identifies potential risks more quickly, and promotes the improvement in management and system processes to support the achievement of the mid- to long-term vision and strategic goals of the Company. The Group's management procedures for financial reporting and information disclosure, etc. are in strict compliance with the requirements of the Listing Rules. Office of the Board conducts information reporting, reviewing and disclosure in strict accordance with the Information Disclosure Management formulated by the Company. Prior to disclosing relevant information to the public, the Group will ensure that such information is kept confidential properly and will perform the obligation to inform and supervise the insiders of inside information as required.

The Board reviewed the risk management and internal control during the Reporting Period and concluded that there had been no deficiency in material risk control nor any weakness in material risk control based on the outcome of the risk management and internal control work implemented by the Group as of the Latest Practicable Date. The Board was of the view that the risk management and internal control system of the Group is effective and sufficient.

Whistleblowing Policy

The Company has in place the Whistleblowing Policy for employees of the Company and those who deal with the Company to raise concerns, in confidence and anonymity, with the Audit Committee about possible improprieties in any matters related to the Company.

Anti-Corruption Policy

The Company has also in place the Anti-Corruption Policy to safeguard against corruption and bribery within the Company. The Company has an internal reporting channel that is open and available for employees of the Company to report any suspected corruption and bribery. Employees can also make anonymous reports according to the procedures as set out in the Whistleblowing Policy.

Disclosure of Inside Information Policy

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

Directors' Responsibility in Respect of The Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements with the support of the accounting and finance team.

The Directors have prepared the financial statements in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board. Appropriate accounting policies have also been used and applied consistently except the adoption of revised standards, amendments to standards and interpretation.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern/The financial statements of the Company are prepared on a going concern basis, the Directors are of the view that they give a true and fair view of the financial position, performance and cash flow of the Group for the year ended 31 December 2022, and the disclosure of other financial information and report therein complies with relevant legal requirements.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report of this annual report.

Auditors' Remuneration

The remuneration paid and payable to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2022 is set out below:

Service Category	Fees Paid/Payable (RMB'000)
Audit Services	2,600.0
Non-audit Services	237.3
Total	2,837.3

Joint Company Secretaries

The Company has appointed Mr. Lian Ming, a full-time employee of the Company, and Mr. Li Kin Wai, a senior manager of corporate services of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services, as the Company's joint company secretaries.

All Directors have access to the advice and services of the joint company secretaries on corporate governance and board practices and matters. Mr. Lian, who is also the secretary to the Board, has been designated as the primary contact person at the Company which would work and communicate with Mr. Li on the Company's corporate governance and secretarial and administrative matters.

For the year ended 31 December 2022, Mr. Lian and Mr. Li have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules. The biographies of Mr. Lian and Mr. Li are set out in the "Biographical Details of Directors, Supervisors and Senior Management" section of this annual report.

Shareholders' Rights

Convening an Extraordinary General Meeting

Pursuant to the Article 60 of the Articles, Shareholder(s) individually or collectively holding 10% or more of the shares carrying voting rights (on the basis of one share, one vote) at the meeting to be convened may, by signing one or more counterpart written requisition(s) stating the object of the meeting, require the Board of Directors to convene an extraordinary general meeting or a class meeting. The Board of Directors shall as soon as possible after receipt of such written requisition(s) proceed to so convene the extraordinary general meeting or class meeting. The shareholdings referred to above shall be calculated as at the date of the delivery of the written requisition(s).

Where the Board of Directors fails to issue notice of convening meeting within 30 days upon receipt of the above written request, the requesting shareholder(s) may request the Board of Supervisors to convene the extraordinary general meeting or class shareholders' meeting.

Where the Board of Supervisors fails to issue notice of convening meeting within 30 days upon receipt of the above written request, shareholder(s), for more than 90 consecutive days, individually or collectively holding more than 10% of the shares carrying voting rights at the meeting to be convened may convene the meeting on their own accord within four months upon the Board of Directors having received such request. The convening procedures shall, to the extent possible, be identical to procedures according to which general meetings are to be convened by the Board of Directors.

All reasonable expenses incurred for such meeting convened by the shareholders as a result of the failure of the Board of Directors and Board of Supervisors to convene a meeting as required by the above request(s) shall be borne by the Company and be set off against sums owed by the Company to the defaulting directors or supervisors.

Putting Forward Proposals at General Meetings

Pursuant to the Article 61 of the Articles, Shareholders individually or collectively holding three percent (3%) or more of the total voting shares of the Company shall be entitled to propose new resolutions to the Company in writing which should be submitted to the convener ten (10) days prior to the convening of the general meeting. The convener of the general meeting shall issue a supplemental notice of general meeting to other shareholders within two (2) days of the receipt of such proposal and incorporate such newly proposed matters falling within the scope of duties of the general meeting into the agenda of such meeting for consideration at the general meeting.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: 25 Floor, Building B, No. 3300 Zhongshan North Road, Putuo District, Shanghai, The People's Republic of China
(For the attention of the Board of Directors/Company Secretary)
Telephone: +8621-52035333
Email: ir@kans.cn

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Communication with Shareholders and Investors/Investor Relations

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company is endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

To safeguard Shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Shareholders Communication Policy

The Company has in place a Shareholders Communication Policy. The policy aims at promoting effective communication with Shareholders and other stakeholders, encouraging Shareholders to engage actively with the Company and enabling Shareholders to exercise their rights as Shareholders effectively.

Since the Company was only listed on the Stock Exchange on 22 December 2022, the Board will conduct the annual review on the implementation and effectiveness of the Shareholders Communication Policy in 2023.

The Company has established a number of channels for maintaining an on-going dialogue with its Shareholders as follows:

(a) Corporate Communication

"Corporate Communication" as defined under the Listing Rules refers to any document issued or to be issued by the Company for the information or action of holders of any of its securities, including but not limited to the following documents of the Company: (a) the Directors' report, annual accounts together with a copy of the auditor's report and, where applicable, its summary financial report; (b) the interim report and, where applicable, its summary interim report; (c) a notice of meeting; (d) a listing document; (e) a circular; and (f) a proxy form. The Corporate Communication of the Company will be published on the Stock Exchange's website (www.hkex.com.hk) in a timely manner as required by the Listing Rules. Corporate Communication will be provided to Shareholders and non-registered holders of the Company's securities in both English and Chinese versions or where permitted, in a single language, in a timely manner as required by the Listing Rules. Shareholders and non-registered holders of the Company's securities shall have the right to choose the language (either English or Chinese) or means of receipt of the Corporate Communication (in printed form or through electronic means).

(b) Announcements and Other Documents pursuant to the Listing Rules

The Company shall publish announcements (on inside information, corporate actions and transactions etc.) and other documents (e.g. Articles of Association) on the Stock Exchange's website in a timely manner in accordance with the Listing Rules.

(c) Corporate Website

Any information or documents of the Company posted on the Stock Exchange's website will also be published on the Company's website (www.chicmaxgroup.com). Other corporate information about the Company's corporate governance will also be available on the Company's website.

(d) Shareholders' Meetings

The annual general meeting and other general meetings of the Company are primary forum for communication between the Company and its Shareholders. The Company shall provide Shareholders with relevant information on the resolutions(s) proposed at a general meeting in a timely manner in accordance with the Listing Rules. The information provided shall be reasonably necessary to enable Shareholders to make an informed decision on the proposed resolution(s). Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at the meetings for and on their behalf if they are unable to attend the meetings. Where appropriate or required, the Chairman of the Board and other Board members, the chairmen and deputy chairman of board committees or their delegates, and the external auditors should attend general meetings of the Company to answer Shareholders' questions (if any). The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent Shareholders' approval.

(e) Shareholders' Enquiries

Enquiries about Shareholdings

Shareholders should direct their enquiries about their shareholdings to the Company's H share registrar, Tricor Investor Services Limited, via its online holding enquiry service at www.tricoris.com, or send email to is-enquiries@hk.tricorglobal.com or call its hotline at (852) 2980 1333, or go in person to its public counter at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

Enquiries about Corporate Governance or Other Matters to be put to the Board and the Company

The Company will not normally deal with verbal or anonymous enquiries. Shareholders may send any enquiries to the Board by email: ir@kans.cn or by post to 25 Floor, Building B, No. 3300 Zhongshan North Road, Putuo District, Shanghai, The People's Republic of China.

(f) Webcast

Webcasts of the Company's interim and annual results briefings are available.

(g) Other Investor Relations Communication Platforms

Investor/analysts briefings, roadshows (both domestic and international), media interviews, marketing activities for investors and specialist industry forums etc. will be launched on a regular basis.

Amendments to Constitutional Documents

During the Relevant Period, the Company has not made any changes to its Articles of Association. After the Relevant Period, the Company has made changes to its Articles of Association and an up-to-date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

Dividend Policy

In relation to the dividend policy of the Company, please refer to "Report of the Board of Directors" in this annual report for details.

Report of the Board of Directors

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2022 (the "**Consolidated Financial Statements**") since the Listing Date.

Corporate Information

The Company was incorporated in the PRC with limited liability on 11 June 2004 and restructured to a joint-stock company on 15 December 2020. The Company was listed on the Main Board of the Stock Exchange on 22 December 2022.

Principal Activities and Business Review

The Group is a multi-brand cosmetics company and primarily engaged in research and development, manufacturing and sales of skincare and maternity and childcare products in the PRC.

The activities and particulars of the Company's principal subsidiaries are shown under note 1 to the Financial Statements.

A fair review of the Group's business during the year ended 31 December 2022, including an analysis of which using financial key performance indicators and the outlook of the Group's business are provided in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report, which forms part of this "Report of the Board of Directors".

Use of Proceeds from the Global Offering

The shares of the Company (the "**Share(s)**") were listed on the Main Board of the Stock Exchange on the Listing Date with net proceeds received by the Company from the Global Offering in the amount of approximately HK$859.7 million[(1)] after deducting underwriting commissions and all related expenses. The following table sets forth the Company's use of the proceeds from the Listing and the planned timetable as at 31 December 2022.

	Approximate percentage of the total net proceeds	Net proceeds from the Global Offering (HKD' million)	Net proceeds utilized as of 31 December 2022 (HKD' million)	Remaining net proceeds as of 31 December 2022 (HKD' million)	Expected time to utilize the remaining net proceeds in full
Branding activities to continue to enhance the brand image and raise brand awareness of our existing brands, as well as to establish the brand images of our new brands	32.0%	275.5	0.0	275.5	By the end of the year ending 2026
Enhancing our R&D capabilities by strengthening our fundamental research and product development, to maintain the continuous innovation of our brands	12.2%	104.9	0.0	104.9	By the end of the year ending 2026
Strengthen our production and supply chain capabilities, mainly involving the renovation of our production facilities, upgrading our automation equipment, and the expansion of production capacities in the Fengxian Plant	19.8%	170.6	0.0	170.6	By the end of the year ending 2024
Increasing the breadth and depth of our sales networks to enhance the penetration of our products	18.0%	154.5	0.0	154.5	By the end of the year ending 2026
Enhancing our digitization and information infrastructure	8.0%	69.2	0.0	69.2	By the end of the year ending 2024
Working capital and other general corporate purposes	9.9%	85.1	0.0	85.1	By the end of the year ending 2024
Total[(2)]	100.0%	859.7	0.0	859.7	

Notes:

(1) The total proceeds of approximately HK$859.7 million include approximately HK$835.1 million from the Global Offering in December 2022 and approximately HK$24.6 million from the partial exercise of the Over-allotment Option in January 2023 as disclosed in the announcement of the Company dated 16 January 2023.

(2) Any discrepancies in the above table between the total shown and the sum of the amounts listed are due to rounding.

Since the Listing Date, the Group has not yet utilized any net proceeds, and will gradually utilize the net proceeds in accordance with the intended purposes as stated in the prospectus of the Company dated 12 December 2022 (the "**Prospectus**"). The expected timeline is based on the best estimation of future market conditions and business operations made by the Company currently, and will be subject to change based on future development of market conditions and actual business needs.

Results and Appropriations

The results of the Group for the year ended 31 December 2022 and the state of affairs of the Group as at 31 December 2022 are set out in the Consolidated Financial Statements on pages 70 to 77.

The Board recommends the payment of final dividends of RMB99,489,475 (equals to RMB0.25 per share) for the year ended 31 December 2022 (2021: approximately RMB0.56 per share).

Principal Risks and Uncertainties

The Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group's businesses. The following are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Business risks

- The domestic and foreign economic and public health situations which in turn significantly impacted the Group's product manufacturing and logistics and led to the decrease in demand in the consumer market.

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

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

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

Operational risks

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

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

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

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

Brand and products research and development risks

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

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

Compliance and legal risks

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

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

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

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

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

Manpower and Retention Risks

- The Group may face the risk of not being able to attract and retain key personnel and talents with appropriate and required skills, experience and competence which would meet the business objectives of the Group.

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

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

Financial Risks

- The Group also faces financial risks including foreign currency risk, credit risk, maximum exposure and year-end staging and liquidity risk. Details of these financial risks are set out in note 36 to the Consolidated Financial Statements of the Group.

Share Capital

Details of movements in share capital of the Company during the year ended 31 December 2022 are set out in note 27 to the Financial Statements.

Reserves and Distributable Reserves

Details of movements in the reserves of the Group are set out in the consolidated statement of changes in equity of this annual report. As at 31 December 2022, the Company's reserves available for distribution amounted to RMB284.2 million (as at 31 December 2021: RMB228.9 million).

Major Customers, Suppliers and Subcontractors

The aggregate revenue attributable to the Group's largest customer for the year ended 31 December 2022 accounted for approximately 11.9% (2021: 11.5%) of the Group's total revenue. The aggregate revenue attributable to the Group's five largest customers for the year ended 31 December 2022 accounted for approximately 32.8% (2021: 28.1%) of the Group's total revenue.

During the year ended 31 December 2022, none of the Directors or any of their associates or any Shareholders (which to the best knowledge of the Directors owned more than 5% of the Company's issued share capital) had a material interest in our five largest customers.

During the year ended 31 December 2022, the Group's aggregate purchase from the five largest suppliers and subcontractors accounted for less than 30% of the Group's total purchase.

Final Dividend

The Board has resolved to recommend the payment of final dividends of RMB0.25 per share for the year ended 31 December 2022 (2021: approximately RMB0.56 per share). The payment of final dividends above is still subject to the approval from Shareholders at the forthcoming annual general meeting of the Company (the "**AGM**"), and will be made on or around Wednesday, 12 July 2023. There is no arrangement that a Shareholder has waived or agreed to waive any dividend.

Dividend Policy

The Company has adopted a Dividend Policy on payment of dividends. The Company do not have any pre-determined dividend payout ratio. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the Dividend Policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the Shareholders' approval.

