An* [REDACTED] *in our H Shares involves a high degree of risk. You should carefully consider the following information about risks, together with the other information contained in this document, including our consolidated financial statements and related notes, before you decide to* [REDACTED] *our H Shares. If any of the circumstances or events described below actually arises or occurs, our business, results of operations, financial condition and prospects would likely suffer. In any such case, the* [REDACTED] *of our H Shares could decline and you may lose all or part of your* [REDACTED]. *This document also contains forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated in these forward looking statements as a result of many factors, including the risks described below.

Risks Relating to Our Industry and Business

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.

Brand image is a key factor in consumer purchase decisions. We believe our success depends substantially on the popularity of our "Pagoda" trademark, which is our major channel brand for the offline retail stores. We also rely on other trademarks and brands that we use to market and promote our products, as well as our reputation in relation to our brands with high-quality fruits and other products. Therefore, maintaining and enhancing the recognition and image of our brands is critical to our ability to differentiate our products and services and to compete effectively. Any actual or perceived contamination, spoilage or other product misbranding or tampering may lead to the erosion of our brands and damage to our brand value, regardless of its merits.

We have invested significant resources in our distinctive combination of high-quality and popular products throughout our retail store network. Our brands also depend on our ability to respond to competitive pressures. If we fail to do so, the value of our brands or reputation may diminish and our business and results of operations may be materially and adversely affected. Furthermore, as we continue to grow in size, expand our product offerings and extend our geographic reach, maintaining product quality and consistency may be more difficult and we cannot assure you that we can maintain our consumers' confidence in our brand name. If consumers perceive or experience a reduction in the quality of our products or service, or consider in any way that we fail to deliver a consistently high-quality products, our brand value could suffer, which could have a material and adverse effect on our business.

Moreover, our established brand recognition has attracted certain imitators who operate counterfeit stores by intentionally using highly similar trademarks, trade names and/or logos with ours to mislead potential consumers. Although we are not liable for these misconducts committed by counterfeit stores, counterfeit or substandard products sold in counterfeit stores may significantly harm our reputation and brand image, thereby causing a decline in our financial performance, reduction in our market share as well as an increase in the amount of our anti-counterfeiting efforts. However, we cannot assure you that any of our measures will provide effective prevention and any infringement act could adversely affect our reputation, results of operations and financial condition.

We consider our trademarks and brand names to be material to our business. If we are unable to adequately protect these intellectual property rights, we may lose these rights, our brand image may be harmed, and our competitive position and business may suffer. See "— We may not be able to adequately protect our intellectual property, which could adversely affect our business and operations" below.

Our extensive offline retail store network consists primarily of franchised stores that are operated by third parties. Our results of operations are significantly subject to the performance of the franchised stores. We cannot control and may not be able to effectively monitor the operations of these stores or maintain our current relationship with the franchisees or regional dealers.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, we had 1,451, 1,772, 2,119 and 2,272 franchisees. As of the same date, our offline retail store network had a total of 4,302, 4,748, 5,234 and 5,435 franchised stores, respectively, including the franchised stores supervised by us and by regional dealers. In comparison, we had only 5, 9, 15 and 16 self-operated retail stores as of the respective dates. During the Track Record Period, our revenue was significantly contributed by the franchised stores, including the revenue generated from the sales of products which were directly driven by the in-store sales, and the monthly royalty fee, which was also linked to gross profit achieved by respective store pursuant to the franchise arrangements. Therefore, our results of operations are significantly subject to the performance of these franchised stores, which in turn, reflects the marketing ability and management skills of our franchisees. Poor performing stores, if the total number of which is significant, will materially and adversely affect our revenue and profitability. Under extreme circumstances, we may consider terminating the franchise arrangements and closing the relevant store pursuant to our arrangements with the franchisees, if the performance of the franchised store remains unsatisfactory for a prolonged period of time. If one of our franchisees goes bankrupt, there may be negative impacts on whether we are able to recover our receivables, and closure of stores may also have negative impacts on our brand image.

On the other hand, our franchisees independently manage their business, and are responsible for the daily operation of their own retail stores by themselves. Therefore, the success and quality of the franchised stores are ultimately dependent on the franchisees themselves. We are unable to control the action of our franchisees. Our contractual rights and remedies under the relevant agreements are considerably limited, and obtaining such remedies or filing a lawsuit may be costly. Although we have developed a robust franchise management system to train, supervise and manage our franchised stores, we may not be able to monitor their operations as directly and effectively as our own self-operated stores. For example, we rely on our franchisees to strictly comply with our technical protocols and quality standards to ensure that all fruits available in stores are in the best conditions and within optimal shelf life.

