
SUMMARY

This summary aims to give you an overview of the information contained in this document. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to [REDACTED] in the [REDACTED]. There are risks associated with any [REDACTED]. Some of the particular risks in [REDACTED] in the [REDACTED] are set forth in “Risk Factors” of this document. You should read that section carefully before you decide to [REDACTED] in the [REDACTED].

OVERVIEW

We are the largest fruit retail operator in China. According to Frost & Sullivan, we ranked first among all retailers that sell fruits in China in terms of fruit retail sales value in 2021, accounting for 1.0% of total market share in China where the top five participants accounted for an aggregate of 3.6% market share in total. Meanwhile, we also ranked first among all fruit specialty retail operators in China in terms of fruit retail sales value. We have the largest distribution network in the fruit industry in China.

Through internal development and external empowerments, we are able to exert influence and management across the entire industry chain from fruit farming to retail end. We participate in the cultivation phase to secure high-quality fruits, implement professional and standardized quality management throughout the entire industry chain, provide consumers with delicious fruits at affordable prices, and achieve high turnover and low loss rate.

We are committed to becoming the go-to brand for Chinese consumers. We are one of the few companies in the fruit industry in China that have both well-known product brands and channel brands. We primarily sell fruits, and also sell fruit-based products such as dried fruits and juice. We have expanded our product offerings to other fresh groceries, and launched our Panda.F business in 2020. Currently, our offerings of other fresh groceries include vegetables, fresh meat and seafood products, grains and oils, dairy products and others.

We primarily sell fruits to consumers through our offline store network comprising franchised stores supervised by us, franchised stores supervised by our regional dealers and self-operated retail stores. We also distribute through our online channels comprising Pagoda mobile APPs, Pagoda WeChat mini-program, stores on mainstream e-commerce platforms and social commerce platforms or through third-party food delivery platforms we partner with. We also engage in direct sales to certain major customers, such as enterprises, restaurants and high-speed railway companies that have catering needs. In addition, on a limited scale, we engage in fruit wholesale business.

We have built a nationwide community-based fruit specialty retail network with OMO and store-as-warehouse features, which is a store-centric retail business model where a store serves both as a retail front for offline purchase and as a storage for online purchase and delivery services, providing OMO advantages and fulfilling the needs for flexible purchase and delivery options. Please refer to “— Fruit Specialty Retail Operator with OMO and Store-as-Warehouse Features” below for a detailed discussion. As of the Latest Practicable Date, our offline store network had 5,613 stores located in over 140 cities in 22 provinces and municipalities, mainly in residential areas, commercial streets and other high-traffic areas. We mainly adopt a franchise business model with respect to our offline retail stores. Among the total of 5,613 offline stores as of the Latest Practicable Date, 5,594 were franchised stores and 19 were self-operated stores. Among all franchised stores, 4,556 were franchised stores

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supervised by us while 1,038 were franchised stores supervised by regional dealers. During the Track Record Period, a substantial portion of our revenue was derived from franchised stores supervised by us, accounting for approximately 87.9%, 84.6% and 81.3% of total revenue in 2019, 2020 and 2021, respectively. Revenue derived from franchised stores supervised by us accounted for approximately 81.2% and 80.3% of total revenue for the six months ended June 30, 2021 and 2022, respectively. Within designated regions where we engaged regional dealers, there were no franchised stores supervised by us nor our self-operated stores.

Our franchisees and regional dealers are not our agents but our customers. Legal titles and risks of products are typically transferred from us to the franchisees and regional dealers when the products are accepted by them, which generally cannot be returned. As such, inventory risk borne by us is limited under the franchise business model. In addition to the purchase amount payable by the franchisees and regional dealers for products purchased from us, our franchisees are also required to pay a one-off fixed sum franchise fee for each franchised store, and each franchised store is required to pay a monthly royalty fee during the term of the franchise agreement subject to a detailed schedule as agreed under the franchise agreement. Regional dealers, on the other hand, are required to pay us a fixed sum of brand franchise fee. During the daily operation of the franchised stores, relevant franchisees are typically responsible for the expenses and costs in connection with store staff’s salaries, store rental fees, store decoration and purchases of equipment. Moreover, logistic costs associated with the product delivery from franchised stores to consumers are generally borne by the relevant franchised stores.

The quality of fresh fruits is largely determined by the quality of original cultivation. As such, identifying and retaining high-quality suppliers is of significant importance to our business. Currently, the vast majority of our products are purchased by us from our approved high-quality suppliers, with a small amount of fruits from the plantation bases operated by us. We then sell products to our regional dealers and franchisees. Our established market position and strong supply chain management capacity have enabled us to generally satisfy the variety, quality and quantity needs of our regional dealers and franchisees. Under limited circumstances, such as a temporary shortage in supply of certain types of fruit in a particular regional market, an unexpected interruption to logistic services to serve a particular region, or seasonal fruits not available in a particular region or in a short period of time, we allow our regional dealers to purchase from designated suppliers in compliance with our product quality standards and re-sell to the franchised stores under their management. Our regional dealers and franchisees are our customers instead of our agents. Relevant revenue is recognized when the ownership of products is transferred, which is usually the point of time when products are accepted by our regional dealers and franchisees.

We have established the first flavor-oriented fruit quality classification system for fruit products in China, which allows consumers to clearly distinguish the quality differences in fruit and enhances the competitiveness of high-quality fruits. As of the Latest Practicable Date, we had successfully introduced to the market 31 self-owned product brands that are exclusively distributed by us in China under our Excellent and Grade A categories. We have launched the instant refund service in the fruit industry, which enhances consumer satisfaction and trust in the brand and reinforces our Pagoda brand recognition associated with high-quality fruits and

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services among consumers. “Pagoda” is a China Well-known Trademark and has been recognized as a Top 100 China Retail Chain Brand for multiple years. Our high-quality products and services have attracted a large number of loyal consumers. As of the Latest Practicable Date, we had over 72 million members across all distribution channels, with over 910 thousand paying members and an average of over 7 million MAU in 2021. Through our multi-level membership plans, we provide more differentiated services to consumers and tap into greater user value. Meanwhile, we obtain market insights through consumer data analysis, thereby further optimizing our products and services to meet different consumer needs.

Our revenue decreased by 1.4% from RMB8,976.1 million in 2019 to RMB8,853.7 million in 2020, and increased by 16.2% to RMB10,289.4 million in 2021. Revenue increased by 7.0% from RMB5,525.4 million for the six months ended June 30, 2021 to RMB5,914.7 million in the corresponding period in 2022. Our gross profit decreased by 7.9% from RMB876.4 million in 2019 to RMB807.4 million in 2020, and increased by 43.2% to RMB1,156.4 million in 2021. Our gross profit margin was 9.8%, 9.1% and 11.2% in 2019, 2020 and 2021, respectively. Gross profit increased by 12.7% from RMB601.2 million for the six months ended June 30, 2021 to RMB677.4 million in the corresponding period in 2022. Gross profit margin was 10.9% and 11.5% in the six months ended June 30, 2021 and 2022, respectively.

OUR MARKET OPPORTUNITIES

China’s fresh foods market has experienced a constantly rapid growth in recent years. According to Frost & Sullivan, the total retail sales value of fresh foods in China increased from RMB3,468.5 billion in 2016 to RMB5,635.3 billion in 2021, representing a CAGR of 10.2% and is forecasted to reach RMB8,483.0 billion in 2026, representing a CAGR of 8.5% from 2021 onwards.