Subsidiaries of the Company

The details of the subsidiaries of the Company are set out in note 1 to the Financial Statements on pages 78 to 79 of this annual report.

Property, Plant and Equipment

During the year ended 31 December 2022, the Group's total capital expenditure amounted to approximately RMB54.3 million (2021: RMB63.1 million) which is primarily attributable to the new items of property, plant and equipment. The details of the property, plant and equipment of the Group and their movements during the year ended 31 December 2022 are set out in note 14 to the Consolidated Financial Statements.

Borrowings

Particulars of borrowings of the Group as at 31 December 2022 and the details of the charging on the Group's assets are set out in note 26 to the Consolidated Financial Statements.

Significant Investments, Material Acquisitions and Disposal

During the year ended 31 December 2022, the Group did not have any significant investments, material acquisitions or disposals of subsidiaries, associates or joint ventures.

Compliance with Relevant Laws and Regulations

The Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with such requirements could lead to the termination of operating licences. The Group has been allocating system and staff resources to ensure ongoing compliance with rules and regulations and to maintain cordial working relationships with regulators effectively through effective communications. During the year ended 31 December 2022, to the best knowledge of the Directors, there was no material breach of or non-compliance with applicable laws and regulations, that have a significant impact on the business and operations of the Group, by the Group.

Future Plans for Material Investments and Capital Assets

Save as disclosed in the Prospectus and in the section headed "Use of Proceeds from the Global Offering" in this annual report, the Group did not have plan for material investments and capital assets as of the date of this annual report.

Service Contract and Letter of Appointment of the Directors and Supervisors

The Directors and Supervisors during the year ended 31 December 2022 and up to the date of this annual report were as follows:

Executive Directors

Mr. Lyu Yixiong (呂義雄先生) *(Chairman of the Board and Chief Executive Officer)*
Ms. Luo Yan (羅燕女士)
Mr. Feng Yifeng (馮一峰先生)
Ms. Song Yang (宋洋女士)

Non-executive Directors

Mr. Sun Hao (孫昊先生)
Ms. Li Hanqiong (李寒窮女士)

Independent Non-executive Directors

Mr. Leung Ho Sun Wilson (梁浩新先生)
Ms. Luo Yan (羅妍女士)
Mr. Liu Yi (劉毅先生)

Supervisors

Mr. Li Tao (李濤先生)
Ms. Shi Tenghua (施滕花女士)
Ms. Cao Ying (曹瑛女士)

The biographical details of the Directors, Supervisors and the senior management of the Group are disclosed in the section headed "Biographical Details of Directors, Supervisors and Senior Management" on pages 16 to 21 of this annual report.

Pursuant to Article 95 of the Articles of Association, the term for Directors and Supervisors shall be three years. Each of the Directors and Supervisors has entered into a service contract or a letter of appointment with the Company for a term of three years.

Save as disclosed above, there are no service contracts or letters of appointment between the Company or its subsidiaries and any of the Directors or Supervisors which is not determinable by the Company within one year without payment of compensation apart from statutory compensation.

The Company has received annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules and all of them are considered to be independent.

Change in Directors' and Supervisors' Information

Save as disclosed in this annual report and from the Listing Date up to the date of this annual report, no other information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Management Contracts

Other than the Directors' and Supervisors' service contracts and appointment letters, no contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year or subsisted at the end of the year ended 31 December 2022.

Emolument Policy

The emoluments of the Directors and senior management of the Group are determined by the Board with reference to the respective responsibilities and duties, experience, individual performance, and time devoted to the Group and may be adjusted upon the recommendation of the Remuneration and Appraisal Committee. The Remuneration and Appraisal Committee was set up for reviewing the Company's emolument policy and structure of all remuneration of the Directors and senior management of the Company. Save as disclosed in this annual report, no long-term incentive schemes have been adopted by the Company.

Remuneration of Directors, Supervisors and Five Individuals with Highest Emoluments

Details of the emoluments of the Directors and five highest paid individuals of the Group are set out in notes 9 and 10 to the Financial Statements on pages 112 to 116 of this annual report.

The following table sets forth the emoluments of the Supervisors for the year ended 31 December 2022.

	Year ended 31 December 2022				
	Salaries, allowances and benefits in kind	Pension scheme contributions	Performance – related bonuses	Share-based payment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Supervisors:					
Mr. Li Tao	413	201	46	107	767
Ms. Shi Tenghua	486	201	144	1,073	1,904
Ms. Cao Ying	496	201	144	322	1,164
	1,395	603	334	1,502	3,835

For the year ended 31 December 2022, no emoluments were paid by the Group to any Director, any Supervisor or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors or the Supervisors has waived any emoluments for the year ended 31 December 2022.

Directors' and Supervisors' Interests in Transactions, Arrangements or Contracts of Significance

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or a Supervisor or his or her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year under 31 December 2022 or at any time during the year ended 31 December 2022.

Non-Competition Undertaking by Controlling Shareholders

No non-competition agreements or arrangement has been provided by any of the substantial Shareholders at any time during the Relevant Period or as at 31 December 2022.

Permitted Indemnity Provision

The Company has arranged for appropriate insurance in respect of legal actions arising out of corporate activities against the current Directors, Supervisors and senior management of the Company and its associated companies and the Directors, Supervisors and senior management of the Company and its associated companies who resigned during the year ended 31 December 2022. The permitted indemnity provision is in force for the benefit of the Directors as required by the provisions of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

Connected Transactions and Continuing Connected Transactions

During the year ended 31 December 2022, the Group had the following connected transactions and continuing connected transactions, details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

The Company entered into the following continuing connected transaction with the connected persons as defined in the Listing Rules, and transactions have been conducted in accordance with the agreed terms.

1. Products Purchasing Framework Agreement

Parties (1) Suzhou Xiongze (for itself and on behalf of its subsidiaries); and

(2) the Group

Principal terms

On 24 November 2022, the Group has entered into a framework agreement with Suzhou Xiongze Packaging Co., Ltd. (蘇州雄澤包裝有限公司) ("Suzhou Xiongze") (the "Products Purchasing Framework Agreement"), pursuant to which the Group agreed to purchase packaging and ancillary materials as well as printing materials from Suzhou Xiongze. The initial term of the Products Purchasing Framework Agreement shall commence on the Listing Date until December 31, 2024.

Reasons for the transaction

During the three years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022, we have been purchasing packaging and ancillary materials as well as printing materials from Suzhou Xiongze to satisfy our business needs in our ordinary and usual course of business. Owing to the supplier relationship, Suzhou Xiongze has acquired a comprehensive understanding of our business and operational requirements and has established a foundation for mutual trust. Taking into account our previous procurement experience with Suzhou Xiongze, we believe that Suzhou Xiongze is capable of fulfilling our demands efficiently and reliably with a stable supply of products and materials.

Amount

The total procurement amount paid by the Group to Suzhou Xiongze for the year ended 31 December 2022 was approximately RMB28.2 million.

Annual caps

The procurement amounts payable to Suzhou Xiongze for the three years ended/ending 31 December 2022, 2023 and 2024 shall not exceed the caps as set out in the table below:

	Proposed annual caps for the year ended/ending December 31, (RMB in millions)		
	2022	2023	2024
Procurement amount	45.7	50.2	**55.2**

Basis of caps

The proposed annual caps for procurement amount are determined after taking into account: (i) our historical procurement amount from Suzhou Xiongze for the year ended 31 December 2021; (ii) our expected growth in revenue; and (iii) our expected procurement from Suzhou Xiongze remaining at a relatively stable rate.

Listing Rules implications

Suzhou Xiongze is a company wholly owned by the husband (the "Relative") of Ms. Lyu Lichun (呂麗純), a sibling of Mr. Lyu Yixiong as of the Listing Date. Having consulted with the Stock Exchange pursuant to Rule 14A.21 taking into account the Relative's association with Mr. Lyu, the transaction between Suzhou Xiongze and the Group should be subject to the connected transaction requirements.

As the highest applicable percentage ratio of the transactions under the Products Purchasing Framework Agreement for each of the three years ended/ending 31 December 2022, 2023 and 2024 calculated for the purpose of Chapter 14A of the Listing Rules is expected to be more than 0.1% but less than 5% on an annual basis, the transactions contemplated under the Products Purchasing Framework Agreement are subject to the reporting, announcement and annual review requirements but will be exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Annual Review by the Independent Non-executive Directors

The independent non-executive Directors have reviewed the continuing connected transactions set out in note 33 to the Financial Statements in this annual report, and are of the view that the transactions have been entered into under the following circumstances:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or on terms no less favorable to the Group than terms offered to/by independent third parties; and

(3) in accordance with the relevant agreements governing those transactions on terms that are fair and reasonable and in the interest of the Shareholders of the Company as a whole.

For related party transactions disclosed in note 33 to the Financial Statements which constituted connected transactions or continuing connected transactions under the Listing Rules, the Company has complied with all the relevant requirements under Chapter 14A of the Listing Rules.

Confirmation from the Company's Independent Auditors

Ernst & Young, the Company's independent auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditors' Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants.

In respect of the continuing connected transactions disclosed (the "**Disclosed Continuing Connected Transactions**"), the Company's auditors confirmed that, with respect to those entered into during the financial year ended 31 December 2022 or before:

a. nothing has come to its attention that causes it to believe that the Disclosed Continuing Connected Transactions have not been approved by the Board;

b. for transactions involving the provision of goods or services to the Group, nothing has come to its attention that causes it to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

c. nothing has come to its attention that causes it to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

d. nothing has come to its attention that causes it to believe that the Disclosed Continuing Connected Transactions have exceeded the maximum aggregate annual caps disclosed in the respective announcements or circulars issued by the Company in respect of each of the Disclosed Continuing Connected Transactions.

A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

Convertible Securities, Share Options, Warrants or Similar Rights

During the year ended 31 December 2022, the Company did not issue any convertible securities, share options, warrants or similar rights.

During the year ended 31 December 2022 and up to the date of this annual report, the Group has no share option scheme.

Directors', Supervisors' and Chief Executive Interests or Short Positions in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As at 31 December 2022, the interests and short positions of the Directors, the Supervisors and the chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is keen to taken or deemed to have under such provisions of the SFO), or as recorded in the registered maintained by the Company under Section 352 of the SFO, or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name	Class of Shares	Nature of Interest	Number of Shares held/ interested	Approximate percentage in the relevant class of Shares of the Company[2]	Approximate percentage in the Company[2]
Mr. Lyu Yixiong	Domestic Shares	Beneficial interest	46,640,000(L)	23.25%	11.75%
	H shares		100,800,000(L)	51.34%	25.39%
	Domestic Shares	Interest in controlled corporation[2]	145,112,560(L)	72.33%	36.56%
	H shares		36,000,000(L)	18.34%	9.07%

Notes:

(1) (L) denotes long position.

(2) The calculation is based on a total of 396,958,000 Shares in issue as at 31 December 2022, which consists of 200,614,140 Domestic Shares and 196,343,860 H Shares.

As at 31 December 2022, Mr. Lyu Yixiong holds 93.33% equity interest in Shanghai Hongyin Investment Co., Ltd. (上海紅印投資有限公司) ("**Hongyin Investment**"), 83.74% equity interest in Shanghai Nanyin Investment Co., Ltd. (上海南印投資有限公司) ("**Nanyin Investment**"), and the entire equity interest in Shanghai Kans Enterprise Management Co., Ltd. (上海韓束企業管理有限公司) ("**Shanghai Kans**") and Shanghai Shengyan Business Management Centre (上海盛顏商務管理中心) ("**Shanghai Shengyan**"). Therefore, Mr. Lyu Yixiong is deemed to be interested in the shares held by Hongyin Investment, Nanyin Investment, Shanghai Kans and Shanghai Shengyan.

Save as disclosed above, as at 31 December 2022, to the knowledge of the Board, none of the Directors, the Supervisors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors, the Supervisors and chief executive of the Company were taken or deemed to have under such provisions of the SFO); (ii) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

Employee Share Ownership Plan

We have established an employee share ownership plan ("**ESOP**") since 2016 to attract and retain the talents, to provide incentives that align the interests of shareholders, the Company and employees, and to facilitate the long-term development of the Company. The terms of the ESOP are not subject to the provisions of Chapter 17 of the Listing Rules. The following is a summary of the principal terms of the ESOP.

As at 31 December 2022, all the Shares underlying the ESOP have been issued and granted, and to the extent that there is any change to the grants under the ESOP after the Listing, the Company will comply with the applicable Listing Rules (including the requirements under Chapter 14A of the Listing Rules applicable to grants to connected persons, if any).

ESOP Platforms

There are three employee share ownership platforms (the "**ESOP Platforms**") for the ESOP, namely (i) Hongyin Investment, (ii) Nanyin Investment and (iii) Shanghai Chengyin.

As at 31 December 2022, Hongyin Investment and Nanyin Investment holds 27.21% and 15.34% equity interest in the Company, respectively, and Shanghai Chengyin holds 5% equity interest in Nanyin Investment.

Participants of the ESOP (the "**ESOP Participants**" and each an "**ESOP Participant**") shall indirectly hold equity interest in the Company through holding shares of Hongyin Investment, Nanyin Investment or Shanghai Chengyin transferred by Mr. Lyu Yixiong pursuant to the ESOP.

Set out below is the shareholding structure of the ESOP platforms as at 31 December 2022:

- ***Hongyin Investment:*** Hongyin Investment is a limited liability company incorporated under the laws of the PRC on 11 February 2015 and is an incentive platform for employees of our Group who hold shares in Hongyin Investment. Hongyin Investment is held by (i) Mr. Lyu Yixiong, our executive Director, as to 93.33%, (ii) Ms. Luo Yan (羅燕), our executive Director, as to 1.67%. The remaining 2% and 3% equity interests in Hongyin Investment are held by three employees of the Group and three former employees of the Group, respectively.

- ***Nanyin Investment:*** Nanyin Investment is a limited liability company incorporated in the PRC on 11 February 2015 and is an incentive platform for employees of our Group who hold shares in Nanyin Investment. Nanyin Investment is held by (i) Mr. Lyu Yixiong, our executive Director, as to 83.74%, (ii) Mr. Feng Yifeng (馮一峰), our executive Director, as to 1.77%, (iii) Ms. Song Yang (宋洋), our executive Director, as to 1.77%, (iv) Mr. Li Tao (李濤), Ms. Shi Tenghua (施滕花), Ms. Cao Ying (曹瑛), our Supervisors, as to 0.059%, 0.59% and 0.18%, respectively, and (v) Shanghai Chengyin, another incentive platform, as to 5%. The remaining 3.99%, 1.89% and 1% equity interests in Nanyin Investment are held by 17 employees of the Group, 2 former employees of the Group, and Ms. Lyu Lichun (呂麗純), a sibling of Mr. Lyu Yixiong, respectively.