However, there is no assurance that our franchisees will always follow our technical protocols and quality standards. If our current measures to monitor and manage our franchised stores are not adequate or effective enough for us to identify any non-compliance of our franchisees in a timely manner, our reputation may be adversely affected. We also rely on franchisees to implement our strategic initiatives and marketing programs. If any of our franchisees does not comply with our retail policies or operating procedures, our reputation and brand image may be negatively affected. Furthermore, we currently use the store-level POS system, which is linked to our Pagoda ERP system, to track and monitor the purchases, sales and inventory data of each franchised store. For example, according to our ERP system, as of December 31, 2019, 2020 and 2021, June 30, 2022 and the Latest Practicable Date, the total outstanding inventory balance, which included fruits, other food products and consumables, of our franchised stores amounted to approximately RMB162.4 million, RMB152.7 million, RMB178.3 million, RMB128.5 million and RMB189.5 million, respectively. Although we have endeavored to enhance the accuracy and security of our IT systems, the effectiveness of our data collection and monitoring may be compromised if our franchisees knowingly or mistakenly tamper their data inputs. Moreover, pursuant to the franchise arrangements between us and our franchisees, we are entitled to the access to operational and financial information of our franchisees. However, if our franchisees are unwilling to cooperate, we may not be able to effectively retrieve such information and therefore, fail to accurately assess the operations of the relevant stores.

There may be a series of litigation risks relating to our franchisees or franchised stores, including but not limited to consumer complaints, personal injuries, litigations initiated by employees due to improper termination of contracts, and so on. Although we do not directly undertake costs incurred in each of the above types of proceedings, these complaints may increase the costs of our franchisees, have a negative impact on their profitability, and limit the funds available for their business operations, or affect our ability to renew our franchise arrangements, which will further adversely affect our business operations and results of operations, and may negatively impact our brand image.

Moreover, we engage regional dealers to facilitate us in exploring new regional markets. Subject to our arrangements with these regional dealers, they are mainly responsible for identifying and referring qualified franchisees to us, providing franchisee training and store supervision, and supplying fruits and other products to these franchisees. These franchised stores managed by our regional dealers are equipped with the same operational systems as those in franchised stores supervised by us. Through these systems, we are able to monitor the store activities on a real-time basis. However, we delegate the responsibility of franchisee training and daily store supervision to our regional dealers. Despite the fact that the store operational procedures and processes applicable to them are identical to those of the franchised store supervised by us, we cannot assure you that our regional dealers have fulfilled their duties in a satisfactory manner, or have provided trainings to the franchisees under their responsibility or conducted store supervision in a timely manner. If the products or services delivered by those franchised stores fail to meet our quality standards, our reputation, business and results of operations may be adversely affected.

Although we have maintained stable relationships with the majority of our franchisees and all of our regional dealers, we cannot assure you that all of our franchisees (including franchisees recommended and supervised by regional dealers) will maintain their business relationships with us by renewing the existing franchise agreements upon their expiry on terms acceptable to us, or at all. If any of our franchisees or regional dealers terminates or does not renew its agreement with us, we may not be able to replace such franchisees or regional dealers in a timely manner, on terms acceptable to us, or at all. Further, we cannot assure you that our franchisees or regional dealers will continue to purchase from us at historical levels in the future. In the event that a significant number of our franchisees or regional dealers substantially reduce their volume of purchases or fail to fulfill their obligations under the relevant arrangements, or if we lose a significant number of our franchisees or regional dealers and are unable to effectively replace them in a timely fashion, our business, financial condition and results of operations could be materially and adversely affected.

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.

Cultivation of fresh fruits is vulnerable to extreme weather conditions such as windstorms, hailstorms, drought, temperature extremes and typhoons, as well as natural disasters such as earthquakes, forest fires and floods. Unfavorable conditions can reduce both fruit yield and quality. In extreme cases, entire harvests may be lost in some geographic areas. These factors may create substantial volatility in the availability and price of certain fruits in a certain period. We take into account the possibility of the occurrence of adverse seasonal weather conditions in making our procurement plans to mitigate such risks. However, such events are not predictable in nature and may occur at any time of the year. As such, the occurrence of any of these events may create the significant volatility for our fruit supply, and thus, our business and results of operations.