Along with the increasing disposable income per capita and the upgrade of food and beverage consumption, the consumer demand for fruits continues to rise. In addition, the development of supply chain management and technical upgrades in cold chain storage and logistics have helped improve delivery efficiency and reduce loss rate, allowing consumers to enjoy high-quality fruits in a timely manner. Moreover, the significant development of Internet and e-commerce has led to a variety of fruit retailing business models, offering more convenient purchasing experience and a greater number of choices. According to Frost & Sullivan, in terms of retail sales value, the size of China’s fruit retail market has increased from RMB827.3 billion in 2016 to RMB1,229.0 billion in 2021, representing a CAGR of 8.2%. Compared with other fresh food, fruit sales profit is relatively higher as fruit sales include multiple selling points, such as a broad variety of choices, rich in nutrition for healthy diets, convenience for eating, bright and colorful appearance stimulating consumption desire, and compatibility with various consumption scenarios. Therefore, fruit retail market in the future is expected to witness more kinds of fruits and better shopping experience, and China’s fruit retail market still has the potential for further growth. According to Frost & Sullivan, in terms of retail sales value, the size of China’s fruit retail market is expected to further increase to RMB1,775.2 billion in 2026, with an expected CAGR of 7.6% from 2021 to 2026.

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Furthermore, according to Frost & Sullivan, the per capita consumption of fruits in China increased from 43.9 kilograms in 2016 to 52.7 kilograms in 2021, representing a CAGR of 3.7%. It is expected to reach 60.5 kilograms in 2026, representing a CAGR of 2.8% from 2021 onwards. Compared with developed countries, the per capita consumption of fruits in the United States was approximately 2.1 times of that in China, while for Japan, which has a similar diet structure to China, the per capita consumption of fruits in Japan was approximately 1.4 times of that in China.

FRUIT SPECIALTY RETAIL OPERATOR WITH OMO AND STORE-AS-WAREHOUSE FEATURES

Leveraging our in-depth experience in the fruit retail industry for over 20 years, we believe that the OMO and store-as-warehouse features best suit the fruit specialty retailing business model. On one hand, the extensive community-based network of small-scale stores that are close to consumers is able to satisfy the personalized consumption needs of community residents. In-store product displays and face-to-face selling have significant added-value. Meanwhile, the advantage of e-commerce that allows consumers to conveniently place orders online and that reaches out to a massive consumer base further attracts consumers to step into offline stores or to purchase online. On the other hand, the store-as-warehouse model is able to enhance logistical efficiency and reduce logistic costs, thus achieving high turnover and low loss rate. In addition, we are also in the process of upgrading our membership operations, customer services and internal IT infrastructure support to further enhance the OMO and store-as-warehouse features.

We have established multiple self-operated online channels, comprising Pagoda mobile APPs, Pagoda WeChat mini-program, storefronts on mainstream e-commerce platforms, such as Tmall and JD.com, and on popular social commerce platforms, such as Douyin. In addition, we partner with third-party food delivery platforms, such as Meituan, Koubei and Ele.me.

The well-established offline store network and multiple online channels enable us to deploy our business model by offering specialty offline and variety online. Our offline stores focus on fruit and fruit related products while we display and promote other fresh groceries online. Consumers purchasing fresh fruits online via our mobile APPs and WeChat mini-program are offered flexible delivery options, including the just-in-time delivery or the next-day delivery. Under either option, they may further opt to pick up at a designated store or request for home delivery. Online purchases of fresh fruits through third-party platforms will be fulfilled by the fleets of such platforms, most of which are instant delivery. On the other hand, since purchasing of such other fresh groceries are more likely to be a decision of planned buying, we adopt the online pre-order model which is fulfilled by next-day delivery, and consumers may opt to pick up at a designated retail store or request for home delivery. This approach offers convenience to consumers and allows us to assess demands and make procurement and logistic arrangements subject to the orders received. The online pre-order model fulfilled by next-day delivery also minimizes the in-store inventory for other fresh groceries. On the other hand, the in-store pickup option may further drive traffic into our offline stores and contribute to total sales by increasing sales of fruits in stores.

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Among the total of 5,613 offline stores as of the Latest Practicable Date, 5,594 were franchised stores and 19 were self-operated stores. In 2019, 2020 and 2021 and the six months ended June 30, 2022 we had 5, 9, 15 and 16 self-operated stores, respectively. The table below sets forth the changes in the number of the franchised stores during the Track Record Period.

	Year Ended December 31,			Six Months Ended June 30,
	2019	2020	2021	2022
Beginning of the year	3,540	4,302	4,748	5,234
Additions	928	695	865	431
Closures	(166)	(249)	(379)	(230)
Net increase	762	446	486	201
End of the year	4,302	4,748	5,234	5,435

Financial Support to Business Partners

During the Track Record Period, we provided various financial support to our franchisees, regional dealers and suppliers, which included:

- Prior to 2019, interest-free loans to franchised stores: Historically, we provided interest-free loans to franchisees to support their initial store opening and ongoing store operation and expansion; such interest-free loans were accounted for as part of our other receivables in our balance sheet during the Track Record Period. Please refer to “Business — Our Distribution Channels — Offline Retail Store Network — Franchised Stores — Financial support provided to franchisees;”
- Since 2019, interest-bearing loans to franchised stores: We have renewed our financial support arrangements under the franchise arrangements since 2019, under which we have started to offer interest-bearing loans to franchisee applicants in connection with new franchised stores. Such interest-bearing loans are accounted for as part of our other receivables during the Track Record Period. The loans are required to be applied exclusively for the daily operation of the relevant franchised stores, mainly including expenses and costs in connection with store staff’s salaries, store rental fees, store decoration and purchases of equipment. The principal amount of the interest-bearing loans shall be fully repaid prior to the expiry of the relevant franchise arrangements which typically have a term of five years, and the interests are paid on a monthly basis and maybe by means of deduction from the store sales proceeds collected by us. Please refer to “Business — Our Distribution Channels — Offline Retail Store Network — Franchised Stores — Financial support provided to franchisees;”
- Factoring arrangements with regional dealers: To facilitate a steady growth of our regional dealers, in particular, at the initial stage of their business relationship with us, who may need financial resources to procure, penetrate into local market, engage

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local franchisees, and expand regional logistic capability, we provide financial support to regional dealers by means of factoring arrangements. Such outstanding factoring amounts were accounted for as other receivables in the relevant period. Please refer to “Business — Our Distribution Channels — Offline Retail Store Network — Regional Dealers — Financial support provided to regional dealers;” and

- Factoring arrangements with suppliers: To maintain our ecosystem and to maintain a stable and sound business relationship with our suppliers who may be in a capital need during a long cultivation process before they harvest and sell the fruits, we facilitate our suppliers to seek financial support under factoring arrangements. Such outstanding factoring amounts were accounted for as other receivables in the relevant period. Please refer to “Business — Suppliers — Financial Support Provided to Suppliers.”

Our wholly-owned subsidiary, Shenzhen Yitong, is a qualified factoring company in China. As advised by our PRC Legal Advisor, our business model, including the financial support arrangements extended to our franchised stores, regional dealers and suppliers, is in compliance with the applicable laws and regulations in all material aspects. See “Business — Compliance of Financial Support Arrangements” for more details. Moreover, during the Track Record Period and up to the Latest Practicable Date, we did not experience any material default from our franchisees, regional dealers or suppliers under our financial support arrangements.

OUR MAJOR SUPPLIERS AND MAJOR CUSTOMERS

During the Track Record Period, all of our major suppliers are fruit suppliers. Aggregate purchases from our top five suppliers in terms of dollar amount in aggregate accounted for approximately 21.4%, 20.4% and 20.6%, respectively, of our total purchase cost for the years ended December 31, 2019, 2020 and 2021. Purchase from our largest supplier in terms of dollar amount accounted for approximately 7.4%, 7.7% and 8.1%, respectively, of our total purchase cost in such periods. In the six months ended June 30, 2022, aggregate purchases from top five suppliers in terms of dollar amount in aggregate accounted for approximately 22.8% of our total purchase cost for the six months ended June 30, 2022, and purchase from our largest supplier in terms of dollar amount accounted for approximately 9.1% of our total purchase cost in the same period, respectively.