- ***Shanghai Chengyin**:* Shanghai Chengyin is a limited liability company incorporated in the PRC on 8 February 2021 and is an incentive platform for employees of our Group who hold shares in Shanghai Chengyin. Shanghai Chengyin is held by Mr. Lyu Yixiong, our executive Director, as to 77.52%, and the remaining 22.48% equity interests in Shanghai Chengyin is held by 19 employees of the Group.

The specific terms and conditions of the ESOP for each ESOP Participant is subject to the agreement entered into between (i) the relevant ESOP Platforms (ii) Mr. Lyu Yixiong and (iii) the relevant ESOP Participants.

Shares and Share Price Granted under the ESOP

On 20 July 2016, respective agreements were entered into between Hongyin Investment, Mr. Lyu Yixiong and the relevant ESOP Participants, pursuant to which the relevant equity interest in Hongyin Investment was transferred to eligible grantees in their capacity as employees of the Group. The price per share granted to each ESOP Participant under the ESOP is RMB1.00 and each ESOP Participant shall pay the relevant price to Mr. Lyu Yixiong on the date of transfer. The price per share was determined based on the registered share capital per share of relevant ESOP Platforms. Depending on the clauses of each agreement, some of the ESOP Participants are not allowed to transfer or in any way dispose of the shares for a period of four (4) or five (5) years commencing on the date when the registration of the transfer of equity interest is completed. Between March 2021 and July 2022, respective agreements were entered into between Nanyin Investment or Shanghai Chengyin (as the case may be), Mr. Lyu Yixiong and the relevant ESOP Participants, pursuant to which the relevant equity interest in Nanyin Investment or Shanghai Chengyin was transferred to eligible grantees in their capacity as employees of the Group. The price per share granted to each ESOP Participant under the ESOP is RMB1.00 and each ESOP Participant shall pay the relevant price to Mr. Lyu Yixiong on the date of transfer of the equity interest. The price per share was determined based on the registered share capital per share of relevant ESOP Platforms. Depending on the clauses of each agreement, some of the ESOP Participants are not allowed to transfer or in any way dispose of the shares for a period of four (4) years commencing on 1 January 2021 or for a period of two and a half (2.5) years or four (4) years commencing on 1 July 2022, respectively. Under the ESOP, there is no maximum entitlement limitation for the ESOP Participants. All underlying shares under the ESOP have been issued to ESOP Participants and there is no provision under the ESOP and relevant agreements in respect of the remaining life of the ESOP.

Repurchase of Shares Granted

Under the following circumstances, Mr. Lyu Yixiong has the right to purchase the shares transferred under the ESOP at the grant price of RMB1.00 per share:

(i) the termination of the ESOP Participant's employment relationship with the Company or any of its subsidiaries for any reasons during the share transfer restriction period (if any) as specified in the agreements entered into between the relevant ESOP Platforms, Mr. Lyu Yixiong and the relevant ESOP Participants;

(ii) the transfer, disposal, or pledge of the shares by the ESOP Participant during the share transfer restriction period (if any) as specified in the agreements entered into between the relevant ESOP Platforms, Mr. Lyu Yixiong and the relevant ESOP Participants without the approval of the relevant ESOP Platforms; or

(iii) any violation of law, breach of professional ethics, confidential information leakage, corruption or other malpractices of the ESOP Participant.

Movements of Awards under the ESOP

Category of grantees	Unvested awards at the Listing Date	Unvested awards at of 31 December 2022	Granted during the Relevant Period	Vested during the Relevant Period	Cancelled during the Relevant Period	Lapsed during the Relevant Period
Directors:						
Lyu Yixiong	0	0	0	0	0	0
Luo Yan (羅燕)	0	0	0	0	0	0
Feng Yifeng	0	0	0	0	0	0
Song Yang	0	0	0	0	0	0
Sun Hao	0	0	0	0	0	0
Li Hanqiong	0	0	0	0	0	0
Leung Ho Sun Wilson	0	0	0	0	0	0
Luo Yan (羅妍)	0	0	0	0	0	0
Liu Yi	0	0	0	0	0	0
Five highest paid individuals	0	0	0	0	0	0
Other grantees	0	0	0	0	0	0

Substantial Shareholders' Interests and/or Short Position in Shares and Underlying Shares of the Company

As at 31 December 2022, so far is known to, or can be ascertained after reasonable enquiry by the Directors, the following persons/entities had an interest or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or are directly and indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company (the interests in Shares and/or short positions, if any, disclosed herein are in addition to those disclosed in respect of the Directors, Supervisors and chief executive of the Company):

Name of Substantial Shareholder	Class of Shares	Nature of Interest	Number of Shares(1)	Approximate percentage in the relevant class of Shares of the Company(2)	Approximate percentage in the Company(2)
Hongyin Investment	Domestic Shares	Beneficial interest	90,000,000(L)	44.86%	22.67%
	H shares		18,000,000(L)	9.17%	4.53%
Nanyin Investment	Domestic Shares	Beneficial interest	42,880,000(L)	21.37%	10.80%
	H shares		18,000,000(L)	9.17%	4.53%

Notes:

(1) (L) denotes long position.

(2) The calculation is based on a total of 396,958,000 Shares in issue as at 31 December 2022, which consists of 200,614,140 Domestic Shares and 196,343,860 H Shares.

Save as disclosed above, as at 31 December 2022, the Directors were not aware of any other persons/entities (other than the Directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Competition and Conflict of Interests

During the Relevant Period, save as disclosed in the Prospectus, none of the Directors or Controlling Shareholders or any of their respective associates has any interests in any business that competes or may compete, directly or indirectly, with the business of the Group or has any other conflict of interests with the Group.

Continuing Disclosure Obligations pursuant to the Listing Rules

Save as disclosed in this annual report, the Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

Contract of Significance with Controlling Shareholders

No contract of significance (including contract of significance for the provision of services) was entered into between the Company or its subsidiaries and the Controlling Shareholders or any of its subsidiaries during the year ended 31 December 2022 or subsisted as at 31 December 2022.

Purchase, Sale or Redemption of the Company's Listed Securities

From the Listing Date up to the date of this annual report, there was no purchase, sale or redemption of any listed securities of the Company by the Company or any of its subsidiaries.

Taxation

During the year ended 31 December 2022, the Company and its subsidiaries were subject to the PRC enterprise income tax at a rate of 25% of taxable profits according to the requirements under the PRC Enterprise Income Tax Law unless those are subject to tax exemption which became effective on 1 January 2008. The relevant details are set out in note 11 to the Financial Statements on pages 116 to 117 of this annual report.

Tax Relief

The Company is not aware of any relief from taxation available to the Shareholders by reason of their holding of the shares of the Company.

Pre-Emptive Rights

There is no provision for the pre-emptive rights under the Articles of Association or the PRC laws, which would oblige the Company to offer new shares on a pro-rata basis to its existing Shareholders.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules since its listing on 22 December 2022 up to the date of this annual report.

Corporate Governance

The Company is committed to ensuring high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the principles and code provisions of the Corporate Governance Code on the Stock Exchange as the basis of the Company's corporate governance practices.

The Board is of the view that during the Relevant Period, the Company has complied with all the applicable code provisions as set out in the Corporate Governance Code, except for Code Provision C.2.1 described in the Corporate Governance Report.

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 22 to 40 of this annual report.

Compliance with the Model Code

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors and Supervisors.

The Board is pleased to confirm that, after making specific enquiries with all Directors and Supervisors, all Directors and Supervisors have fully complied with the standards required according to the Model Code set out in Appendix 10 to the Listing Rules during the year ended 31 December 2022.

Environmental, Social and Corporate Responsibility

As a responsible corporation, the Group is committed to maintaining the highest environmental and social standards to ensure sustainable development of its business. The Group has not noted any material non-compliance with all relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment, anti-corruption and the environment. The Group understands that a better future depends on everyone's participation and contribution. The Company has encouraged employees, customers, suppliers and other stakeholders to participate in environmental and social activities which benefit the community as a whole. Further, the Group has adopted policies, charters and code of conducts to govern the environmental, social and governance (ESG) aspects of our day-to-day operations, ranging from reducing energy and water consumption caused by our operations, health and work safety, and social contribution to environmental protection and corporate governance. The Group endeavours to maintain the relationships with its employees, suppliers and customers to ensure sustainable development. For further details of the Group's environmental policies and performance, compliance with relevant laws and regulations and relationship with its employees, suppliers and customers, please refer to our standalone Environmental, Social and Governance Report.

The Company's Environmental, Social and Governance Report is published in electronic form only at the same time on the websites of the Company at http://www.chicmaxgroup.com under the section "Investor Relations" and the Stock Exchange at www.hkexnews.hk. If you wish to receive a printed copy of the Environmental, Social and Governance Report, you may submit your request to the Hong Kong H Share Registrar by post at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

Key Relationship With Stakeholders

The Group recognizes that various stakeholders including employees, customers, suppliers and other other stakeholders are key to the Group's success. The Group strives to achieve corporate sustainability through engaging, collaborating, and cultivating strong relationship with them.

The Group believes that it is vital to attract, recruit and retain quality employees. To maintain the quality, knowledge and skill levels of the Group's workforce, the Group provides employees with periodic training, including introductory training for new employees, technical training, professional and management training and health and safety training. The Group believes that it maintains a good relationship with its employees and the Group did not experience any significant labor disputes or any difficulty in recruiting staff for its operations.

We strive to establish long-term, reliable and mutually beneficial cooperative relationship with our suppliers. We make all-out efforts to ensure that all suppliers deliver high-quality raw materials and that they are on the same page with us in terms of providing high-quality products to customers. We select suppliers in a prudent manner and assess their performance based on factors, including but not limited to quality, cost, delivery and services, in order to make sure that their quality standards are in line with the Group's requirements. Meanwhile, we also encourage suppliers to improve environmental, social and governance performance with us with a goal to grow and develop together.

A customer complaint handling mechanism is in place to receive, analyse and study complaints and make recommendations on remedies with the aim of improving service quality. The Group is in good relationship with its employees, suppliers and customers and conducts a fair and strict appraisal of its suppliers on an annual basis. For details of an account of the Company's key relationships with its employees, customers, suppliers and others that have a significant impact on the Company is set out in the separate Environmental, Social and Governance Report.

Equity-linked Agreements

Save as disclosed in this annual report, the Company has not entered into any equity-linked agreement during the year ended 31 December 2022.

Material Legal Proceedings

The Group was not involved in any material legal proceeding during the year ended 31 December 2022.

Loan and Guarantee

Save as disclosed in this annual report, during the year ended 31 December 2022, the Group had not made any loan or provided any guarantee for loan, directly or indirectly, to the Directors, Supervisors, senior management of the Company, the Controlling Shareholders or their respective connected persons.

Confirmation of Independence of the Independent Non-executive Directors

The Company confirmed that it had received the annual confirmation of independence from each of the independent non-executive Directors in compliance with Rule 3.13 of the Listing Rules. The Company is of the view that the independent non-executive Directors remain independent during the year ended 31 December 2022 in accordance with the relevant requirements of Rule 3.13 of the Listing Rules.

Closure of the Register of Members

To determine the eligibility of the Shareholders to attend and vote at the AGM to be held on 15 June 2023, the register of members will be closed from Tuesday, 16 May 2023 to Thursday, 15 June 2023, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong H Share Registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration before 4:30 p.m. on Monday, 15 May 2023.

On the assumption that the resolution for declaring the final dividend is duly passed at the AGM, the register of members will be closed from Wednesday, 21 June 2023 to Monday, 26 June 2023, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for entitlement to the final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's H Share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for holders of H shares).

Annual General Meeting

The AGM will be held on 15 June 2023. Shareholders should refer to details regarding the AGM in the circular of the Company dated 27 April 2023 and the notice of meeting and form of proxy accompanying thereto.

Auditors

The Shares were only listed on the Stock Exchange on 22 December 2022, and there has been no change in auditors since the Listing Date. A resolution to re-appoint the retiring auditors, Ernst & Young, is to be proposed at the forthcoming AGM.

Donation

Approximately RMB2.66 million of charitable or other donations were made by the Group during the year ended 31 December 2022. For further details, please refer to the Environmental, Social and Governance Report.

Events After the Financial Period

Over-allotment Option described in the Prospectus has been partially exercised by the Overall Coordinators, on behalf of the International Underwriters, on Friday, 13 January 2023, in respect of an aggregate of 999,900 H Shares, representing approximately 2.71% of the total number of the Offer Shares initially available under the Global Offering before any exercise of the Over – allotment Option, at the Offer Price of HK$25.20 per H Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027%, AFRC transaction levy of 0.00015% and the Stock Exchange trading fee of 0.00565%).

Best regards,
Lyu Yixiong
Chairman of the Board, Executive Director and Chief Executive Officer
上海上美化妝品股份有限公司
Shanghai Chicmax Cosmetic Co., Ltd.

Shanghai, the PRC
30 March 2023

Report of the Supervisory Committee

The Supervisory Committee of Shanghai Chicmax Cosmetic Co., Ltd. exercises its duties independently, with a dedicated and diligent attitude, in accordance with the Company Law of the PRC, the Articles of Association of Shanghai Chicmax Cosmetic Co., Ltd. (hereinafter referred to as the "Articles of Association"), the Rules of Procedures of the Supervisory Committee and relevant laws and regulations. From the perspective of safeguarding the interests of the Company and the rights and interests of shareholders, the Supervisory Committee performs its supervisory duties earnestly to promote the further improvement of the corporate governance structure of the Company.

1. Consideration by the Supervisory Committee in 2022

On 16 March 2022, the Company held the fourth meeting of the First Session of the Supervisory Committee, at which the "Proposal on Annual Profit Distribution in 2021" was considered and approved.

On 9 June 2022, the Company held the fifth meeting of the First Session of the Supervisory Committee, at which the "Proposal on the Work Report of the Supervisory Committee in 2021" was considered and approved, and the Supervisory Committee reported to the general meeting on the work in 2021.

2. Legal Compliance of the Company in 2022

The Supervisory Committee of the Company performed its duties and responsibilities, attended the Board meetings and general meetings of the Company, and supervised the regulated operation, production and operation, financial position and the performance of duties by the Directors and senior management of the Company, in accordance with the laws and regulations such as the Company Law of the PRC and the corporate systems such as the Articles of Association and the Rules of Procedures of the Supervisory Committee in 2022.

The Supervisory Committee is of the view that the Board of the Company is well operated, makes reasonable decisions and follows lawful procedures, and earnestly implements the resolutions of the general meeting, and there is no violation of laws, regulations or the Articles of Association or act against the interests of the Company and its shareholders by the Directors and senior management of the Company in the performance of their duties for the Company. The Company's financial operation is regular with complete systems. The Company has established a relatively sound internal control system in compliance with the relevant laws and regulations and the Articles of Association, and there is no any illegal or non-compliant act.