The supply of our fruits is also vulnerable to crop diseases and pest infestations, which may vary in severity, depending on the stage of production at the time of infection or infestation, the type of treatment applied and climatic conditions. The costs to control these diseases and infestations vary depending on the severity of the damage and the extent of the plantings affected. Moreover, available technologies to control such infestations may not continue to be effective. These infestations will increase costs, decrease fruit yield and quality, and lead to additional expenses to our suppliers, which in turn, increase the purchase prices we may incur, thus, having a material and adverse effect on our business, results of operations and financial condition.

In addition, under certain circumstances, unexpected events other than natural disasters may also cause a volatility in the supply of our fruit products. For example, since mid-2018, the prolonged trade war between China and the United States has led to constraints on fruit supply imported from the United States and we also have incurred additional procurement costs in connection with such imported fruits. Given that fruits imported from the United States accounted for an insignificant portion of our total procurements during the Track Record Period, our business and results of operations were not materially and adversely affected. In addition, since late 2019, the outbreak of COVID-19 has continued to spread within the PRC and globally. The outbreak has caused temporary closure to some retail stores in certain cities in China, while the retail stores in other areas also experienced a decrease in consumer traffic, which in turn, adversely affected our business and results of operations. Refer to "— Our business is subject to the national and regional economies in China and our prospects may be adversely affected by natural disasters, acts of God, and occurrence of epidemics" below for a more detailed discussion about the impacts of COVID-19 on us. These social and other public events are beyond our control and we cannot assure you that similar events will not happen in the future and our business and results of operations may not be adversely affected. For more details of impact of COVID-19 on our business, please refer to the section headed "Business — Effects of the COVID-19."

Any failure to maintain food safety and consistent quality could have a material and adverse effect on our brands, business and financial performance.

Food safety and quality are critical to our reputation and business success. Maintaining consistent food safety and quality depends significantly on the effectiveness of our quality control systems, which in turn depends on a number of factors, including the design of our quality control systems, the expertise of our quality control personnel, the investments in testing technologies and equipment, as well as our ability to ensure that our employees and other third parties involved in our operations, such as suppliers and third party logistic service providers, adhere to those quality control policies and guidelines. Although we implement quality control standards and measures throughout our entire operating processes as detailed in "Business — Food Safety and Quality Control", there is no assurance that our quality control systems will prove to be effective at all times, or that we can identify any defects in our quality control systems in a timely manner. We face an inherent risk of food contamination, particularly excessive pesticide residue, and liability claims. Any food contamination that we fail to detect or prevent could adversely affect the quality of the products sold at the offline stores, which could lead to liability claims, reduced consumer traffic at the offline stores and the imposition of penalties or fines by relevant authorities. We may become subject to public scrutiny mainly relating to the safety and quality of our food products. From time to time, these criticisms, complaints and negative media coverage, regardless of their veracity, may result in public protests or negative publicity, which could result in government inquiry or harm our reputation and brand, and may adversely affect our business and prospects.

In addition, we have launched the instant refund service. If the consumer thinks the fruit is not as delicious as he/she expects, he/she may claim a refund up to 100% of the selling prices without presenting the product and invoice, nor providing a good reason. In order to encourage our franchisees to fully execute our instant refund service policy, depending on how the orders are fulfilled, we currently agree to share up to 60% of the refund amount that exceeds the procurement cost incurred by the relevant franchisee, the equivalent of which will be deducted from the procurement amount in the settlement next month. On the other hand, we may experience product return claims from our franchisees, although due to the nature of fruits, we typically accept product returns from the franchisees only if there are quality defects or mistaken delivery. If we are not able to maintain the quality of our products, we may experience an increasing number of instant refund claims or return claims from our franchisees, which will materially and adversely affect our reputation, our business, results of operations and financial condition.

During the Track Record Period and up to the Latest Practicable Date, the expenses in relation to the instant refund service were insignificant, and we had not encountered any material product quality claims against us, nor had we received any material administrative penalties in this regard. The expenses we incurred in connection with our instant refund service were immaterial and accounted for approximately 0.07%, 0.18%, 0.15% and 0.20% of our total revenue for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. Moreover, we currently do not maintain any product liability insurance and may not have adequate resources to satisfy a judgment in the event of a successful product liability claim against us. The successful product liability claims against us could result in potentially significant monetary damages and require us to make significant payments.