Our customers are primarily our franchisees and regional dealers who purchase from us as well as individual consumers who directly place orders with us. In addition, we also have direct sales customers and wholesale customers. Franchisees and regional dealers are not agents of us.

During the Track Record Period, our top five customers were our franchisees. Due to the nature of our retailing business and the number of our franchisees, revenue contribution from any single franchisee was immaterial. Revenue derived from our top five customers accounted for 14.2%, 11.7% and 9.8% of our total revenue for the years ended December 31, 2019, 2020

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and 2021, respectively. Revenue derived from our largest customer over the same periods accounted for 3.4%, 2.8% and 2.2% of our total revenue, respectively. In the six months ended June 30, 2022, revenue derived from our top five customers accounted for 8.6% of our total revenue, and revenue derived from our largest customer over the same period accounted for 1.9% of our total revenue, respectively.

PRICING

We generally take into account a number of factors to set the price of our fruits sold to our customers, including costs relating to procurement and warehousing, market demands and the prices set by major competitors.

Leveraging our standardized fruit quality classification system, we are able to price differently based on different quality levels of fruits. This pricing strategy allows us to maximize the value of each type of fruits, achieve good value-for-money, and cater to the needs of consumers with different purchasing powers.

To be specific, with respect to a particular product of same quality, we typically set a relatively lower suggested retail price in lower-tier cities as compared with the more developed regions, after considering the purchasing power, competitive landscape and operating costs in such regional markets. In addition, suggested retail prices for a particular product of same quality sold through online and offline channels are generally comparable, in order to minimize the competition on price between online and offline sales. However, we adopt the product differentiation strategy and develop different packaging or specifications to attract diversified consumers across online and offline channels.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths differentiate us from our competitors and have contributed to our success:

- China’s leading fruit retail operator with vertically integrated industry chain and renowned channel brands and product brands;
- Efficient vertically integrated industry chain built on a standardized system and empowerments through agricultural technologies, IT and capital resources;
- Leading fruit brand portfolio enabled by advanced fruit quality classification system and established product brand incubation system;
- China’s largest community-based fruit specialty retail network with OMO and store-as-warehouse features and a large and loyal consumer base driven by strong membership operation capability;
- Highly replicable franchise model backed by a strong brand, supply chain and operational support with a rapidly expanding franchised store network;

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- Great product freshness, safety and low loss rate enabled by quality control over the entire industry chain and a systematic and efficient warehousing and logistics system; and
- Success led by experienced management with strong corporate culture.

OUR BUSINESS STRATEGIES

Our objective is to become the world’s largest fruit company. We expect to continue to grow and expand our business, and to further strengthen and advance our leadership and market share in China. We aim to achieve this through the following strategies:

- Continue our layout in the upstream industry chain, strengthen the core competitive advantages of our products, expand the categories of fruit business, and cement our leading position in the industry;
- Further enhance our supply chain layout and optimize our warehousing, logistic and quality control system;
- Continue to expand our distribution network and channel brands;
- Leverage our supply chain and channel advantages to accelerate the expansion of fresh grocery business;
- Continue to expand and optimize our OMO operation model;
- Accelerate the digitalization of our whole operation and industry chain through IT investments and empowerment; and
- Pursue appropriate strategic investment and acquisition opportunities to strengthen our industry chain layout.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following is a summary of our consolidated financial information as of and for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, extracted from the Accountant’s Report set out in Appendix I to this document. The below summary should be read in conjunction with the consolidated financial information in Appendix I, including the accompanying notes and the information set forth in “Financial Information.”

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Summary Consolidated Statements of Profit or Loss

The following table sets forth the consolidated statements of profit or loss of our Group with line items in absolute amounts and as percentages of total revenue for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(unaudited)</i>									
Revenue	8,976,133	100.0	8,853,693	100.0	10,289,375	100.0	5,525,424	100.0	5,914,721	100.0
Cost of sales	(8,099,777)	(90.2)	(8,046,263)	(90.9)	(9,132,939)	(88.8)	(4,924,177)	(89.1)	(5,237,328)	(88.5)
Gross profit	876,356	9.8	807,430	9.1	1,156,436	11.2	601,247	10.9	677,393	11.5
Other income	59,484	0.7	49,195	0.6	34,559	0.3	18,295	0.3	29,526	0.5
Other gains, net	34,046	0.4	28,203	0.3	8,055	0.1	7,635	0.1	7,676	0.1
Selling expenses	(344,863)	(3.8)	(394,593)	(4.5)	(451,730)	(4.4)	(220,561)	(4.0)	(246,184)	(4.2)
Administrative expenses	(236,871)	(2.6)	(215,591)	(2.4)	(302,612)	(2.9)	(154,094)	(2.8)	(152,672)	(2.6)
Research and development expenses	(59,252)	(0.7)	(106,053)	(1.2)	(139,742)	(1.4)	(65,222)	(1.2)	(86,280)	(1.5)
Net (provision)/net reversal of impairment loss on financial assets	(11,048)	(0.1)	(20,891)	(0.2)	(5,370)	(0.0)	(11,783)	(0.2)	754	0.0
Operating profit	317,852	3.5	147,700	1.7	299,596	2.9	175,517	3.2	230,213	3.9
Finance income	3,031	0.0	12,192	0.1	24,091	0.2	5,137	0.1	15,423	0.3
Finance costs	(44,673)	(0.5)	(52,065)	(0.6)	(78,190)	(0.8)	(33,781)	(0.6)	(43,499)	(0.7)
Finance costs, net	(41,642)	(0.5)	(39,873)	(0.5)	(54,099)	(0.5)	(28,644)	(0.5)	(28,076)	(0.5)
Share of (losses)/profit of associates and joint ventures, net	(7,529)	(0.1)	(9,763)	(0.1)	16,483	0.2	9,536	0.2	9,444	0.2
Losses on impairment of an associate	-	-	(26,354)	(0.3)	-	-	-	-	-	-
Profit before income tax	268,681	3.0	71,710	0.8	261,980	2.5	156,409	2.8	211,581	3.6
Income tax expenses	(20,384)	(0.2)	(26,052)	(0.3)	(36,164)	(0.4)	(20,363)	(0.4)	(21,498)	(0.4)
Profit for the year/period	<u>248,297</u>	<u>2.8</u>	<u>45,658</u>	<u>0.5</u>	<u>225,816</u>	<u>2.2</u>	<u>136,046</u>	<u>2.5</u>	<u>190,083</u>	<u>3.2</u>
Profit attributable to:										
Owners of the Company	249,453	2.8	49,063	0.6	234,798	2.3	141,462	2.6	198,985	3.4
Non-controlling interest	(1,156)	(0.0)	(3,405)	(0.0)	(8,982)	(0.1)	(5,416)	(0.1)	(8,902)	(0.2)
	<u>248,297</u>	<u>2.8</u>	<u>45,658</u>	<u>0.5</u>	<u>225,816</u>	<u>2.0</u>	<u>136,046</u>	<u>2.5</u>	<u>190,083</u>	<u>3.2</u>

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	Year Ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(unaudited)</i>									
Other comprehensive (loss)/income										
<i>Items that will not be subsequently reclassified to profit or loss</i>										
Share of other comprehensive income of investments in associates and joint ventures	84	0.0	-	-	-	-	-	-	-	-
Changes in the fair value of financial assets at fair value through other comprehensive income (“FVOCI”)	38,419	0.4	9,629	0.1	(49,437)	(0.5)	(58,077)	(1.1)	(822)	(0.0)
Income tax relating to these items	(9,578)	(0.1)	524	0.0	5,884	0.1	5,994	0.1	(500)	(0.0)
Other comprehensive income/(loss) for the year/period, net of tax . . .	28,925	0.3	10,153	0.1	(43,553)	(0.4)	(52,083)	(1.0)	(1,322)	(0.0)
Total comprehensive income for the year/period	277,222	3.1	55,811	0.6	182,263	1.8	83,963	1.5	188,761	3.2

The following table sets out a breakdown of our revenue by operating segments, each expressed in the absolute amount and as a percentage of our total revenue, for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(unaudited)</i>									
Sales of fruits and other food products	8,749,826	97.5	8,636,814	97.6	9,991,758	97.1	5,367,150	97.1	5,730,693	96.9
Royalty and franchising income	171,549	1.9	131,364	1.5	160,288	1.6	92,405	1.7	95,211	1.6
Membership income	46,062	0.5	54,454	0.6	77,670	0.8	33,961	0.6	42,820	0.7
Others ⁽¹⁾	8,696	0.1	31,061	0.3	59,659	0.5	31,908	0.6	45,997	0.8
Total	8,976,133	100.0	8,853,693	100.0	10,289,375	100.0	5,525,424	100.0	5,914,721	100.0

Note:

(1) Mainly represents the income from system maintenance services provided to franchised stores.