3. Work Plan for 2023

In 2023, the Supervisory Committee will continue to exercise due diligence in accordance with the relevant laws and regulations and the work plan is as follows:

(1) The Supervisory Committee will continue to strengthen its supervisory functions and perform its duties earnestly, hold regular meetings of the Supervisory Committee and attend the Board meetings and general meetings of the Company in accordance with the law, supervise the legality of various decision-making procedures, supervise the Board and senior management in accordance with the law, promote the further improvement of the corporate governance structure of the Company, prevent acts against the interests of the Company, protect the legitimate interests of the Company and all shareholders, and strive to improve the standard of corporate governance and regular operation.

(2) The Supervisory Committee will continue to focus on the risk management of the Company, monitor the legal compliance of the Company, and actively supervise the construction and effective operation of the internal management control system to effectively reduce operational risks and improve operational efficiency.

(3) The Supervisory Committee will examine the financial position of the Company and focus on significant financial matters, such as the preparation and disclosure of financial reports and the application of accounting standards, to continuously deepen its supervision on the Company's financial operation.

(4) The Supervisory Committee will further enhance the ability of the Supervisory Committee to perform its duties and strengthen its knowledge of various laws and regulations, corporate governance, financial and internal control management to better protect the interests of the Company and all shareholders.

Best regards,
Li Tao
Chairman of the Supervisory Committee
上海上美化妝品股份有限公司
Shanghai Chicmax Cosmetic Co., Ltd.

Shanghai, the PRC
30 March 2023

Independent Auditor's Report

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Independent auditor's report
To the shareholders of Shanghai Chicmax Cosmetic Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

Opinion

We have audited the consolidated financial statements of Shanghai Chicmax Cosmetic Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 70 to 152, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Key audit matters *(Continued)*

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Loss allowance for expected credit losses on trade receivables	
As at 31 December 2022, the carrying amount of trade receivables amounted to RMB366,745,000 and the corresponding loss allowance for trade receivables for the year then ended amounted to RMB34,197,000, which were material to the consolidated financial statements. Under IFRS 9, the loss allowance for trade receivables is based on expected credit loss ("ECL") approach. In developing the loss allowance, the ECL rates of trade receivables assessed individually are determined based on corresponding external default data of the customers, their repayment and default histories and on-going business relationship with them by the management. For trade receivables assessed collectively, the ECL rates are determined based on historical credit losses experienced. The loss rates are then adjusted to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables. The estimation of relevant ECL involves significant judgement and subjective assumptions of the management of the Group such as the assessment of the correlation among historical observed default rates and forecast economic conditions. As a result, we identified the assessment of provision of trade receivables of the Group as a key audit matter. Details are set out in note 2.4, note 3 and note 21 to the consolidated financial statements for related disclosures.	Our procedures in relation to assessment of ECLs of trade and bills receivables included: – Discussed with the management about the credit policy of the Group and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors involved in the loss allowance estimation such as subjectivity; – Understood and evaluated management's internal controls and assessment processes of estimating ECL allowance for trade receivables; – Evaluated the basis the management used to determine different credit risk portfolios; – Analysed and tested the trade receivables ageing profiles adopted in the collective assessment; – Evaluated management's judgements involved in the determination of loss allowance of trade receivables, including the historical experience and forward-looking adjustments; – Assessed the related parameters used by the Group in ECL estimation by comparing with the underlying historical and external data; – Evaluated the outcome of prior year's ECL allowance by testing, on a sample basis, the subsequent settlement of trade receivables by checking to relevant bank receipt records; – Reviewed the related disclosures in the notes to the consolidated financial statements.

Key audit matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Provision for impairment of inventories	
As at 31 December 2022, the carrying amount of inventories amounted to RMB518,113,000 and the corresponding provision for inventories for the year then ended amounted to RMB35,496,000, which were material to the consolidated financial statements. Significant judgement is required in assessing the appropriate level of the provision for slow moving and/or obsolete inventory. Such judgements include management's expectations of forecast inventory demand, product expiry dates and plans to dispose of inventories that are close to expiry. As a result, we identified the provisioning for slow moving and obsolete inventories as a key audit matter. Details are set out in note 2.4, note 3 and note 20 to the consolidated financial statements for related disclosures.	Our procedures in relation to assessment of provision of inventories included: – Understood and evaluated management's internal controls and assessment processes of provision for inventories; – Obtained the calculation of the provision for inventories prepared by the management of the Group, evaluated the ageing information of inventories used in the calculation by checking relevant supporting documents; – Compared the estimated selling prices of inventories in the calculation to their recent or subsequent selling price, on a sample basis, by checking invoices; – Assessed the provision amount by recalculating the net realizable value on a sample basis independently, and comparing it with the cost of inventories of the Group; – Reviewed the related disclosures in the notes to the consolidated financial statements.

Key audit matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Recognition of deferred tax assets	
As at 31 December 2022, the balance of deferred tax assets amounted to RMB109,493,000, which were material to the consolidated financial statements. The deferred tax assets are recognized to the extent that it is probable that taxable profits would be available against which the deductible temporary differences and tax losses can be utilized. The process of estimating the amount and timing of future taxable profits is complex and involves estimates and judgements that would be affected by future operations, tax regulations, market or economic conditions. As a result, we identified the recognition of deferred tax assets as a key audit matter. Details are set out in note 2.4, note 3 and note 19 to the consolidated financial statements for related disclosures.	Our procedures in relation to assessment the recognition of deferred tax assets included: – Understood and evaluated management's internal controls and assessment processes of recognition of deferred tax assets; – Discussed with the management about the business plans of the Group approved by those charged with governance; – Obtained the future profit forecasts prepared by the management, evaluated the appropriateness of the parameters used in the forecasts by comparing with the historical information of the Group and the industry; – Performed sensitivity analysis of the parameters used in the forecasts; – Obtained the calculation of the deferred tax assets prepared by the management, recalculated the deferred tax assets and compared the results; – Reviewed the related disclosures in the notes to the consolidated financial statements.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Auditor's responsibilities for the audit of the consolidated financial statements *(Continued)*

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Shun Lung Wai.

Ernst & Young
Certified Public Accountants
Hong Kong
30 March 2023

Consolidated Statement of Profit or Loss

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Revenue	5	**2,675,331**	3,618,882
Cost of sales		**(975,699)**	(1,258,243)
Gross profit		**1,699,632**	2,360,639
Other income and gains	6	**122,768**	91,422
Selling and distribution expenses		**(1,257,691)**	(1,572,275)
Administrative expenses		**(223,388)**	(261,720)
Research and development costs		**(110,283)**	(104,749)
Impairment losses on financial assets, net	7	**(12,054)**	(6,303)
Other expenses	6	**(43,049)**	(77,807)
Finance costs	8	**(20,474)**	(20,934)
Share of profits and losses of associates		**(1,229)**	(149)
Profit before tax	7	**154,232**	408,124
Income tax expense	11	**(17,152)**	(69,353)
Profit for the year		**137,080**	338,771
Attributable to:			
Owners of the parent		**147,104**	338,887
Non-controlling interests		**(10,024)**	(116)
		137,080	338,771
Earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted			
– For profit for the year	13	**RMB0.41**	RMB0.94

Consolidated Statement of Comprehensive Income

Year ended 31 December 2022

	2022 RMB'000	2021 RMB'000
Profit for the year	**137,080**	338,771
Other comprehensive income		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(955)**	(8,264)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(955)**	(8,264)
Total comprehensive income for the year	**136,125**	330,507
Attributable to:		
Owners of the parent	**146,149**	330,623
Non-controlling interests	**(10,024)**	(116)
	136,125	330,507

Consolidated Statement of Financial Position

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**601,251**	636,428
Investment properties	15	**9,286**	10,523
Prepayments, other receivables and other assets	22	**16,748**	19,890
Right-of-use assets	16	**144,494**	161,662
Other intangible assets	17	**19,424**	18,226
Investments in associates	18	**1,797**	1,646
Deferred tax assets	19	**100,501**	103,078
Total non-current assets		**893,501**	951,453
CURRENT ASSETS			
Inventories	20	**518,113**	621,201
Trade and bills receivables	21	**373,985**	374,874
Prepayments, other receivables and other assets	22	**200,860**	181,827
Pledged deposits	23	**11,500**	–
Cash and cash equivalents	23	**1,147,708**	145,208
Total current assets		**2,252,166**	1,323,110
CURRENT LIABILITIES			
Trade payables	24	**424,150**	565,961
Other payables and accruals	25	**235,722**	413,249
Interest-bearing bank and other borrowings	26	**590,278**	59,970
Lease liabilities	16	**26,890**	21,896
Tax payable		**36,690**	39,053
Total current liabilities		**1,313,730**	1,100,129
NET CURRENT ASSETS		**938,436**	222,981
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,831,937**	1,174,434

	Notes	**2022** **RMB'000**	2021 RMB'000
NON-CURRENT LIABILITIES			
Lease liabilities	16	**50,939**	73,080
Interest-bearing bank and other borrowings	26	**60,089**	130,089
Other payables	25	**14,264**	16,227
Total non-current liabilities		**125,292**	219,396
Net assets		**1,706,645**	955,038
EQUITY			
Equity attributable to owners of the parent			
Share capital	27	**396,958**	360,000
Reserves	29	**1,308,128**	589,979
		1,705,086	949,979
Non-controlling interests		**1,559**	5,059
Total equity		**1,706,645**	955,038

Consolidated Statement of Changes in Equity

Year ended 31 December 2022

	Attributable to owners of the parent									
	Share capital	Share premium*	Share-based payment reserve*	Capital reserve*	Statutory reserve funds*	Exchange fluctuation reserve*	Retained profits*	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 27)	(note 27)		(note 29)	(note 29)	(note 29)				
At 1 January 2022	360,000	–	194,969	119,679	30,556	(6,752)	251,527	949,979	5,059	955,038
Profit/(loss) for the year	–	–	–	–	–	–	147,104	147,104	(10,024)	137,080
Other comprehensive income for the year:										
Exchange differences related to foreign operations	–	–	–	–	–	(955)	–	(955)	–	(955)
Total comprehensive income/(loss) for the year	–	–	–	–	–	(955)	147,104	146,149	(10,024)	136,125
Contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	7,860	7,860
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	(1,336)	(1,336)
Dividends declared	–	–	–	–	–	–	(200,000)	(200,000)	–	(200,000)
Issuance of ordinary shares relating to initial public offering (note27)	36,958	809,450	–	–	–	–	–	846,408	–	846,408
Share issue expenses	–	(36,564)	–	–	–	–	–	(36,564)	–	(36,564)
Equity-settled share-based compensation	–	–	(886)	–	–	–	–	(886)	–	(886)
Transfer from retained profits	–	–	–	–	9,651	–	(9,651)	–	–	–
At 31 December 2022	396,958	772,886	194,083	119,679	40,207	(7,707)	188,980	1,705,086	1,559	1,706,645

	Attributable to owners of the parent								
	Share capital RMB'000 (note 27)	Share-based payment reserve* RMB'000	Capital reserve* RMB'000 (note 29)	Statutory reserve funds* RMB'000 (note 29)	Exchange fluctuation reserve* RMB'000 (note 29)	(Accumulated losses)/ Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2021	360,000	153,529	120,714	11,844	1,512	(68,648)	578,951	5,439	584,390
Profit/(loss) for the year	–	–	–	–	–	338,887	338,887	(116)	338,771
Other comprehensive income for the year:									
Exchange differences related to foreign operations	–	–	–	–	(8,264)	–	(8,264)	–	(8,264)
Total comprehensive income/(loss) for the year	–	–	–	–	(8,264)	338,887	330,623	(116)	330,507
Acquisition of non-controlling interests	–	–	(1,035)	–	–	–	(1,035)	(264)	(1,299)
Equity-settled share-based compensation	–	41,440	–	–	–	–	41,440	–	41,440
Transfer from retained profits	–	–	–	18,712	–	(18,712)	–	–	–
At 31 December 2021	360,000	194,969	119,679	30,556	(6,752)	251,527	949,979	5,059	955,038

* These reserve accounts comprise the consolidated reserves of RMB1,308,128,000 (2021:RMB589,979,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**154,232**	408,124
Adjustments for:			
Finance costs	8	**20,474**	20,934
Inventory impairment and scrap	7	**33,546**	66,861
Impairment of trade and other receivables		**12,054**	6,303
Share of profits and losses of associates		**1,229**	149
Interest income	6	**(814)**	(460)
Depreciation of investment properties		**1,237**	516
Depreciation of property, plant and equipment	7	**63,272**	61,240
Depreciation of right-of-use assets	7	**25,994**	24,112
Amortisation of intangible assets	7	**3,669**	2,227
Loss/(gain) on disposal of items of property, plant and equipment	7	**44**	(1,651)
Loss on disposal of other intangible assets		**–**	23
Loss/(gain) on disposal of items of right-of-use assets		**774**	(62)
Loss on disposal of associates		**–**	351
Fair value gain on financial assets at fair value through profit or loss		**(79)**	(162)
Equity-settled share-based compensation expense	7	**(886)**	41,440
		314,746	629,945
Decrease/(increase) in inventories		**69,542**	(110,771)
Increase in trade and bills receivables		**(12,244)**	(38,778)
Increase in prepayments, other receivables and other assets		**(3,366)**	(63,669)
Decrease in amount due to related parties		**–**	(1,812)
Increase in an amount due from related parties		**–**	(168)
(Increase)/decrease in pledged deposits		**(11,500)**	440
(Decrease)/increase in trade payables		**(140,462)**	16,839
Decrease in other payables and accruals		**(160,306)**	(85,308)
Cash generated from operations		**56,410**	346,718
Interest received		**814**	460
Income tax paid		**(20,663)**	(11,985)
Net cash flows generated from operating activities		**36,561**	335,193

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(54,328)**	(63,124)
Proceeds from disposal of items of property, plant and equipment		**4,836**	4,800
Additions to other intangible assets		**(5,741)**	(2,607)
Proceeds from disposal of items of other intangible assets		**549**	2,182
Proceeds from disposal of associates		**–**	700
Dividend received from associates		**–**	2,101
Purchase of a shareholding in associates		**(1,380)**	–
Purchase of financial assets at fair value through profit or loss		**(58,000)**	(29,000)
Proceeds from disposal of financial assets at fair value through profit or loss		**58,079**	29,172
Intention money paid for financial assets at fair value through profit or loss		**(10,799)**	–
Repayment from related parties		**–**	490
Net cash flows used in investing activities		**(66,784)**	(55,286)
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES			
Proceeds from bank loans		**615,598**	40,300
Repayment of bank loans		**(155,290)**	(285,447)
Capital contribution from minority shareholders		**7,860**	–
Proceeds from issuance of shares		**846,408**	–
Share issue expenses		**(37,958)**	–
Purchases of non-controlling interests		**(1,336)**	(1,299)
Principal portion of lease payments		**(26,747)**	(28,344)
Dividend paid		**(200,000)**	–
Interest paid		**(20,474)**	(14,765)
Net cash flows generated from/(used in) financing activities		**1,028,061**	(289,555)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**997,838**	(9,648)
Cash and cash equivalents at beginning of year		**145,208**	154,195
Effect of foreign exchange rate changes, net		**4,662**	661
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	**1,147,708**	145,208
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position and statement of cash flows		**1,147,708**	145,208

1. Corporate information

Shanghai Chicmax Cosmetic Co., Ltd. (the "Company") is a limited company incorporated in the People's Republic of China on 11 June 2004. The registered office is located at Room 701, No.515 Yinxiang Road, Nanxiang Town, Jiading District, Shanghai, Mainland China. The Company was restructured from a limited company to a joint-stock company on 15 December 2020. The Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 22 December 2022.