The supply volume and prices of our products may fluctuate subject to various factors.

The business and financial impacts caused by purchase cost of fruits are significant. Fresh fruits are highly perishable and most fruits must be brought to market and sold very shortly after harvest. The price for a certain type of fruit may fluctuate significantly subject to various factors such as supply of and demand for such fruit, and the availability and quality of such fruit in the market. Weather condition in various parts of China and worldwide is one of the primary factors affecting the fruit yield and quality. In addition, cultivation technologies and post-harvest processing technologies may also affect the supply and quality of different types of fruits. For example, fruit products under our Excellent and Grade A categories generally have a higher price than the same type of products classified under lower grades.

Oversupply of certain types of fruits without a corresponding increase in consumer demand may decrease the prices for our products. General public concerns regarding the quality, safety or health risks associated with a particular fruit product could reduce demand and prices for such product. However, even if market prices are perceived to be unfavorable, the majority of the fruits which we have sourced are not suitable for long-term storage and must be brought to market within a short period of time. As such, any decrease in the selling prices received for our products due to the factors described above could have a material and adverse effect on our business, results of operations and financial condition.

We may not be able to successfully expand our retail network.

Our rapid growth is largely attributable to our extensive and well-managed retail store network which has been a critical factor in driving our business growth and strong results. 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. To further increase our market share, we expect to continue to expand our geographic coverage and deepen our market penetration. To this end, we intend to engage more quality franchisees, through identification by ourselves or referral by our regional dealers, to increase the number of the franchised stores. However, we cannot assure you that we will be able to successfully contract new franchisees or open new franchised stores as scheduled. We may not be able to contract franchisees or regional dealers with industrial experience and managerial skills, to educate and train the franchisees and their staff, or to identify attractive locations for new stores. Franchisees and regional dealers may also decide to cease the business relationship with us if they find our services and support, including the factoring arrangements we provide to regional dealers, not attractive. Furthermore, if we are unable to properly plan our store network expansion, an increasing number of retail stores in one certain region may cause cannibalization and unhealthy competition. Geographical location of the offline retail stores is of significant importance to the operation of the retail stores. We cannot assure you that the current location of the retail stores will remain attractive when there are changes in surrounding environment or local economic conditions. Surrounding geographic and economic conditions may cause the location of the retail stores to be unsatisfactory, which may further lead to a decrease in their sales volume. Retail stores with a fixed lease term may be subject to the risk that rental payments may be made for a fixed term, even if there is a possibility of a decline in performance or other unpredictable events before the lease expires.

In addition, to fully support the expansion of our retail store network, we are also required to secure a stable and sufficient supply of high-quality fruits and other products, establish an efficient logistics and warehousing system nationwide, and attract and retain skilled store supervisors and other personnel. In addition, the rapid expansion of our retail store network will impose increasing pressure on our managerial, financial, operational and other resources. We may not be able to effectively integrate any new stores into our existing operations. If we are unable to effectively manage our expansion or control rising costs associated with our expansion, our growth potential and profitability could be materially and adversely affected.

We may not be able to continue to expand our product offerings or successfully establish brand portfolio.

Our success is, and will continue to be, dependent on our ability to cultivate, source and sell a variety of high-quality fruits. Going forward, we intend to continue to identify and cultivate new fruit types and other products to further increase and diversify our product offerings. In particular, we intend to continue to leverage our well established proprietary 4-grade fruit quality classification system and promote more fruit products under our categories of Excellent and Grade A. However, there is no assurance that we will always succeed in selecting and sourcing high-quality products that cater to the preference and needs of our consumers or to achieve anticipated sales at competitive prices, especially those fruits sourced from foreign countries which the consumers in the PRC are not familiar with and may not readily accept. In this regard, we are required to recruit more personnel with expertise in cultivation, procurement, research and development as well as sales and marketing. In addition, one of our development strategies is to develop domestically renowned fruit category brands. Building a high-quality brand requires significant investment in technology, capital and manpower. This includes not only the investments in the early stage of research and development, including self-development and joint research and development with the partners in our ecosystem, but also the marketing efforts in the mid-to-late stage to cope with the market-oriented branding. It may take a long time to cultivate a mature high-quality fruit category brand, and similarly, it takes time to develop brand recognition among consumers after investment in the market.