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The table below sets forth a breakdown of the revenue contribution derived from sales of products by our major product types during the Track Record Period.

	Year Ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Fresh fruits	8,448,076	96.5	8,329,487	96.4	9,485,163	95.0	5,164,156	96.2	5,449,333	95.1
Dried fruits	268,860	3.1	230,603	2.7	303,163	3.0	113,525	2.1	127,110	2.2
Other fresh groceries	32,890	0.4	76,724	0.9	203,432	2.0	89,469	1.7	154,250	2.7
Revenue derived from sales of products	<u>8,749,826</u>	<u>100</u>	<u>8,636,814</u>	<u>100</u>	<u>9,991,758</u>	<u>100</u>	<u>5,367,150</u>	<u>100.0</u>	<u>5,730,693</u>	<u>100.0</u>

The following table sets out a breakdown of our revenue from sales of products by distribution channels, each expressed in the absolute amount and as a percentage of our total revenue from sales of products, for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Franchised stores										
Franchised stores supervised by us	7,686,867	87.9	7,302,861	84.6	8,125,229	81.3	4,356,213	81.2	4,601,710	80.3
Others ⁽¹⁾	13,307	0.1	6,238	0.1	1,832	0.0	509	0.0	1,068	0.0
Sub-total	<u>7,700,174</u>	<u>88.0</u>	<u>7,309,099</u>	<u>84.7</u>	<u>8,127,061</u>	<u>81.3</u>	<u>4,356,722</u>	<u>81.2</u>	<u>4,602,778</u>	<u>80.3</u>
Self-operated stores	36,587	0.4	39,210	0.4	48,296	0.4	23,783	0.4	31,693	0.6
Others										
Regional dealers ⁽²⁾	455,887	5.2	493,562	5.7	968,022	9.7	496,341	9.2	563,694	9.8
Direct sales	524,289	6.0	515,526	6.0	522,750	5.3	336,678	6.3	406,982	7.1
Online channels	32,889	0.4	279,417	3.2	325,629	3.2	153,626	2.9	125,546	2.2
	<u>1,013,065</u>	<u>11.6</u>	<u>1,288,505</u>	<u>14.9</u>	<u>1,816,401</u>	<u>18.2</u>	<u>986,645</u>	<u>18.4</u>	<u>1,096,222</u>	<u>19.1</u>
Total	<u>8,749,826</u>	<u>100.0</u>	<u>8,636,814</u>	<u>100.0</u>	<u>9,991,758</u>	<u>100.0</u>	<u>5,367,150</u>	<u>100.0</u>	<u>5,730,693</u>	<u>100.0</u>

Notes:

- (1) Represented revenue derived from franchised stores supervised by regional dealers by selling certain goods to those franchised stores supervised by regional dealers. We generally do not engage in sales of fruits and other products to franchised stores supervised by our regional dealers.
- (2) Represented revenue derived from sales of products to regional dealers.

During the Track Record Period, the majority of our revenue was derived from sales of products. We also derived royalty and franchising income from our franchised stores. Our total revenue decreased by 1.4% from RMB8,976.1 million in 2019 to RMB8,853.7 million in 2020, and increased by 16.2% from RMB8,853.7 million in 2020 to RMB10,289.4 million in 2021. Revenue increased by 7.0% from RMB5,525.4 million for the six months ended June 30, 2021 to RMB5,914.7 million in the corresponding period in 2022. Fluctuations in our revenue during

SUMMARY

the Track Record Period were primarily driven by changes in revenue from sales of fruits and other products over the same periods, which in turn were mainly a combined result of the impact of the COVID-19 pandemic and the number of franchised stores in operation in the relevant period.

Revenue generated from sales of fruits and other food products represented the majority portion of our total revenue, and amounted to RMB8,749.8 million, RMB8,636.8 million and RMB9,991.8 million in 2019, 2020 and 2021, respectively, representing approximately 97.5%, 97.6% and 97.1%, respectively, of total revenue over the same periods. The decrease from 2019 to 2020 was a net effect of the decrease in sales of offline retail stores as an adverse result of the COVID-19 pandemic and a decline in our average sales to franchised stores supervised by us, partially offset by a net increase of 192 franchised stores supervised by us. The increase from 2020 to 2021 was driven by a net increase of 362 franchised stores supervised by us and a recovery in sales of offline retail stores and hence, in our average sales to franchised stores supervised by us since the COVID-19 pandemic had been gradually kept under control in 2021. Revenue generated from sales of fruits and other food products increased in the six months ended June 30, 2022 from the corresponding period was primarily due to a net increase in the number of retail stores.

In addition, revenue from sales of products to regional dealers was primarily affected by the purchase volume, which in turn was attributable to the number of franchised stores supervised by regional dealers and the procurement ratio they allocated between us and other designated third party suppliers. Under certain circumstances, we allow our regional dealers to purchase from designated suppliers in compliance with our product quality standards and re-sell to the franchised stores under their management. We believe this allows our regional dealers to maintain flexibility and efficiency in procurement in unforeseen events affecting demand and supply.

Total number of franchised stores supervised by regional dealers amounted to 602, 856, 980, 907 and 981 stores as of December 31, 2019, 2020 and 2021 and June 30, 2021 and 2022, respectively. Procurements by regional dealers from us increased significantly from 2020 to 2021. During the Track Record Period, the number of franchised stores supervised by us increased from 3,700 as of December 31, 2019 to 3,892 as of December 31, 2020, and further to 4,254 as of December 31, 2021. As of June 30, 2021 and 2022, there were 4,018 and 4,454 franchised stores supervised by us, respectively. As of December 31, 2019, 2020 and 2021, we contracted 12, 14 and 13 regional dealers, respectively. As of June 30, 2021 and 2022, we contracted 14 and 13 regional dealers, respectively.