In the opinion of the directors, the controlling shareholder is Mr. Lyu Yixiong.

During the year, Shanghai Chicmax Cosmetic Co., Ltd. and its subsidiaries (the "Group") were principally involved in the following activities: research and development, production and sales of cosmetics.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shanghai Shumei Cosmetic Co., Ltd. ("上海東美化妝品有限公司")**	PRC/Mainland China 08 September 2009	RMB10,000,000	100%	–	Sales of cosmetics
Shanghai Zhongyi Daily Chemical Co., Ltd. ("上海中翊日化有限公司")**	PRC/Mainland China 05 August 2010	RMB260,000,000	100%	–	Production of cosmetics
Suzhou Industrial Park Lizi Cosmetic Co., Ltd. ("蘇州工業園區黎姿化妝品有限公司")**	PRC/Mainland China 23 April 2004	RMB42,000,000	100%	–	Production of cosmetics
Shanghai Baby Elephant Cosmetic Co., Ltd. ("上海紅色小象化妝品有限公司")**	PRC/Mainland China 28 December 2015	RMB10,000,000	100%	–	Sales of cosmetics
Shanghai Kans Cosmetic Sales Service Co., Ltd. ("上海韓束化妝品銷售服務有限公司")**	PRC/Mainland China 29 June 2016	RMB5,000,000	–	100%	Sales of cosmetics
Shanghai Cosmetea Cosmetics Co., Ltd. ("上海珂思美媞化妝品有限公司")**	PRC/Mainland China 08 July 2016	RMB5,000,000	–	100%	Sales of cosmetics
Nippon Hondo Co., Ltd. ("日本紅道株式會社")	Japan 30 July 2015	JPY62,000,000	–	100%	Sales of cosmetics
Nippon Shuichi Cosmetics Co., Ltd. ("日本秀一壹化妝品株式會社")	Japan 04 July 2017	JPY80,600,000	–	100%	Production of cosmetics
Shanghai Hongdao Cosmetic Co., Ltd. ("上海紅道化妝品有限公司")**	PRC/Mainland China 02 February 2018	RMB5,000,000	100%	–	Sales of cosmetics
Shanghai One Leaf Cosmetic Co., Ltd. ("上海一葉子化妝品有限公司")**	PRC/Mainland China 09 September 2014	RMB10,000,000	100%	–	Sales of cosmetics

1. Corporate information *(Continued)*

Information about subsidiaries *(Continued)*

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shanghai HiFace Cosmetic Co., Ltd. ("上海赫妃拉化妝品有限公司")**	PRC/Mainland China 28 December 2017	RMB5,000,000	–	100%	Sales of cosmetics
Shanghai Huami Supply Chain Management Co., Ltd. ("上海花迷供應鏈管理有限公司")**	PRC/Mainland China 09 January 2019	RMB1,000,000	–	100%	Supply chain management
Shanghai Baby Elephant Cosmetic Sales Service Co., Ltd. ("上海紅色小象化妝品銷售服務有限公司") **	PRC/Mainland China 12 June 2018	RMB10,000,000	–	100%	Sales of cosmetics
Shanghai Asnami Cosmetics Co., Ltd. ("上海安彌兒化妝品有限公司")**	PRC/Mainland China 15 May 2019	RMB10,000,000	–	100%	Sales of cosmetics
Shanghai KPC Biotechnology Co., Ltd. ("上海昆藥生物科技有限公司")**	PRC/Mainland China 11 August 2020	RMB20,000,000	51%	–	Sales of cosmetics

* The English names of the companies registered in the People's Republic of China (the "PRC") represent the best efforts of management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group.

** These companies are registered as limited liability companies under PRC law.

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 Basis of preparation *(Continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 Changes in accounting policies and disclosures

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 3	*Reference to the Conceptual Framework*
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to IFRSs 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

The nature and the impact of the revised IFRSs that are applicable to the Group are described below:

a) Amendments to IFRS 3 replace a reference to the previous Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting (the "Conceptual Framework") issued in June 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combination during the year, the amendments did not have any impact on the financial position and performance of the Group.

b) Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by IAS 2 *Inventories,* in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

c) Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

2.2 Changes in accounting policies and disclosures *(Continued)*

d) *Annual Improvements to IFRSs 2018-2020* sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- IFRS 9 *Financial Instruments:* clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

2.3 Issued but not yet effective IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IFRS 16	*Lease Liability in a Sale and Leaseback*[2]
IFRS 17	*Insurance Contracts*[1]
Amendments to IFRS 17	*Insurance Contracts*[1, 5]
Amendments to IFRS 17	*Initial Application of IFRS 17 and IFRS 9 – Comparative Information*[6]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current (the "2020 Amendments")*[2, 4]
Amendments to IAS 1	*Non-current Liabilities with Covenants (the "2022 Amendments")*[2]
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to IAS 8	*Definition of Accounting Estimates*[1]
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]

1 Effective for annual periods beginning on or after 1 January 2023

2 Effective for annual periods beginning on or after 1 January 2024

3 No mandatory effective date yet determined but available for adoption

4 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024.

5 As a consequence of the amendments to IFRS 17 issued in October 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023.

6 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of IFRS 17.

2.3 Issued but not yet effective IFRSs *(Continued)*

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. In 2022, the IASB issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

2.3 Issued but not yet effective IFRSs *(Continued)*

Amendments to IAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to IFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently revisiting the accounting policy disclosures to ensure consistency with the amendments.

Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 12 narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

The Group has applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 Summary of significant accounting policies

Investments in associates

An associate is an entity in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of an associate is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investment in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of an associate is included as part of the Group's investments in associates.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

2.4 Summary of significant accounting policies *(Continued)*

Business combinations and goodwill *(Continued)*

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its debt investments at fair value through other comprehensive income at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

2.4 Summary of significant accounting policies *(Continued)*

Fair value measurement *(Continued)*

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial information on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets, financial assets, investment properties and non-current assets/ a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.4 Summary of significant accounting policies *(Continued)*

Impairment of non-financial assets *(Continued)*

An assessment is made at the end of the reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; and the sponsoring employers of the post-employment benefit plan;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 Summary of significant accounting policies *(Continued)*

Property, plant and equipment and depreciation

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

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Category	Annual rates
Buildings	4.75%
Plant and machinery	9.50% – 47.50%
Motor vehicles	23.75% – 47.50%
Furniture, fixtures and equipment	19.00% – 47.50%
Leasehold improvements	19.00% – 47.50%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

2.4 Summary of significant accounting policies *(Continued)*

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs.

The Group measures its investment properties at cost, including related transaction costs. Depreciation is calculated using the straight-line method to allocate their cost over their estimated useful lives in 20 years.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

Transfers among investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of other intangible assets are assessed to be either finite or indefinite. Other intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives. The principal estimated useful lives of intangible assets are as follows:

Categories	Estimated useful lives
Software	3-10 years, considering the software technology updates in the market and the development stage of the Group
Others, mainly include vehicle license plate	2-10 years, vehicle license plate is amortised on a straight-line basis over the useful life of 10 years, based on the Group’s minimal planned years of usage.

2.4 Summary of significant accounting policies *(Continued)*

Intangible assets (other than goodwill) *(Continued)*

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) *Right-of-use assets*

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

Category	Estimated useful lives
Land use right	50 years

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

2.4 Summary of significant accounting policies *(Continued)*

Leases *(Continued)*

Group as a lessee *(Continued)*

(b) *Lease liabilities*

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

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

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.4 Summary of significant accounting policies *(Continued)*

Leases *(Continued)*

Group as a lessor *(Continued)*

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 Summary of significant accounting policies *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

2.4 Summary of significant accounting policies *(Continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

2.4 Summary of significant accounting policies *(Continued)*

Impairment of financial assets *(Continued)*

General approach *(Continued)*

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has not increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2.4 Summary of significant accounting policies *(Continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables, interest-bearing bank and other borrowings and other liabilities.

Subsequent measurement

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

Financial liabilities at amortised cost (other payables, interest-bearing bank and other borrowings and other liabilities)

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

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

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 Summary of significant accounting policies *(Continued)*

Inventories

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

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

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

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

Income tax

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

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

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

2.4 Summary of significant accounting policies *(Continued)*

Income tax *(Continued)*

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of the reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

2.4 Summary of significant accounting policies *(Continued)*

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

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

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

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

2.4 Summary of significant accounting policies *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers *(Continued)*

(a) Sale of goods

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

Rights of return

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

(b) Transportation services

The Group provides transportation services between its warehouses and its customers. The Group recognise transportation services revenue over time as customers receive the benefit of the services as the goods are transported from one location to another. As such, transportation service revenue is recognised proportionally as goods move from one location to another and the related costs are recognised as incurred. The Group uses an output method of progress based on time-in-transit as it best depicts the transfer of control to the customer.

Other income

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

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

Contract liabilities

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

2.4 Summary of significant accounting policies *(Continued)*

Right-of-return assets

A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods and any potential decreases in the value of the returned goods. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned goods.

Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Share-based payments

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 28 to the financial statements.

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

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

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

2.4 Summary of significant accounting policies *(Continued)*

Share-based payments *(Continued)*

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

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Foreign currencies

The financial information is presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

2.4 Summary of significant accounting policies *(Continued)*

Foreign currencies *(Continued)*

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Employee benefits

Social pension plans

The Group has the social pension plans for its employees arranged by local government labour and security authorities. The Group makes contributions on a monthly basis to the social pension plans. The contributions are charged to profit or loss as they become payable in accordance with the rules of the social pension plans. Under the plans, the Group has no further obligations beyond the contributions made.

Housing fund and other social insurances

The Group has participated in defined social security contribution schemes for its employees pursuant to the relevant laws and regulations of the PRC. These include housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances. The contributions are charged to profit or loss on an accrual basis. The Group has no further obligations beyond the contributions made.

3. Significant accounting judgements and estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Variable consideration for returns and rebates

The Group estimates variable consideration to be included in the transaction price for the sale of products with rights of return and rebates.

The Group has developed a statistical model for forecasting sales returns and rebates. The model used the historical return data of each product to come up with expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Group.

The Group's expected rebates are analysed on a per customer basis for contracts that are subject to some thresholds. Determining whether a customer will likely be entitled to a rebate depends on the customer's historical rebate entitlement, sell out and payment collection to date.

The Group updates its assessment of expected returns and rebates quarterly and the refund liabilities are adjusted accordingly. Estimates of expected returns and rebates are sensitive to changes in circumstances and the Group's past experience regarding returns and rebate entitlements may not be representative of customers' actual returns and rebate entitlements in the future. As at 31 December 2022, the amounts recognised as refund liabilities was RMB1,716,000 (31 December 2021: RMB29,604,000), and the amounts recognised as rebates was RMB14,400,000 (31 December 2021: RMB27,100,000).

3. Significant accounting judgements and estimates *(Continued)*

Estimation uncertainty *(Continued)*

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Provision for expected credit losses on trade and bills receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 21.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

3. Significant accounting judgements and estimates *(Continued)*

Estimation uncertainty *(Continued)*

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are included in note 19 to the financial statements.

Provision for slow-moving inventories and net realisable value of inventories

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

4. Operating segment information

For management purposes, the Group is organised into one single business unit that includes primarily the manufacture and sale of cosmetic products.

The information reported to the directors of the Company, who are the chief operating decision makers, for the purpose of resource allocation and assessment of performance, does not contain discrete operating segment financial information and the directors reviewed the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.

Geographical information

(a) Revenue from external customers

	2022	2021
	RMB'000	RMB'000
Mainland China	**2,656,680**	3,587,706
Other countries/regions	**18,651**	31,176
	2,675,331	3,618,882

The revenue information above is based on the locations of the customers.

4. Operating segment information *(Continued)*

Geographical information *(Continued)*

(b) Non-current assets

	2022 RMB'000	2021 RMB'000
Mainland China	**726,882**	787,081
Japan	**66,118**	61,864
	793,000	848,945

The non-current assets information above is based on the locations of the assets and excludes deferred tax assets.

Information about major customers

Revenue of approximately RMB319,607,000 (2021: RMB417,397,000) was derived from sales to a single customer during the year ended 31 December 2022, accounting for approximately 11.9%(2021:11.5%) of the total revenue. Other than this entity, the Group has a large number of customers, and none of the sales to whom accounted for 10.00% or more of the Group's revenue during the year.

5. Revenue

An analysis of the Group's revenue is as follows:

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers		
Sales of goods	**2,666,649**	3,606,750
Transportation services	**8,682**	12,132
	2,675,331	3,618,882

5. Revenue *(Continued)*

(a) Disaggregated revenue information

	2022 RMB'000	2021 RMB'000
Types of goods or services		
Sales of goods	**2,666,649**	3,606,750
Transportation services	**8,682**	12,132
	2,675,331	3,618,882

Timing of revenue recognition

	2022 RMB'000	2021 RMB'000
Goods transferred at a point in time	**2,666,649**	3,606,750
Services transferred over time	**8,682**	12,132
	2,675,331	3,618,882

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the current reporting period:

	2022 RMB'000	2021 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the year:		
Sale of goods	**81,120**	128,937

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon receipt of the goods by customers or delivery of goods, and the payment period is generally uncertain, expect for certain major customers where payment is due within 60 to 90 days from receipt.

5. Revenue *(Continued)*

(b) Performance obligations *(Continued)*

Transportation services

The performance obligation is satisfied over time as services are rendered. Transportation services are for periods of within one month, and are billed based on the time incurred.

As at the end of the reporting period, the amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) are immaterial and all the amounts are expected to be recognised as revenue within one year.

6. Other income and gains and other expenses

	Notes	**2022** **RMB'000**	2021 RMB'000
Other income			
Government grants	(a)(b)	**87,551**	77,494
Bank interest income		**814**	460
Others		**11,498**	5,840
		99,863	83,794
Gains			
Gain on disposal of property, plant and equipment		**44**	2,326
Gain on write-off of outstanding payables		**2,695**	2,902
Others		**20,166**	2,400
		22,905	7,628
		122,768	91,422
Other expenses			
Inventory impairment and scrap		**33,546**	66,861
Foreign exchange loss		**4,552**	5,152
Others		**4,951**	5,794
		43,049	77,807

6. Other income and gains and other expenses *(Continued)*

(a) The government grants mainly represent incentives received or receivable from the local government in connection with certain financial support to local business enterprises for the purpose of encouraging business development. There are no unfulfilled conditions or contingencies relating to these grants.

(b) The Group has received certain government grants related to the investments in long-term assets in production bases. The grants related to assets were recognised in the statement of profit or loss over the useful lives of relevant assets. There are no unfulfilled conditions or contingencies relating to these grants.

7. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2022 RMB'000	2021 RMB'000
Cost of inventories sold		**975,699**	1,258,243
Depreciation of property, plant and equipment	14	**63,272**	61,240
Depreciation of right-of-use assets	16	**25,994**	24,112
Amortisation of intangible assets	17	**3,669**	2,227
Wages and salaries		**334,713**	418,537
Pension scheme contributions, social welfare and other welfare		**112,991**	111,937
Share-based compensation expense		**(886)**	41,440
Foreign exchange differences	6	**4,552**	5,152
Marketing and promotion expenses		**848,428**	1,034,045
Inventory impairment and scrap	6	**33,546**	66,861
Interest expense	8	**20,474**	20,934
Impairment losses on financial assets, net		**12,054**	6,303
Loss/(gain) on disposal of items of property, plant, and equipment		**44**	(1,651)
Listing expenses		**33,747**	10,310
Auditors' remuneration		**2,600**	–

8. Finance costs

An analysis of finance costs is as follows:

	Note	2022 RMB'000	2021 RMB'000
Interest on bank and other borrowings		**15,264**	14,765
Interest on lease liabilities	16	**5,210**	6,169
		20,474	20,934

9. Directors' and chief executive's remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2022 RMB'000	2021 RMB'000
Fees	**450**	39
Other emoluments:		
Salaries, allowances and benefits in kind	**2,924**	5,519
Pension scheme contributions	**808**	605
Performance-related bonuses	**629**	333
Share-based payment	**–**	9,753
	4,811	16,249

9. Directors' and chief executive's remuneration *(Continued)*

(a) Independent non-executive directors

	Note	Year ended 31 December 2022					
		Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Performance – related bonuses	Share-based payment	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Independent non-executive directors:							
Mr. Liu Yi	(i)	150	–	–	–	–	150
Ms. Luo Yan(羅妍)	(i)	150	–	–	–	–	150
Mr. Leung Ho Sun	(i)	150	–	–	–	–	150
		450	–	–	–	–	450

	Note	Year ended 31 December 2021					
		Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Performance – related bonuses	Share-based payment	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Independent non-executive directors:							
Mr. Liu Yi	(i)	13	–	–	–	–	13
Ms. Luo Yan(羅妍)	(i)	13	–	–	–	–	13
Mr. Leung Ho Sun	(i)	13	–	–	–	–	13
		39	–	–	–	–	39

Notes:

(i) Mr. Liu Yi, Ms. Luo Yan(羅妍) and Mr. Leung Ho Sun were appointed as independent non-executive directors on 1 December 2021.

9. Directors' and chief executive's remuneration *(Continued)*

(b) Executive directors, non-executive directors and the chief executive

		Year ended 31 December 2022				
		Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Performance – related bonuses RMB'000	Share-based payment RMB'000	Total RMB'000
Chief executive and executive director:						
Mr. Lyu Yixiong		507	202	–	–	709
Executive directors:						
Ms. Luo Yan (羅燕)		1,041	202	42	–	1,285
Ms. Song Yang		666	202	232	–	1,100
Mr. Feng Yifeng		710	202	355	–	1,267
Non-executive directors:						
Mr. Jin Ming	(ii)	–	–	–	–	–
Ms. Li Hanqiong		–	–	–	–	–
Mr. Sun Hao	(iii)	–	–	–	–	–
		2,924	808	629	–	4,361

9. Directors' and chief executive's remuneration *(Continued)*

(b) Executive directors, non-executive directors and the chief executive *(Continued)*

		Year ended 31 December 2021				
	Note	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Performance – related bonuses RMB'000	Share-based payment RMB'000	Total RMB'000
Chief executive and executive director:						
Mr. Lyu Yixiong		600	121	38	–	759
Executive directors:						
Ms. Luo Yan (羅燕)		1,622	121	72	–	1,815
Ms. Guo Wenjing	(i)	1,284	121	80	9,753	11,238
Ms. Song Yang		1,196	121	85	–	1,402
Mr. Feng Yifeng		817	121	58	–	996
Non-executive directors:						
Mr. Jin Ming		–	–	–	–	–
Ms. Li Hanqiong		–	–	–	–	–
		5,519	605	333	9,753	16,210

The non-executive directors waived or agreed to waive any remuneration during the year.

Notes:

(i) Ms. Guo Wenjing was appointed on 1 January 2018 and resigned on 2 December 2021.

(ii) Mr. Jin Ming was appointed on 7 December 2016 and resigned on 10 September 2022 due to personal reason.

(iii) Mr. Sun Hao was appointed on 30 September 2022.

10. Five highest paid employees

The five highest paid employees during the year included nil directors (2021: one), respectively, details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining five (2021: four) highest paid employees who are not the directors of the Company are as follows:

	2022	2021
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**4,365**	2,886
Pension scheme contributions	**877**	474
Performance-related bonuses	**329**	113
Share-based payment	**3,220**	16,236
	8,791	19,709

The number of non-director highest paid employees whose remuneration fell within the following bands is as follows:

	Number of the employees	
	2022	2021
Nil to HK$1,000,000	**–**	–
HK$1,000,000 to HK$1,500,001	**2**	3
HK$1,500,001 to HK$2,000,000	**3**	1
	5	4

11. Income tax expense

	2022	2021
	RMB'000	RMB'000
Current – PRC	**11,431**	21,028
Current – other jurisdictions	**3,145**	1,376
Deferred tax	**2,576**	46,949
Total tax charge for the year	**17,152**	69,353

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

11. Income tax expense *(Continued)*

PRC Corporate Income Tax

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

Shanghai Zhongyi Daily Chemical Co., Ltd. was accredited as an "Advanced Technology Enterprise" from 2021 to 2023, and therefore Shanghai Zhongyi Daily Chemical Co., Ltd. was entitled to a preferential EIT rate of 15% for the year. This qualification is subject to review by the relevant tax authority in the PRC for every three years.

Certain of the Group's PRC subsidiaries are qualified as small and micro enterprises and are entitled to a preferential corporate income tax rate of 20% during the year.

Hong Kong profits tax

The statutory rate of Hong Kong profits tax was 16.5% for the year on the estimated assessable profits arising in Hong Kong.

Income Tax of Other Jurisdictions

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

A reconciliation of the tax expense applicable to profit before tax at the statutory rate applicable in Mainland China to the tax expense at the effective tax rates is as follows:

		2022 RMB'000	2021 RMB'000
Profit before income tax		**154,232**	408,124
Tax at the PRC corporate income tax rate of 25%		**38,558**	102,031
Effect of different tax rates of some subsidiaries		**(8,216)**	(16,636)
Expenses not deductible for tax		**3,540**	12,563
Tax losses utilised from previous periods		**(3,731)**	(17,298)
Tax losses not recognised		**459**	1,158
Profits and losses attributable to associates		**307**	37
Additional deductible allowance for research and development expenses	(i)	**(13,765)**	(12,502)
Total tax charge for the year		**17,152**	69,353

(i) Qualified advanced technology enterprise can enjoy super deduction for eligible research and development expenses for EIT purpose. During the year ended 31 December 2022 and 2021, the applicable super deduction rates were 200% and 200% respectively.

12. Dividends

	2022 RMB'000	2021 RMB'000
Proposed final – RMB0.25 (2021: approximately RMB0.56) per ordinary share	**99,489**	200,000

At shareholder's general meeting held on 2 April 2022, the Company declared cash dividend of RMB200 million to all shareholders for the year ended 31 December 2021.All the dividend has been paid before November 2022.

The proposed final dividend for the year ended 31 December 2022 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. Earnings per share attributable to ordinary equity holders of the parent

The calculation of the basic earnings per share amount is based on the profit attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 361,012,547(2021: 360,000,000)in issue during the year.

The Group had no potentially dilutive shares in issue during the years ended 31 December 2022 and 2021.

The calculation of basic earnings per share is based on:

	2022 RMB'000	2021 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**147,104**	338,887

	Number of shares	
	2022	2021
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**361,012,547**	360,000,000
Basic and diluted earnings per share (RMB)	**0.41**	0.94

14. Property, plant and equipment

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2022							
At 1 January 2022:							
Cost	502,917	194,505	32,955	33,891	28,097	891	793,256
Accumulated depreciation and impairment	(53,095)	(59,669)	(9,048)	(23,821)	(11,195)	–	(156,828)
Net carrying amount	449,822	134,836	23,907	10,070	16,902	891	636,428
At 1 January 2022, net of accumulated depreciation and impairment	449,822	134,836	23,907	10,070	16,902	891	636,428
Additions	1,312	10,973	367	2,978	3,239	19,723	38,592
Disposals	(400)	(682)	(3,250)	(340)	–	(208)	(4,880)
Depreciation provided during the year	(23,807)	(23,174)	(4,462)	(3,819)	(8,010)	–	(63,272)
Transfers	–	9,676	–	–	–	(9,676)	–
Exchange realignment	(1,690)	(1,534)	(2,271)	(122)	–	–	(5,617)
At 31 December 2022, net of accumulated depreciation and impairment	425,237	130,095	14,291	8,767	12,131	10,730	601,251
At 31 December 2022:							
Cost	501,946	211,864	24,489	30,773	49,316	10,730	829,118
Accumulated depreciation and impairment	(76,709)	(81,769)	(10,198)	(22,006)	(37,185)	–	(227,867)
Net carrying amount	425,237	130,095	14,291	8,767	12,131	10,730	601,251

14. Property, plant and equipment *(Continued)*

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2021							
At 1 January 2021:							
Cost	522,085	199,820	16,215	33,699	32,148	10,290	814,257
Accumulated depreciation and impairment	(44,307)	(52,460)	(9,695)	(24,831)	(20,444)	–	(151,737)
Net carrying amount	477,778	147,360	6,520	8,868	11,704	10,290	662,520
At 1 January 2021, net of accumulated depreciation and impairment	477,778	147,360	6,520	8,868	11,704	10,290	662,520
Additions	105	11,278	22,330	5,507	8,457	8,582	56,259
Disposals	(883)	(878)	(744)	(156)	–	–	(2,661)
Depreciation provided during the year	(24,698)	(19,905)	(4,160)	(3,995)	(8,482)	–	(61,240)
Transfers	11,468	1,189	–	101	5,223	(17,981)	–
Transfer to investment properties	(9,525)	–	–	–	–	–	(9,525)
Exchange realignment	(4,423)	(4,208)	(39)	(255)	–	–	(8,925)
At 31 December 2021, net of accumulated depreciation and impairment	449,822	134,836	23,907	10,070	16,902	891	636,428
At 31 December 2021:							
Cost	502,917	194,505	32,955	33,891	28,097	891	793,256
Accumulated depreciation and impairment	(53,095)	(59,669)	(9,048)	(23,821)	(11,195)	–	(156,828)
Net carrying amount	449,822	134,836	23,907	10,070	16,902	891	636,428

14. Property, plant and equipment *(Continued)*

(i) As at 31 December 2022, certain of the Group's buildings, plant and machinery with net a carrying amount of approximately RMB256,515,000 (2021: RMB486,595,000) were pledged to secure general banking facilities granted to the Group (note 26).

(ii) The Group's buildings, included above at cost, were valued at RMB1,417,812,000 as at 30 September 2022 in the prospectus issued on 12 December 2022 in connection with the listing of the Company's shares on 22 December 2022. Had the Group's buildings been included in these financial statements at such valuation amount throughout the year ended 31 December 2022, an additional depreciation charge of RMB11,719,000 would have been recognised in the consolidated statement of profit or loss for the year ended 31 December 2022.

15. Investment properties

Industrial properties

	2022	2021
	RMB'000	RMB'000
As at 1 January	**10,523**	–
Transfer from owner-occupied property	**–**	9,525
Transfer from right-of-use assets	**–**	1,514
Depreciation charge	**(1,237)**	(516)
As at 31 December	**9,286**	10,523

The Group's investment properties are measured using a cost model and depreciated to write off their costs net of estimated residual values over their estimated useful lives on a straight-line basis.

The Group's investment properties are located on the land in the PRC with a land use right period from 2009 to 2054.

15. Investment properties *(Continued)*

Industrial properties *(Continued)*

Fair values of the investment properties as at the end of the year are as follows:

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Investment properties in the PRC	**118,850**	119,500

The fair value of the Group's investment properties as at 31 December 2022 and 2021 are determined by the valuations conducted by Avista Valuation Advisory Ltd, an independent valuer. Under the valuation models, an income-based approach has been adopted for industrial properties.

The income approach is based on the rental income of the properties derived from the existing leases and/or achievable in the existing market with due allowance for the reversionary income potential of the leases, which have been then capitalized to determine the market value at an appropriate capitalization rate.

The fair value estimations for the owner-occupied properties were at Level 3 of the fair value hierarchy.

The fair value measurement is based on the above properties' highest and best use, which does not differ from their actual use.

During the year ended 31 December 2022, there were no transfers into or out of Level 3 or any other level.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 16.

At 31 December 2022, the investment properties with net carrying amounts of approximately RMB9,286,000 (2021: Nil)were pledged to secure general banking facilities granted to the Group (note 26).

16. Leases

The Group as a lessee

The Group as a lessee has lease contracts for items of office premises, plant and machinery and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of office premises and plant generally have lease terms between 2 and 10 years, while machinery equipment generally has lease terms of 5 years.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land	**Office premises and plant**	**Equipment**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
31 December 2022				
As at 1 January 2022	**72,483**	**85,663**	**3,516**	**161,662**
Additions	**–**	**13,548**	**–**	**13,548**
Revision of a lease term arising from a change in the non-cancellable period of a lease	**–**	**(4,722)**	**–**	**(4,722)**
Depreciation charge	**(1,615)**	**(23,389)**	**(990)**	**(25,994)**
As at 31 December 2022	**70,868**	**71,100**	**2,526**	**144,494**

	Leasehold land	Office premises and plant	Equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2021				
As at 1 January 2021	75,639	98,528	4,506	178,673
Additions	–	9,696	–	9,696
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(1,081)	–	(1,081)
Transfer to investment properties	(1,514)	–	–	(1,514)
Depreciation charge	(1,642)	(21,480)	(990)	(24,112)
As at 31 December 2021	72,483	85,663	3,516	161,662

16. Leases *(Continued)*

The Group as a lessee *(Continued)*

(a) Right-of-use assets *(Continued)*

As at 31 December 2022, the leasehold land with a net carrying amount of approximately RMB70,868,000 (2021: RMB72,483,000) was pledged to secure general banking facilities granted to the Group (note 26).