SUMMARY

The following table sets out a breakdown of our royalty income and franchising income, respectively, by sales channels for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Royalty income					
– franchised stores supervised by us	156,166	104,436	121,401	73,346	75,945
– franchised stores supervised by regional dealers	3,483	7,385	10,382	6,104	5,725
– regional dealers	5,711	10,141	12,633	5,575	6,163
Franchising income					
– franchised stores supervised by us	4,650	6,611	11,525	5,272	5,136
– franchised stores supervised by regional dealers	646	1,748	3,232	1,552	1,686
– regional dealers	893	1,043	1,115	556	556
Total	171,549	131,364	160,288	92,405	95,211

The following table sets out a breakdown of our gross profit and gross profit margin by major components of revenue and by sales channels, with respect to sales of fruits and other products, for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	Gross Profit Margin	Gross Profit Margin	Gross Profit Margin	Gross Profit Margin	Gross Profit Margin	Gross Profit Margin	Gross Profit Margin	Gross Profit Margin	Gross Profit Margin	Gross Profit Margin
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
							<i>(unaudited)</i>			
Sales of fruits and other food products										
Franchised stores	523,747	6.8	516,230	7.1	746,843	9.2	376,885	8.7	419,978	9.1
Self-operated stores	9,955	27.2	10,837	27.6	13,170	27.3	6,263	26.3	8,860	28.0
Regional dealers	4,213	0.9	4,658	0.9	9,403	1.0	4,917	1.0	5,641	1.0
Direct sales	111,215	21.2	72,461	14.1	90,457	17.3	55,618	16.5	59,006	14.5
Online channels	919	2.8	(13,635)	(4.9)	(1,054)	(0.3)	(710)	(0.5)	(120)	(0.1)
Sub-total	<u>650,049</u>	7.4	<u>590,551</u>	6.8	<u>858,819</u>	8.6	<u>442,973</u>	8.3	<u>493,365</u>	8.6
Royalty and franchising										
income ⁽¹⁾	171,549	100.0	131,364	100.0	160,288	100.0	92,405	100.0	95,211	100.0
Membership income ⁽¹⁾	46,062	100.0	54,454	100.0	77,670	100.0	33,961	100.0	42,820	100.0
Others ⁽¹⁾	8,696	100.0	31,061	100.0	59,659	100.0	31,908	100.0	45,997	100.0
Total	<u>876,356</u>	9.8	<u>807,430</u>	9.1	<u>1,156,436</u>	11.2	<u>601,247</u>	10.9	<u>677,393</u>	11.5

Note:

- (1) Since there is no cost recorded in connection with royalty and franchising income and membership income, gross profit margin of such respective components was 100% and our overall gross profit margin was affected by the proportions of each major components of our revenue.

SUMMARY

During the Track Record Period, our cost of sales primarily consists of cost of inventories sold, delivery charges, employee benefit expenses, and other costs. Cost of inventories sold represented the purchase cost of the products we sold, which had constituted the majority portion of our total cost of sales. In addition, due to the nature of fresh fruits, inventory loss might arise due to rotten, out-of-season or damaged stock, which was accounted for as cost of sales. During the Track Record Period, inventory loss accounted for approximately 0.010%, 0.003%, 0.034% and 0.045% of total cost of inventories sold in the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. We intend to constantly enhance our ability to control costs and expenses. We will strengthen our influence among suppliers and other industry players by continuing to provide empowerments through agricultural technologies, IT and capital resources, so as to identify high-quality fruit suppliers, obtain preferential purchase rights and secure large-scale supply. Moreover, through IT investment and industrial information platform construction, we will continue to optimize operational costs and expenses by improving operational efficiency.

Gross profit derived from sales of fruits and other food products to franchised stores fluctuated during the Track Record Period, which was largely in line with the fluctuation in revenue from sales of fruits and other food products contributed by franchised stores. Gross profit margin on sales of fruits and other food products to franchised stores was stable at 6.8% in 2019 and 7.1% in 2020, respectively. The significant increase from 7.1% in 2020 to 9.2% in 2021 was primarily because we raised selling prices in relation to franchisees, after considering the maturity of our overall franchise network and the increasingly stable market environment in 2021 as the COVID-19 pandemic was gradually kept under control.

Gross profit margin on sales of fruits and other food products to self-operated stores remained relatively stable throughout the Track Record Period. Through our self-operated stores, we sell our products to consumers at retail prices while bearing the costs and expenses in connection with store operation, while for franchised stores, we sell our products at a price discounted from retail prices, but do not bear the operating expense of these stores. As a result, our self-operated stores generally have a higher gross profit margin than that of franchised stores.

Gross profit margin on regional dealers was stable at 0.9%, 0.9%, 1.0%, 1.0% and 1.0% during the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, respectively. We typically set a relatively lower gross profit margin for sales to regional dealers and adopt the cost-plus method to price the products sold to regional dealers mainly in order to motivate them. Despite the relatively low but stable gross profit margin on regional dealers, we believe that engaging regional dealers in selected regions provides us with a number of benefits in rapidly establishing local presence through (i) minimizing our direct time and capital investments in head-hunting, training and serving franchisees qualified to operate franchised stores, (ii) generating a relatively stable revenue and profit stream to our Group, comprising (a) a stable gross profit margin at 0.9%, 0.9% and 1.0% in 2019, 2020 and 2021, respectively, derived from sales of products to such regional dealers, (b) royalty income generally starting from 0.5% of the relevant regional dealer's sales of products to franchised stores supervised by it, the rate of which is subject to an annual increase with a cap of 2.5% pursuant to our agreements with regional dealers, and (c) a potential reasonable increase in the

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above-mentioned economic contributions due to our strong bargaining power against suppliers resulting from increasing economies of scale. As such, although we did not experience any difficulty in approaching and procuring franchisees on our own during the Track Record Period, we intend to continue to maintain the regional dealers in selected regions.

Gross profit margin on direct sales was relatively higher at 21.2% in 2019 than 2020 and 2021, which was mainly contributed by one of our subsidiaries, Jinchengtai, which engaged in wholesale business. Jinchengtai mainly sells apples to wholesale customers and the market price of apples was higher in 2019 due to extreme weather. Market price of apples subsequently declined in 2020 when its supply returned to normal. If sales of Jinchengtai were excluded, gross profit margin of remaining direct sales would remain relatively stable at 11.2% and 11.5% in 2019 and 2020, respectively. During the Track Record Period, Jinchengtai contributed approximately 49.4%, 37.2% and 39.2% of our direct sales gross profit, in 2019, 2020 and 2021, respectively. While gross profit derived from direct sales increased, gross profit margin on direct sales decreased from 16.5% for the six months ended June 30, 2021 to 14.5% for the six months ended June 30, 2022, primarily as a result of our favorable pricing strategy in order to expand our corporate customer base.

Gross profit margin on online channels decreased from 2.8% in 2019 to a negative 4.9% in 2020, mainly due to a change in our online strategy from selling high-end fresh groceries mostly to paying members in 2019 to selling more mass market fresh groceries and other products to all customers in response to intensified competition along with the launch of Panda.F and our operation of self-operated online stores on Tmall and JD.com under the business to consumer, or B2C, model. Due to relatively lower gross profit margin on mass market fresh groceries and other products and an increase in delivery charges and packaging costs associated with increased online sales, we recorded a negative gross profit margin in 2020. The gross profit margin slightly improved to a negative 0.3% in 2021, primarily because we optimized product strategy and improved product mix with respect to our continuous operations of Panda.F and the B2C online channels. Gross profit margin on online channels was negative 0.1% for the six months ended June 30, 2022. We believe the thin gross profit margin on online channels during the Track Record Period was due to the relatively higher costs and expenses we incurred since our acceleration of online operations since 2019. We expect the gross profit margin on online channels will improve from increasing economies of scale of our online business, as we continue to optimize online product offerings, especially the products under our Panda.F brand, and to foster a broader and more engaging consumer base.

Our net profit decreased from RMB248.3 million in 2019 to RMB45.7 million in 2020 with net profit margin decreased from 2.8% in 2019 to 0.5% in 2020, mainly due to (i) our strategy to focus on the exploration and development of online channels amid the COVID-19 pandemic in 2020, which contributed to a significant increase of RMB36.4 million in our marketing and promotion expenses under selling expenses and a significant increase of RMB45.0 million in salaries and staff welfare under research and development expenses mainly in connection with the increase of IT headcount for the development of our online systems and platforms, (ii) decreases in both sales of products and gross profit margin through direct sales under COVID-19 pandemic, and (iii) decrease in our royalty income from franchised stores resulting from a decrease in gross profit of franchised stores under COVID-19 pandemic.