(b) Lease liabilities

The carrying amounts of lease liabilities and the movements during the year are as follows:

	2022 RMB'000	2021 RMB'000
Carrying amount at beginning of year	**94,976**	108,598
New leases	**13,548**	9,696
Accretion of interest recognised during the year	**5,210**	6,169
Revision of a lease term arising from a change in the non-cancellable period of a lease	**(3,948)**	(1,143)
Payments	**(31,957)**	(28,344)
Carrying amount at end of year	**77,829**	94,976
Current portion	**26,890**	21,896
Non-current portion	**50,939**	73,080

The maturity analysis of lease liabilities is disclosed in note 30 to the financial statements.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2022 RMB'000	2021 RMB'000
Interest on lease liabilities	**5,210**	6,169
Depreciation charge of right-of-use assets	**25,994**	24,112
Expense relating to short-term leases and leases of low-value assets leases	**1,727**	843
Total amount recognised in profit or loss	**32,931**	31,124

16. Leases *(Continued)*

The Group as a lessor

The Group leases its investment properties (note 15) consisting of one industrial property located on the land in the PRC under operating lease arrangements since 2021. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB7,338,000 (2021: RMB1,786,000).

At 31 December 2022, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Within one year	**7,615**	5,240
After one year but within two years	**7,768**	5,240
After two years but within three years	**7,537**	5,335
After three years but within four years	**8,157**	6,002
After four years but within five years	**8,396**	6,127
After five years	**28,187**	30,162
	67,660	58,106

17. Other intangible assets

	Software RMB'000	Others RMB'000	Total RMB'000
31 December 2022			
Cost at 1 January 2022, net of accumulated amortisation	**13,901**	**4,325**	**18,226**
Additions	**4,484**	**932**	**5,416**
Disposals	**(2)**	**(547)**	**(549)**
Amortisation provided during the year	**(2,534)**	**(1,135)**	**(3,669)**
Reclassification	**1,387**	**(1,387)**	**–**
At 31 December 2022	**17,236**	**2,188**	**19,424**

17. Other intangible assets *(Continued)*

	Software RMB'000	Others RMB'000	Total RMB'000
31 December 2021			
Cost at 1 January 2021, net of accumulated amortisation	15,517	4,534	20,051
Additions	690	1,917	2,607
Disposal	(84)	(2,121)	(2,205)
Amortisation provided during the year	(2,222)	(5)	(2,227)
At 31 December 2021	13,901	4,325	18,226

18. Investments in associates

	2022 RMB'000	2021 RMB'000
Share of net assets	**1,797**	1,646

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2022 RMB'000	2021 RMB'000
Share of the associates' loss for the year	**(1,229)**	(149)
Aggregate carrying amount of the Group's investments in the associates	**1,797**	1,646

19. Deferred tax

The movements in deferred tax assets during the year are as follows:

	Year ended 31 December 2022						
	Impairment loss on financial assets	Losses available for offsetting against future taxable profits	Impairment loss on inventories	Accrued expense	Unrealised profits	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2022	**7,486**	**26,499**	**7,654**	**6,570**	**34,614**	**29,154**	**111,977**
Deferred tax credited/(charged) to profit or loss during the year	**2,719**	**8,130**	**(1,147)**	**(3,170)**	**(1,297)**	**(7,719)**	**(2,484)**
Gross deferred tax assets at 31 December 2022	**10,205**	**34,629**	**6,507**	**3,400**	**33,317**	**21,435**	**109,493**

	Year ended 31 December 2021						
	Impairment loss on financial assets	Losses available for offsetting against future taxable profits	Impairment loss on inventories	Accrued expense	Unrealised profits	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021	11,332	66,704	9,606	11,971	20,584	40,530	160,727
Deferred tax (charged)/credited to profit or loss during the year	(3,846)	(40,205)	(1,952)	(5,401)	14,030	(11,376)	(48,750)
Gross deferred tax assets at 31 December 2021	7,486	26,499	7,654	6,570	34,614	29,154	111,977

19. Deferred tax *(Continued)*

The movements in deferred tax liabilities during the year are as follows:

	Year ended 31 December 2022		
	Accelerated tax depreciation	Others	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2022	**8,897**	**2**	**8,899**
Deferred tax (credited)/charged to profit or loss during the year	**(48)**	**141**	**93**
Deferred tax liabilities at 31 December 2022	**8,849**	**143**	**8,992**

	Year ended 31 December 2021		
	Accelerated tax depreciation	Others	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2021	10,687	13	10,700
Deferred tax credited to profit or loss during the year	(1,790)	(11)	(1,801)
Deferred tax liabilities at 31 December 2021	8,897	2	8,899

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statements of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2022	2021
	RMB'000	RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**100,501**	103,078

As at 31 December 2022, deferred tax assets have not been recognised in respect of tax losses of RMB110,000 (2021:RMB3,000) and deductible temporary differences of RMB98,000 (2021:nil) arising in Mainland China, which will expire in one to five years for offsetting against future taxable profits.

As at 31 December 2022, deferred tax assets have not been recognised in respect of tax losses of RMB21,365,000 (2021: RMB18,885,000) and deductible temporary differences of RMB437,000 (2021: RMB416,000) arising in other jurisdictions, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

20. Inventories

	2022 RMB'000	2021 RMB'000
Raw materials	**99,564**	127,579
Work in progress	**20,069**	21,826
Finished goods	**398,480**	471,796
	518,113	621,201

21. Trade and bills receivables

	2022 RMB'000	2021 RMB'000
Trade receivables	**400,942**	391,007
Bills receivable	**7,240**	10,288
Impairment	**(34,197)**	(26,421)
Trade and bills receivables,net	**373,985**	374,874

The Group's trading terms with its customers are mainly payment in advance, except for certain major customers, where is normally on credit. The credit period is generally due within 45 to 90 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing. Bills receivable are non-interest-bearing and have a maturity period ranging from 1 to 180 days for the financial years ended 31 December 2021 and 31 December 2022.

The net value of the Group's trade and bills receivables due from the Group's related parties is further detailed in note 33 to the financial statements, which are repayable on credit terms similar to those offered to the major customers of the Group.

As at 31 December 2022 and 2021, the bills receivable with right of recourse of the Group were RMB7,240,000 and RMB9,788,000, respectively, were paid to certain of its suppliers in order to settle the trade payables due to some suppliers. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such endorsed bills, and accordingly, it continued to recognise the full carrying amounts of the endorsed bills and the associated trade payables settled. The expected credit losses rate for bills receivable is assessed to be immaterial, and thus the loss allowance is immaterial.

21. Trade and bills receivables *(Continued)*

An ageing analysis of the Group's trade receivables and bills receivable as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2022 RMB'000	2021 RMB'000
Within 1 year	**342,581**	369,114
1 – 2 years	**31,404**	5,760
	373,985	374,874

The movements in the loss allowance for impairment of trade receivables are as follows:

	2022 RMB'000	2021 RMB'000
At beginning of year	**26,421**	42,782
Impairment losses, net	**13,133**	4,752
Amount written off as uncollectible	**(5,357)**	(21,113)
At end of year	**34,197**	26,421

The increase in the loss allowance in 2022 was due to the rising amount of long ageing trade receivables.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing on invoice for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Group writes off trade receivables when there is information indicating that the counterparty is in severe financial difficulties and there is no realistic prospect of recovery, for example,when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs sooner, also taking into account legal advice where appropriate.

21. Trade and bills receivables *(Continued)*

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2022

	Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	**4%**	**30%**	**100%**	**100%**	**9%**
Gross carrying amount (RMB'000)	**347,782**	**44,736**	**3,986**	**4,438**	**400,942**
Expected credit losses (RMB'000)	**12,442**	**13,331**	**3,986**	**4,438**	**34,197**

As at 31 December 2021

	Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	2%	61%	100%	100%	7%
Gross carrying amount (RMB'000)	365,641	14,780	3,058	7,528	391,007
Expected credit losses (RMB'000)	6,815	9,020	3,058	7,528	26,421

22. Prepayments, other receivables and other assets

	2022 RMB'000	2021 RMB'000
Deductible input VAT	**55,741**	62,120
Corporate income tax recoverable	**7,784**	4,060
Right-of-return assets	**436**	7,632
Prepaid listing expenses	**–**	7,088
Deposits and other receivables	**23,875**	12,335
Other financial assets included in prepayments and other receivables	**13,016**	12,048
Prepayments	**75,060**	72,758
Others	**26,833**	6,860
Impairment allowance	**(1,885)**	(3,074)
Current portion	**200,860**	181,827
Rental deposits	**8,606**	8,602
Prepayments	**8,142**	11,288
Non-current portion	**16,748**	19,890
	217,608	201,717

As at the end of the reporting period, other receivables of the Group are considered to be of low credit risk and thus the Group has assessed that the ECL for other receivables is immaterial under the 12-month expected credit loss method.

23. Cash and cash equivalents and pledged deposits

	2022 RMB'000	2021 RMB'000
Cash and cash equivalents	**1,147,708**	145,208
Pledged deposits	**11,500**	–
	1,159,208	145,208

	2022 RMB'000	2021 RMB'000
Cash and cash equivalents and restricted cash denominated in		
– RMB	**330,739**	132,848
– JPY	**14,311**	10,131
– USD	**3,050**	2,229
– HKD	**811,108**	–
	1,159,208	145,208

As at 31 December 2022, the cash and bank balances of the Group denominated in JPY, USD and HKD amounted to RMB14,311,000 (2021: RMB10,131,000), RMB3,050,000 (2021: RMB2,229,000), RMB811,108,000 (2021: nil), respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

24. Trade payables

An ageing analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2022 RMB'000	2021 RMB'000
Within 1 year	**423,400**	557,988
Over 1 year	**750**	7,973
	424,150	565,961

The amount of the Group's trade payables due to the Group's related parties is disclosed in note 33, which represents credit terms similar to those offered by the Group's related parties to their major customers.

The trade payables are non-interest-bearing and are normally settled within 6 months.

25. Other payables, accruals and other current liabilities

	Notes	2022 RMB'000	2021 RMB'000
Current			
Contract liabilities	(i)	**41,416**	81,120
Refund liabilities		**1,716**	29,604
VAT and other tax payables		**18,195**	99,347
Staff payroll and welfare payables		**36,977**	58,179
Accrued operating expenses		**73,198**	66,903
Payables for purchase of property, plant and equipment		**13,582**	27,424
Deposits	(ii)	**29,804**	27,297
Listing expenses payable		**18,787**	20,835
Others		**2,047**	2,540
		235,722	413,249
Non-current			
Deferred government grants		**14,264**	16,227
		249,986	429,476

25. Other payables, accruals and other current liabilities *(Continued)*

(i) Details of contract liabilities are as follows:

	2022 RMB'000	2021 RMB'000
Advance payments from customers	**27,016**	54,020
Sales rebates	**14,400**	27,100
	41,416	81,120

The Group's contract liabilities include advance payments from customers and sales rebates. The decreases in contract liabilities was mainly due to the decreases in short-term advances received from customers in relation to the revenue generated from sales to online distributors and sales to offline distributors.

(ii) Deposits mainly represent deposits from customers at the end of each year.

Except for the aforementioned deposits, other payables are unsecured, interest-free and repayable on demand.

26. Interest-bearing bank and other borrowings

	2022			2021		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	**2.10-5.20**	**2023**	**420,278**	3.60	2022	29,970
Bank loans – unsecured	**2.55-3.65**	**2023**	**100,000**	–	–	–
Current portion of long term bank loans – secured	**4.75-5.39**	**2023**	**70,000**	5.39	2022	30,000
			590,278			59,970
Non-current						
Bank loans – secured	**4.75**	**2024**	**60,089**	4.75-5.39	2023-2024	130,089
			60,089			130,089

26. Interest-bearing bank and other borrowings *(Continued)*

	2022 RMB'000	2021 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**590,278**	59,970
In the second year	**60,089**	68,415
In the third to fifth years, inclusive	**–**	61,674
	650,367	190,059
	650,367	190,059

Notes:

As at 31 December 2022, certain of the Group's bank loans amounting to

(i) RMB219,752,000 were guaranteed by the Group, and secured by mortgages over the Group's buildings and right-of-use assets with net carrying values of approximately RMB256,515,000 and RMB70,869,000, respectively, with interest rates between 3.4% and 5.39% (notes 14 and 16).

(ii) RMB80,000,000 were secured by mortgages over the Group's investment properties with net carrying values of approximately RMB9,286,000 with interest rates of 3.45%-4.20% (note 15).

(iii) RMB250,500,000 were guaranteed by the Group with interest rates of 2.1%-5.20%.

As at 31 December 2021, certain of the Group's bank loans amounting to

(i) RMB29,970,000 were guaranteed by the Group, with an interest rate of 3.60%;

(ii) RMB160,089,000 were guaranteed by the Group, and secured by mortgages over the Group's buildings and machinery and leasehold land with net carrying values of approximately RMB486,595,000 and RMB72,483,000, respectively, with interest rates between 4.75% and 5.39% (notes 14 and 16).

27. Share capital

Shares

	2022	2021
	RMB'000	RMB'000
Issued and fully paid:		
396,958,000 ordinary shares of RMB1.00 each (2021:360,000,000)	**396,958**	360,000

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital
		RMB'000
At1 January 2021,31 December 2021 and 1 January 2022	360,000,000	360,000
Issuance of ordinary shares relating to initial public offering*	36,958,000	36,958
At 31 December 2022	396,958,000	396,958

* On 22 December 2022, upon the Company's listing on the Hong Kong Stock Exchange, the Company issued 36,958,000 ordinary shares with a par value of HK$25.2 each, and raised gross proceeds of approximately HK$931,341,600 (equivalent to approximately RMB846,408,000). The share capital and share premium arising from the new issue were approximately RMB36,958,000 and RMB772,886,000 respectively.

28. Share incentive schemes

Mr. Lyu Yixiong has implemented 5 share incentive schemes (hereinafter referred to as "plan I" to "plan V") through the shareholding platform controlled by the controlling shareholder of the Group, to encourage and reward people who contribute to the operation of the Group. Eligible persons include directors and other employees of the Group.

In March 2021, 3 employees (including directors) of the Group entered into an agreement (plan V) with Mr. Lyu Yixiong. Under this agreement, Mr. Lyu Yixiong granted these 3 employees 1,080,000 shares of the Company with no vesting period.