SUMMARY

Our net profit increased from RMB45.7 million in 2020 to RMB225.8 million in 2021 with net profit margin increased from 0.5% in 2020 to 2.2% in 2021, mainly due to (i) an increase in sales of products through franchised stores under the mild recovery of COVID-19 pandemic, (ii) an increase in gross profit margin through franchised stores mainly resulting from raises in selling prices towards franchised stores, and (iii) increase in our royalty income from franchised stores resulting from an increase in gross profit of franchised stores as the COVID-19 pandemic was gradually kept under control.

Net profit increased from RMB136.0 million for the six months ended June 30, 2021 to RMB190.1 million for the six months ended June 30, 2022, primarily due to an increase in sales of products through franchised stores mainly as a result of a net increase in the number of stores.

During the Track Record Period, non-controlling interests mainly represented net assets attributable to minority shareholders of our non wholly-owned subsidiaries. The absolute amount of non-controlling interests increased during the Track Record Period as the number of the subsidiaries and their business continued to grow.

Non-HKFRS Measures — Adjusted Net Profit and Adjusted Net Profit Margin

To supplement our consolidated financial statements, which are presented in accordance with HKFRS, we also present adjusted net profit and adjusted net profit margin as additional financial measures, which are not required by, or presented in accordance with, HKFRS. Adjusted net profit, as we present it, represents profit for the year/period before [REDACTED] expenses. We defined adjusted net profit as net profit for the year/period adjusted by adding back [REDACTED] expenses. [REDACTED] expenses are expenses in relation to this [REDACTED] and our previous [REDACTED] preparation, including the A-share Listing Preparation, which we consider are non-recurring in nature for future periods. For more details, please refer to the section headed “Our History and Development.” We believe that the presentation of non-HKFRS measures, when shown in conjunction with the corresponding HKFRS measures, provides useful information to investors and management.

While these non-HKFRS measures provide additional financial measures for investors to assess our operating performance, the use of these non-HKFRS measures has certain limitations because they do not reflect all items of income and expense that affect our operations. Our presentation of these non-HKFRS measures should not be construed as an inference that our future results will be unaffected by such unusual item.

These non-HKFRS measures should not be considered in isolation or construed as a substitute for analysis of HKFRSs financial measures. In addition, because they may not be calculated in the same manner by all companies, our adjusted net profit (non-HKFRS measure) and adjusted net profit margin (non-HKFRS measure) may not be comparable to the same or similarly titled measures presented by other companies.

SUMMARY

The following table reconciles profit and net profit margin for the year/period under HKFRS to adjusted net profit (non-HKFRS measure) and adjusted net profit margin (non-HKFRS measure), respectively, for the year/period indicated:

	Year Ended December 31,			Six Months Ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year/period . . .	248,297	45,658	225,816	136,046	190,083
Add:				<i>(unaudited)</i>	
[REDACTED] expenses in connection with previous [REDACTED] preparation	4,721	19,624	13,157	13,145	–
[REDACTED] expenses in connection with this [REDACTED]	–	–	11,897	3,688	14,563
Adjusted net profit for the year/period (non-HKFRS measure)	253,018	65,282	250,870	152,879	204,646
Net profit margin	2.8%	0.5%	2.2%	2.5%	3.2%
Adjusted net profit margin (non-HKFRS measure) . . .	2.8%	0.7%	2.4%	2.8%	3.5%

Without considering the impact of the [REDACTED] expenses, our adjusted net profit margin, a non-HKFRS measure, would have been 2.8%, 0.7%, 2.4%, 2.8% and 3.5% for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, respectively. See “Financial Information” for a more detailed discussion of our financial performance during the Track Record Period.

Summary Consolidated Statements of Financial Position

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current assets				
Inventories	234,806	259,255	246,760	263,351
Trade receivables	1,443,731	1,290,874	1,156,227	1,083,098
Deposits, prepayments and other receivables	577,466	619,107	861,806	766,599
Financial assets at FVTPL	765,822	414,744	1,039,995	229,954
Cash and cash equivalents	317,248	454,636	564,666	1,897,504
Total current assets	3,571,846	3,495,100	4,409,292	4,611,389
Current liabilities				
Trade payables	378,835	304,932	345,196	500,553
Accruals and other payables	877,344	1,028,085	1,178,063	1,180,171
Bank borrowings	594,785	911,069	1,435,427	1,289,918
Total current liabilities	1,926,477	2,321,327	3,056,542	3,057,784
Net current assets	1,645,369	1,173,773	1,352,750	1,553,605
Net assets	2,403,273	2,528,922	2,717,414	2,907,617

SUMMARY

During the Track Record Period, our net current assets fluctuated mainly due to our cash management and allocation between short- and long-term deposits. Net current assets decreased from RMB1,645.4 million as of December 31, 2019 to RMB1,173.8 million as of December 31, 2020, mainly due to the negative impact by COVID-19 on our business, and increasing cash outflow resulting from one-off long-term deposits of RMB250 million as of December 31, 2020 and an increase in interests in associates and joint ventures during the year ended December 31, 2020. Net current assets increased gradually and amounted to RMB1,173.8 million, RMB1,352.8 million and RMB1,553.6 million as of December 31, 2020 and 2021 and June 30, 2022, respectively, mainly due to the cash inflow from decrease in long-term bank deposits and our business development during such periods.

Net assets increased from RMB2,403.3 million as of December 31, 2019 to RMB2,528.9 million as of December 31, 2020, primarily due to the effect of step acquisition of Youguolian and Younongdao at RMB70.0 million and the profit for the year of RMB45.7 million. Net assets further increased to RMB2,717.4 million as of December 31, 2021, primarily due to the profit for the year of RMB225.8 million. Net assets increased to RMB2,907.6 million as of June 30, 2022, primarily due to the profit for the period of RMB190.1 million.

Summary Consolidated Statements of Cash Flow

	Year Ended December 31,			Six Months Ended
	2019	2020	2021	June 30, 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	490,260	297,979	285,985	516,038
Net cash used in investing activities	(226,742)	(377,743)	(577,898)	1,034,924
Net cash (used in)/generated from financing activities	(64,952)	217,152	401,943	(218,124)
Net increase in cash and cash equivalents	198,566	137,388	110,030	1,332,838
Cash and cash equivalents at the beginning of the year/period. . .	118,682	317,248	454,636	564,666
Cash and cash equivalents at the end of the year/period	317,248	454,636	564,666	1,897,504

KEY FINANCIAL RATIOS

The following table sets forth key financial ratios for the periods or as of the dates indicated.

	As of/Year Ended December 31,			As of/Six Months Ended
	2019	2020	2021	June 30, 2022
Gross profit margin (%) ⁽¹⁾ . . .	9.8	9.1	11.2	11.5
Net profit margin (%) ⁽²⁾	2.8	0.5	2.2	3.2
Adjusted net profit margin (%) ⁽³⁾	2.8	0.7	2.4	3.5
Current ratio (<i>time</i>) ⁽⁴⁾	1.9	1.5	1.4	1.5
Quick ratio (<i>time</i>) ⁽⁵⁾	1.7	1.4	1.4	1.4
Gearing ratio (%) ⁽⁶⁾	25.8	36.7	53.5	44.9
Average inventory turnover days (<i>day</i>) ⁽⁷⁾	7.7	11.2	10.1	8.8

SUMMARY

Notes:

- (1) Calculated using gross profit for the year/period by total revenue for the year/period.
- (2) Calculated using net profit for the year/period divided by total revenue for the year/period.
- (3) A non-HKFRS measure, calculated as adjusted net profit for the year/period divided by total revenue for the year/period; adjusted net profit represents profit for the year/period before [REDACTED] expenses.
- (4) Calculated using current assets divided by current liabilities at the end of year/period.
- (5) Calculated using current assets minus inventory, divided by current liabilities at the end of year/period.
- (6) Total borrowings divided by total equity at the end of year/period and multiplied by 100%.
- (7) Calculated based on the average balance of inventory divided by cost of sales for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period. The number of days for the year ended December 31 and the six months ended June 30 is 365 days and 180 days, respectively.

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the [REDACTED] (assuming that the [REDACTED] is not exercised), (i) Mr. Yu will directly hold approximately [REDACTED]% of the total issued share capital of our Company; (ii) Hongyuan Shanguo, Hengyili Investment and Huizhi Zhongxiang, which are controlled by Mr. Yu as their (executive) general partner, will directly hold approximately [REDACTED]%, [REDACTED]% and [REDACTED]% of the total issued share capital of our Company, respectively; and (iii) Shenzhen Huilin, which is owned as to 51% by Mr. Yu and 49% by Ms. Xu Yanlin, spouse of Mr. Yu, will directly hold approximately [REDACTED]% of the total issued share capital of our Company. In addition, Ms. Xu Yanlin contributed 39% of the capital of Hengyili Investment and 29.8% of the capital of Hongyuan Shanguo. As such, Mr. Yu will be entitled to exercise or control the exercise of an aggregate of approximately [REDACTED]% of the voting power at general meetings of our Company upon [REDACTED]. Mr. Yu, Ms. Xu Yanlin, Hongyuan Shanguo, Hengyili Investment, Huizhi Zhongxiang and Shenzhen Huilin will be a group of Controlling Shareholders of our Company under the Listing Rules.

[REDACTED]

Our Company underwent various [REDACTED] by way of capital increases or equity transfers, as a result of which we have a diverse base of [REDACTED] who are experienced individual investors and strategic institutional investors. For further details of the [REDACTED] and identities and background of the [REDACTED], see “Our History and Development — [REDACTED].”

[REDACTED] EXPENSES

During the Track Record Period, we incurred [REDACTED] expenses of approximately RMB[REDACTED] million, of which RMB[REDACTED] million was recognized as administrative expenses in our consolidated statement of profit and loss for the year ended December 31, 2021 and for the six months ended June 30, 2022, and RMB[REDACTED] million was directly attributable to the issuance of [REDACTED] and was capitalized as prepayments and will be deducted from equity. We expect to incur additional [REDACTED]

SUMMARY

expenses of approximately RMB[REDACTED] million, of which RMB[REDACTED] million is expected to be recognized as administrative expenses for the year ending December 31, 2022 and RMB[REDACTED] million is expected to be directly attributable to the issuance of [REDACTED] and will be deducted from equity directly. Our Directors estimate that the total amount of expenses in relation to the [REDACTED] and [REDACTED] is approximately RMB[REDACTED] million, accounting for approximately [REDACTED]% of [REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of [REDACTED] stated in this document, and [REDACTED] is not exercised). The [REDACTED] expenses include (a) [REDACTED] expenses of RMB[REDACTED] million, representing [REDACTED]% of [REDACTED]; and (b) [REDACTED] expenses, comprising professional fees of legal counsels and reporting accountant of RMB[REDACTED] million, representing [REDACTED]% of [REDACTED], and other fees and expenses of RMB[REDACTED] million, representing [REDACTED]% of [REDACTED].

[REDACTED]

[REDACTED] size: Initially [REDACTED]% of the total issued share capital of our Company

[REDACTED] structure: Initially [REDACTED]% for [REDACTED] (subject to adjustment) and [REDACTED]% for [REDACTED] (subject to adjustment and [REDACTED])

[REDACTED]: Up to [REDACTED]% of the number of [REDACTED] initially available under [REDACTED]

[REDACTED] per [REDACTED]: HK\$[REDACTED] to HK\$[REDACTED] per [REDACTED]

	Based on an [REDACTED] of HK\$[REDACTED] per [REDACTED]	Based on an [REDACTED] of HK\$[REDACTED] per [REDACTED]
Our Company’s [REDACTED] upon completion of the [REDACTED] ⁽¹⁾⁽²⁾	HK\$[REDACTED]	HK\$[REDACTED]
Unaudited pro forma adjusted net tangible asset per Share ⁽³⁾	HK\$[REDACTED]	HK\$[REDACTED]

Notes:

- (1) All statistics in the table are based on the assumption that [REDACTED] is not exercised.
- (2) The calculation of [REDACTED] is based on [REDACTED] Shares expected to be in issue immediately upon completion of [REDACTED].
- (3) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II “Unaudited Pro Forma Financial Information” in this document and on the basis of [REDACTED] Shares in issue at the respective [REDACTED] of HK\$[REDACTED] and HK\$[REDACTED], assuming that the Shares issued pursuant to [REDACTED] were issued on June 30, 2022.

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FUTURE PLANS AND [REDACTED]

The table below sets forth the estimated [REDACTED] of [REDACTED] which we will receive after deduction of [REDACTED] fees and commissions and estimated expenses payable by us in connection with [REDACTED]:

	Assuming the [REDACTED] is not exercised	Assuming the [REDACTED] is exercised in full
Assuming an [REDACTED] of HK\$[REDACTED] per H Share (being the mid-point of the [REDACTED] range stated in this document)	HK\$[REDACTED] million	HK\$[REDACTED] million

We intend to use [REDACTED] of HK\$[REDACTED] million of [REDACTED] for the following purposes assuming [REDACTED] is fixed at HK\$[REDACTED] per [REDACTED] (being the mid-point of the indicative [REDACTED]) and assuming [REDACTED] is not exercised:

- approximately [REDACTED]% of our estimated [REDACTED], representing approximately HK\$[REDACTED] million, will be used to improve and enhance our operation and supply chain systems; in particular,
 - o approximately [REDACTED]% of our estimated [REDACTED], representing approximately HK\$[REDACTED] million, will be used to selectively pursue acquisitions of businesses, brands or products and further develop strategic alliances;
 - o approximately [REDACTED]% of our estimated [REDACTED], representing approximately HK\$[REDACTED] million, will be used to improve our R&D capabilities;
 - o approximately [REDACTED]% of our estimated [REDACTED], representing approximately HK\$[REDACTED] million, will be used to incubate self-branded products by further penetrating into supply chain;
 - o approximately [REDACTED]% of our estimated [REDACTED], representing approximately HK\$[REDACTED] million, will be used to increase the automation level in our current processing and distribution centers;
 - o approximately [REDACTED]% of our estimated [REDACTED], representing approximately HK\$[REDACTED] million, will be used to improve the efficiency and eco-friendliness of logistics and warehousing systems;
 - o approximately [REDACTED]% of our estimated [REDACTED], representing approximately HK\$[REDACTED] million, will be used for innovation attempts of new retail operations; and

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- o approximately [REDACTED]% of our estimated [REDACTED], representing approximately HK\$[REDACTED] million, will be used to improve our membership management and expand member base,
- approximately [REDACTED]% of our estimated [REDACTED], representing approximately HK\$[REDACTED] million, will be used for upgrades of our IT systems and infrastructure;
- approximately [REDACTED]% of our estimated [REDACTED], representing approximately HK\$[REDACTED] million, will be used to repay part or all of our following interest-bearing banks borrowings; and
- approximately [REDACTED]% of our estimated [REDACTED], representing approximately HK\$[REDACTED] million, will be used as our working capital and for general corporate purposes.

See “Future Plans and [REDACTED]” for further details.

DIVIDEND

We may distribute dividends by way of cash or by other means that we consider appropriate, based on various factors such as our results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, our capital requirements, future business plans and prospects and other factors that we may consider relevant. A decision to declare and pay any dividend would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders’ approval. We did not declare any dividends during the Track Record Period. Any past dividend distribution records may not be used as a reference or basis in determining the level of dividends that may be declared or paid by us in the future.

We currently intend to adopt, after our [REDACTED], a general annual dividend policy of declaring and paying dividends on an annual basis of no less than 20% of our distributable net profit in the future, subject to, among other things, our operational needs, earnings, financial condition, working capital requirements and future business plans as our Board may deem relevant at such time. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all.