In March 2021, 43 employees of the Group entered into an agreement (plan V) with Mr. Lyu Yixiong. Under this agreement, Mr. Lyu Yixiong granted these 43 employees 4,176,000 shares of the Company with vesting periods dated from 1 January 2021 to 31 December 2024.

In March 2021, 4 employees entered into an agreement (plan V) with Mr. Lyu Yixiong which is deemed as modification to the terms and conditions of plan III.

28. Share incentive schemes *(Continued)*

In August 2021, 1 employee of the Group entered into an agreement (plan V) with Mr. Lyu Yixiong. Under this agreement, Mr. Lyu Yixiong granted this employee 72,000 shares of the Company with vesting periods dated from 1 January 2021 to 31 December 2024.

In August 2021, 3 employees (including directors) of the Group entered into an agreement (plan V) with Mr. Lyu Yixiong. Under this agreement, Mr. Lyu Yixiong granted these 3 employees 108,000 shares of the Company with vesting periods dated from 1 January 2021 to 31 December 2024.

In July 2022, 4 employees of the Group entered into an agreement (plan V) with Mr. Lyu Yixiong. Under this agreement, Mr. Lyu Yixiong granted this 4 employees 198,000 shares of the Company with vesting periods dated from 1 July 2022 to 30 June 2026.

In July 2022, 1 employee of the Group entered into an agreement (plan V) with Mr. Lyu Yixiong. Under this agreement, Mr. Lyu Yixiong granted this employee 108,000 shares of the Company with vesting periods dated from 1 July 2022 to 31 December 2024.

Shares confer rights on the holders to dividends and to vote at shareholders' meetings.

The following share incentive is outstanding under the "plan I" to "plan V" during the year:

	2022		2021	
	Weighted average subscription price RMB per share	**Number of shares**	Weighted average subscription price RMB per share	Number of shares
At 1 January	**1**	**14,475,600**	1	9,363,600
Granted during the year	**1**	**306,000**	1	5,436,000
Forfeited during the year	**1**	**(2,304,000)**	1	(324,000)
At 31 December	**1**	**12,477,600**	1	14,475,600

The fair values of the share incentive schemes granted during the year was RMB6,902,000 (2021: RMB98,181,000), of which the Group recognised a share-based compensation expenses of RMB837,000 (2021:recognised RMB37,661,000) during the year ended 31 December 2022.

29. Reserves

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Share-based payment reserve

The share-based payment reserve represents reserve arisen from share incentive schemes. Details of the movements in the share-based payment reserve are set out in the consolidated statement of changes in equity.

Share premium

The increase in the Group's share premium for the year was a result of listing the Company's shares on the Hong Kong Stock Exchange as described in note 27 to the financial statement.

Statutory reserve

In accordance with the Company Law of the People's Republic of China, each company in the PRC is required to allocate 10% of the statutory after tax profits to the statutory reserve until the cumulative total of the reserve reaches 50% of the company's registered capital. Subject to approval from the relevant PRC authorities, the statutory reserve may be used to offset any accumulated losses or increase the registered capital of the company. The statutory reserve is not available for dividend distribution to shareholders of the PRC subsidiaries.

Capital reserve

The capital reserve of the Group represents the contribution from the ultimate holding company and shareholders, business combinations under the common control and the excess of the consideration over the carrying amount of the non-controlling interests acquired. Details of the movements in capital reserve are set out in the consolidated statement of changes in equity.

Exchange fluctuation reserve

The exchange fluctuation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the Group's presentation currency.

30. Notes to the consolidated statement of cash flows

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets of RMB13,548,000 (2021: RMB9,696,000), and lease liabilities of RMB13,548,000 (2021:RMB9,696,000), respectively, in respect of lease arrangements for office premises and plant.

30. Notes to the consolidated statement of cash flows *(Continued)*

(b) Changes in liabilities arising from financing activities

2022

	Interest-bearing bank and other borrowings RMB'000	Lease liabilities RMB'000
At 1 January 2022	190,059	94,976
Changes from financing cash flows	460,308	(26,747)
Interest expense	–	5,210
Interest paid classified as operating cash flows	–	(5,210)
New leases	–	13,548
Non-cash movement	–	(3,948)
At 31 December 2022	650,367	77,829

2021

	Interest-bearing bank and other borrowings RMB'000	Lease liabilities RMB'000	Amounts due to related parties RMB'000
At 1 January 2021	435,506	108,598	1,812
Changes from financing cash flows	(245,147)	(28,344)	–
Changes from operating cash flows	–	–	(1,812)
Interest expense	–	6,169	–
New leases	–	9,696	–
Non-cash movement	(300)	(1,143)	–
At 31 December 2021	190,059	94,976	–

31. Pledge of assets

Details of the Group's interest-bearing bank loans and other borrowings, which are secured by the assets of the Group, are included in note 26 to the financial statements.

32. Commitments

The Group had the following capital commitments at the end of the year:

	2022 RMB'000	2021 RMB'000
Contracted, but not provided for		
Property, plant and equipment	**10,724**	27,490

33. Related party transactions

(a) Name and relationship:

Name of related party	Notes	Relationship with the Group
Mr. Lyu Yixiong ("呂義雄")		The controlling shareholder
Shanghai Misu Cosmetics Co., Ltd ("上海蜜愫化妝品有限公司")		Associate
Shanghai Ximei Commercial Co., Ltd ("上海喜美商業有限公司")	(i)	Associate
Weifang Hongmei Economic and Trade Co., Ltd ("濰坊虹美經貿有限公司")	(ii)	Associate
Hangzhou Qianmei Cosmetics Co., Ltd ("杭州謙美化妝品有限公司")	(iii)	Associate
Suzhou Xiongze Packaging Co., Ltd ("蘇州雄澤包裝有限公司")		Entity controlled by close relatives of Mr. Lyu Yixiong

33. Related party transactions *(Continued)*

(b) Related party transactions:

The Group had the following transactions with related parties during the current year:

	Notes	2022 RMB'000	2021 RMB'000
Associates:			
Purchases of products and services	(i)	–	4,287
Sales of products	(ii)	**8,426**	10,809
Entities controlled by Mr. Lyu Yixiong:			
Repayment from entities controlled by Mr. Yixiong Lyu		–	490
Entities controlled by close relatives of Mr. Lyu Yixiong:			
Purchases of products	(i)(iii)	**28,156**	44,624

Notes:

(i) The purchases of products and services from the related parties were made according to the prices and terms offered by the related parties with reference to the market price.

(ii) The sales of products to the related parties were made according to the prices and terms offered by the related parties with reference to the market price.

(iii) This related party transaction constitutes continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(c) Outstanding balances with related parties

	2022 RMB'000	2021 RMB'000
Trade:		
Associates:		
Trade receivables	**8,369**	12,094
Entities controlled by close relatives of Mr. Lyu Yixiong:		
Trade payables	**15,628**	18,261

33. Related party transactions *(Continued)*

(d) Compensation of key management personnel of the Group:

	2022 RMB'000	2021 RMB'000
Short-term employee benefits	**4,549**	6,496
Equity-settled share compensation expense	**–**	9,753
Total compensation paid to key management personnel	**4,549**	16,249

Further details of directors' emoluments are included in note 9 to the financial statements.

34. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

	2022 RMB'000	2021 RMB'000
Financial assets		
Financial assets at amortised cost:		
Trade and bills receivables	**366,745**	365,086
Financial assets included in prepayments, other receivables and other assets	**35,006**	21,309
Pledged deposits	**11,500**	–
Cash and cash equivalents	**1,147,708**	145,208
	1,560,959	531,603
Financial assets at fair value through other comprehensive income:		
Debt investments:		
Bills receivable	**7,240**	9,788

34. Financial instruments by category *(Continued)*

	2022 RMB'000	2021 RMB'000
Financial liabilities		
Financial liabilities at amortised cost:		
Trade payables	**424,150**	565,961
Financial liabilities included in other payables and accruals	**137,418**	144,999
Interest-bearing bank and other borrowings	**650,367**	190,059
	1,211,935	901,019

35. Fair value and fair value hierarchy of financial instruments

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
As at 31 December 2022				
Debt investments at fair value through other comprehensive income				
Bills receivable	–	7,240	–	7,240

35. Fair value and fair value hierarchy of financial instruments *(Continued)*

Assets measured at fair value: *(Continued)*

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2021				
Debt investments at fair value through other comprehensive income				
Bills receivable	–	9,788	–	9,788

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

Management has assessed that the fair values of cash and cash equivalents, bills receivable, trade receivables, trade payables, financial assets included in prepayments, other receivables and other assets, current bank loans, financial liabilities included in other payables and accruals and lease liabilities approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at the end of the reporting period were assessed to be insignificant.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the board of directors. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer and also are discussed with the audit committee.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

36. Financial risk management objectives and policies

The Group's principal financial instruments comprise cash and cash equivalents, lease liabilities, and interest-bearing bank and other borrowings. The main purpose of these financial instruments is to support the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing these risks and they are summarised below.

Foreign currency risk

The Group's major businesses are in Mainland China and the majority of the transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB. The Group does not have material foreign currency risk during the year.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets.

36. Financial risk management objectives and policies *(Continued)*

Maximum exposure and year-end staging

As at 31 December 2022

	12-month ECLs	Lifetime ECLs			Total
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bills receivable	7,240	–	–	–	7,240
Trade receivables*	–	–	–	400,942	400,942
Financial assets included in prepayments, other receivables and other assets					
– Normal**	36,891	–	–	–	36,891
Pledged deposits					
– Not yet past due	11,500	–	–	–	11,500
Cash and cash equivalents					
– Not yet past due	1,147,708	–	–	–	1,147,708
	1,203,339	–	–	400,942	1,604,281

36. Financial risk management objectives and policies *(Continued)*

Maximum exposure and year-end staging *(Continued)*

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			Total
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bills receivable	10,288	–	–	–	10,288
Trade receivables*	–	–	–	391,007	391,007
Financial assets included in prepayments, other receivables and other assets					
– Normal**	22,534	–	–	–	22,534
Cash and cash equivalents					
– Not yet past due	145,208	–	–	–	145,208
	178,030	–	–	391,007	569,037

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 21 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

At the end of the reporting period, the Group had certain concentrations of credit risk as 18% (2021: 31%) and 80% (2021: 73%) of the Group's trade receivables were due from the Group's largest customer and five largest customers, respectively. The Group does not hold any collateral or other credit enhancement for the balance of trade receivable.

36. Financial risk management objectives and policies *(Continued)*

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

As at 31 December 2022

	Within 1 year RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade payables	**424,150**	**–**	**424,150**
Financial liabilities included in other payables and accruals	**137,418**	**–**	**137,418**
Interest-bearing bank and other borrowings	**600,465**	**62,149**	**662,614**
Lease liabilities	**30,585**	**52,997**	**83,582**
Total	**1,192,618**	**115,146**	**1,307,764**

As at 31 December 2021

	Within 1 year RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade payables	565,961	–	565,961
Financial liabilities included in other payables and accruals	144,999	–	144,999
Interest-bearing bank and other borrowings	62,299	145,271	207,570
Lease liabilities	29,641	79,849	109,490
Total	802,900	225,120	1,028,020

36. Financial risk management objectives and policies *(Continued)*

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No change was made in the objectives, policies or processes for managing capital during the years ended 31 December 2022 and 31 December 2021.

The Group monitors capital using a gearing ratio, which is total debt divided by the total assets. Total debt includes current liabilities and non-current liabilities. Total assets include current assets and non-current assets.

The gearing ratios as at the end of the reporting period are as follows:

	2022	2021
	RMB'000	RMB'000
Total debt*	**728,196**	285,035
Total equity	**1,706,645**	955,038
Gearing ratio	**42.7%**	29.9%

* The Group's total debt were defined as total interest-bearing bank and other borrowings and lease liabilities.

37. Events after the reporting period

On January 13, 2023, the Company partial exercised the over-allotment option in respect of an aggregate of 999,900 H Shares. Upon the completion of partial exercise of the over-allotment option, the registered share capital and total number of the shares issued of the Company were changed to RMB397,957,900 and 397,957,900 shares, respectively.

38. Statement of financial position of the company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**14,384**	19,459
Prepayments, other receivables and other assets	**6,899**	6,918
Right-of-use assets	**22,764**	29,966
Other intangible assets	**17,105**	15,307
Investments in subsidiaries	**527,016**	510,716
Deferred tax assets	**29,505**	25,839
Total non-current assets	**617,673**	608,205
CURRENT ASSETS		
Inventories	**5,412**	1,474
Trade and bills receivables	**723,003**	660,330
Prepayments, other receivables and other assets	**70,195**	173,015
Pledged deposits	**11,500**	–
Cash and cash equivalents	**953,258**	50,229
Total current assets	**1,763,368**	885,048
CURRENT LIABILITIES		
Trade payables	**33,080**	232,906
Other payables and accruals	**156,294**	120,237
Interest-bearing bank and other borrowings	**350,615**	–
Lease liabilities	**7,853**	7,385
Tax payable	**16,996**	14,133
Total current liabilities	**564,838**	374,661
NET CURRENT ASSETS	**1,198,530**	510,387
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,816,203**	1,118,592
NON-CURRENT LIABILITIES		
Lease liabilities	**17,286**	25,139
Total non-current liabilities	**17,286**	25,139
NET ASSETS	**1,798,917**	1,093,453
EQUITY		
Share capital	**396,958**	360,000
Reserves	**1,401,959**	733,453
Total equity	**1,798,917**	1,093,453

38. Statement of financial position of the company *(Continued)*

Note:

A summary of the Company's reserves is as follows:

	Share capital RMB'000	Share premium RMB'000	Share-based payment reserve RMB'000	Capital reserve RMB'000	Statutory reserve funds RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2021	360,000	–	153,529	110,602	11,844	228,922	864,897
Total comprehensive income for the year	–	–	–	–	–	187,116	187,116
Equity-settled share-based compensation	–	–	41,440	–	–	–	41,440
Transfer from retained profits	–	–	–	–	18,712	(18,712)	–
At 31 December 2021 and 1 January 2022	360,000	–	194,969	110,602	30,556	397,326	1,093,453
Dividend declared	–	–	–	–	–	(200,000)	(200,000)
Total comprehensive income for the year	–	–	–	–	–	96,506	96,506
Issuance of ordinary shares relating to initial public offering	36,958	809,450	–	–	–	–	846,408
Share issue expenses	–	(36,564)	–	–	–	–	(36,564)
Equity-settled share-based compensation	–	–	(886)	–	–	–	(886)
Transfer from retained profits	–	–	–	–	9,651	(9,651)	–
At 31 December 2022	**396,958**	**772,886**	**194,083**	**110,602**	**40,207**	**284,181**	**1,798,917**

39. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 30 March 2023.