RISK FACTORS

There are certain risks involved in our operations and in connection with [REDACTED], many of which are beyond our control. These risks can be categorized into (i) risks relating to our industry and business, (ii) risks relating to doing business in the PRC, and (iii) risks relating to [REDACTED]. For example, our business depends significantly on market recognition of our “Pagoda” and other trademarks and brands, and any damage to our trademarks, brand names or reputation, or any failure to effectively promote our brands, could materially and adversely impact our business and results of operations; while our results of operations are significantly subject to the store performance of our franchised stores, we cannot control and may not be able to effectively monitor the operations of these stores or maintain

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our current relationship with the franchisees or regional dealers; extreme weather conditions, natural disasters, crop diseases, pests and other natural conditions and other unexpected events may create substantial volatility for our business and results of operations; any failure to maintain food safety and consistent quality could have a material and adverse effect on our brands, business and financial performance; impairment of our goodwill and/or intangible assets, if material, could negatively affect our financial condition and results of operations. A detailed discussion of all the risk factors involved are set forth in “Risk Factors” and you should read the whole section carefully before you decide whether to [REDACTED] the [REDACTED].

RECENT DEVELOPMENTS

Following the Track Record Period and up to the Latest Practicable Date, our business operation grew steadily. Our offline store network tapped into three new cities in China. As of the Latest Practicable Date, our offline store network comprised of 5,613 stores located in over 140 cities in 22 provinces and municipalities across China. Among these, 5,594 were franchised stores and 19 were self-operated stores.

Since early 2022, there have been resurgences of COVID-19 outbreak, including the COVID-19 Delta and Omicron variant cases, from time to time in multiple cities in China, and the local governments re-imposed certain quarantine and other restrictive measures. Since January 1, 2022 up to the Latest Practicable Date, some retail stores across the country were subject to a temporary closure mainly in compliance with the local restrictive measures, but to the extent possible maintained operations to fulfill online orders, half of which were located in Shanghai. The majority of the affected stores experienced a closure for less than one month, with an average period of closure of 19 days. As of the Latest Practicable Date, approximately 96% of these stores had resumed business operation.

Moreover, the restrictive measures adopted in certain affected regions have caused uncertainty and disruption to our domestic supply chain. We experienced slight delays and increases in expenses in connection with rearranging our logistic services to ensure delivery of products from the places of origin to our distribution centers, and from such distribution centers to retail stores across the country. On the other hand, the temporary closure of major port cities and prolonged time required by customs clearance have also increased uncertainty and expenses for products imported from overseas. Since early 2022, our management has promptly adopted responsive measures to ease the pressure on our supply chain. Due to our timely and effective responses, the delays and increases in expenses in connection with our logistic services arising from the resurgences of COVID-19 outbreak since 2022 were not material.

We estimated that we incurred anti-pandemic expenses of approximately RMB0.3 million during the period from January 1, 2022 and up to the Latest Practicable Date.

See “Business — Effects of the COVID-19” for more details about the pandemic cause to us in 2020 and 2022.

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Despite the uncertainties brought by the regional resurgences of COVID-19 outbreak, our financial performance remained stable. We believe that the level of liquidity is sufficient to successfully navigate an extended period of uncertainty due to the COVID-19 pandemic.

After due and careful consideration, our Directors confirm that, save as disclosed above, up to the date of this document, there has been no material adverse change in our financial and trading position since June 30, 2022, and there is no event since June 30, 2022 which would materially affect the audited financial information as set out in Appendix I to this document.

Recent Regulatory Development

On December 28, 2021, the Cyberspace Administration of China, or the CAC, and several other PRC governmental authorities jointly issued the Cybersecurity Review Measures (《網絡安全審查辦法》), (the “**Revised CAC Measures**”) which took effect on February 15, 2022. The Revised CAC Measures provides that a critical information infrastructure operator purchasing network products and services, and platform operators carrying out data processing activities which affect or may affect national security, must apply for cybersecurity review. The Revised CAC Measures also provides that a platform operator with more than one million users’ personal information aiming to list abroad must apply for cybersecurity review. On November 14, 2021, the CAC published a draft of the Administrative Regulations for Internet Data Security (《網絡數據安全管理條例(徵求意見稿)》) (the “**Draft Data Security Regulations**”) for public comments, which applies to activities relating to the use of networks to carry out data processing activities within the territory of the PRC.

Our Directors and our Special PRC Legal Adviser are of the view that the Cybersecurity Review Measures and the Draft Data Security Regulations, if implemented in current form, will not have material adverse effect on our business operations or the proposed [REDACTED] on the basis that (i) we have implemented comprehensive measures to ensure user privacy and data security and to comply with applicable cybersecurity and data privacy laws and regulations as disclosed in “Business — Data Privacy and Protection,” (ii) as of the Latest Practicable Date, we had not been subject to any material investigation, inquiry, or sanction in relation to cybersecurity or data privacy or any cybersecurity review from the CAC, the CSRC, or any other relevant government authority, (iii) during the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material fines or other material penalties due to non-compliance with cybersecurity or data privacy laws or regulations, (iv) as advised by our Special PRC Legal Adviser, we had not been involved in any activities that might give rise to national security risks based on the factors set out in Article 10 of the Cybersecurity Review Measures during the Track Record Period and up to the Latest Practicable Date, (v) as advised by our Special PRC Legal Adviser and subject to any further official guidance and implementation rules relating to the Cybersecurity Review Measures, Article 7 of the Cybersecurity Review Measures requires a cybersecurity review for internet platform operators possessing personal information of over one million users and pursuing a foreign listing (國外上市), and (vi) on May 30, 2022, according to the consultation with the CCRC via phone call by us, the organization commissioned by the Cyber Security Review Office to undertake specific cyber security reviews, CCRC gave an explicit response that our Group does not need to take the initiative to report to the regulatory authorities for cybersecurity review.

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During the ordinary course of our business, we had accumulated more than one million users’ personal information as of the Latest Practicable Date and as of the Latest Practicable Date, we had not received any notice or determination from competent PRC government authorities identifying us as a critical information infrastructure operator. However, as of the Latest Practicable Date, the scope of critical information infrastructure operators and the scope of network products or services or data processing activities that affect or may affect national security remain unclear and are subject to interpretation by relevant government authorities. The Draft Cyber Data Security Regulations was released for public comment only and its final version and effective date may be subject to change and uncertainty. We cannot preclude the possibilities that new regulations or rules in the future may impose additional compliance requirements on us. Please refer to “Risk Factors — Risks Relating to Our Industry and Business — Our business generates and processes a large amount of data, including personal and business data, and the improper collection, hosting, use or disclosure of data could harm our reputation and have a material adverse effect on our business and prospects. Any actual or perceived failure by us or third parties to comply with applicable data protection laws and regulations or privacy policies, including privacy concerns relating to unauthorized use of user information by us or third parties, could damage our reputation, adversely affect the consumers’ confidence in us, or subject us to governmental regulation and other legal obligations.”

If the Draft Cyber Data Security Regulations were implemented in its current form, based on the foregoing and the analysis of provisions of the Revised CAC Measures and the Draft Cyber Data Security Regulations by our Special PRC Legal Adviser, the Directors and our Special PRC Legal Adviser do not foresee any material impediments for us to comply with the Revised CAC Measures and the Draft Cyber Data Security Regulations in all material aspects, given that as disclosed in “Business — Data Privacy and Protection” of the document, we have implemented internal policies, procedures, and measures to ensure our compliance practice. We will closely monitor the legislative and regulatory development in connection with cybersecurity and data protection, including the Draft Cyber Data Security Regulations and the interpretation or implementation rules of laws and regulations of cybersecurity and data protection, and we will adjust and enhance our data practices in a timely manner to ensure compliance once the regulations come into effect.