Furthermore, we have expanded our product offerings to other fresh groceries. We hope to further expand our market share in the fresh groceries market by duplicating our success in the fruit retailing business. We also intend to establish proprietary and renowned product brands for other fresh groceries as well. We cannot assure you that our investments in this area will deliver our expected returns.

On the other hand, we have implemented a multi-channel brand strategy and the franchised stores are operated under several channel brands. We have also been actively reserving additional regional channel brands and intend to develop or acquire new brands. This may require significant expenses, marketing, and planning and managerial skills. We may not be able to successfully position our new channel brands or to integrate them into our existing brands.

Our business is subject to the national and regional economies in China and our prospects may be adversely affected by natural disasters, acts of God, and occurrence of epidemics.

Our business is subject to general economic and social conditions in China. Natural disasters, epidemics and other acts of God beyond our control may adversely affect the economy, infrastructure and livelihood of the people in China. Some cities in China may be under the threat of flood, earthquake, rainstorm or drought. In addition, past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in China. A recurrence of SARS, COVID-19 or an outbreak of any other epidemics in China, especially in the cities in which the retail stores are located, may result in material reduction in consumer traffic, interruption to their sales and supply chain disruptions, which in turn may adversely affect our business, financial condition and results of operations.

Since late 2019, COVID-19 has continued spreading in the world, including China. On January 23, 2020, the PRC Government announced the lockdown of Wuhan. Since then, stringent containment measures including travel restrictions had been imposed in other major cities in the PRC in an effort to contain the outbreak of COVID-19. The outbreak, which has resulted in a high number of fatalities, also has had an adverse impact on the livelihood of the people in China and on its economy, particularly Wuhan and other cities in Hubei Province at the early stage of outbreak. In 2020, the retail industry in the PRC was materially impacted during the mass quarantines as many stores adopted protective measures and issued a temporary closure.

Our business operation and financial performance for the year ended December 31, 2020 were affected by the COVID-19 pandemic. From the end of 2019 to May 2020, a total of 191 of the retail stores had suspended operations for an average of over 10 days to comply with the local governments' mandatory restrictive measures, most of which were located in Hubei Province. Due to the COVID-19 outbreak, the consumer traffic to other stores that did not close had also declined significantly in general. To respond to the evolving situations of the COVID-19, we introduced certain temporary policies to support our franchisees and regional dealers during this difficult time. For example, to support those stores remaining open during the COVID-19 outbreak, we temporarily adjusted upwards the discounted rates in connection with their purchases from us. For the month of February 2020, we exempted the interests on the loans under our financial support arrangements with franchisees and regional dealers. Moreover, given the number of online orders experienced a considerable increase during the COVID-19 outbreak, we exempted the monthly royalty fees in connection with online orders that were fulfilled by offline stores for February 2020. We also incurred expenses to provide protective materials to our employees and store staff and participated in various charitable donations.

The COVID-19 pandemic has been generally under control since 2021. However, during the period from January 1, 2022 to the Latest Practicable Date, 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. Certain offline retail stores in those affected areas were subject to temporary closure but to the extent practicably possible, maintained operations to respond to online orders. However, neither the number of stores closed at the same time nor their respective closing time are significant. See "Business — Effects of the COVID-19" for more details.

There is no assurance as to when the COVID-19 will be completely contained. Our business operations and financial condition may continue to be materially and adversely affected as a result of the changes in the outlook of the retail market, any slowdown in economic growth, negative business sentiment or other factors that we cannot foresee.

We may not be able to maintain an active and expanding member base.

We believe our success is partially attributable to a large and active member base which is a result of our successful membership marketing and operation. As of the Latest Practicable Date, we had accumulated over 72 million members. The average number of MAU in 2021 amounted to over 7 million. The number of our paying members reached over 910 thousand as of the Latest Practicable Date. In 2021, the monthly purchase frequency and monthly purchase amounts of our paying members were approximately 140% and 160%, respectively, higher than those of non-paying members. In addition, through our OMO strategy by driving offline traffic to online, we are able to convert single-channel consumers to multi-channel consumers.

We endeavor to deploy various marketing initiatives, online and offline, to reach a broad consumer base and encourage their purchases. We design customized membership privileges based on the multi-layer memberships to stimulate repeat purchases and increase member loyalty. We also establish our presence on trending social commerce platforms, by means of appealing and engaging promotional content, short-form videos and live streaming, to interact with our members and raise our brand recognition. However, our efforts to expand member base and to increase their engagement level may not always be successful. If our members find our membership privileges no longer attractive and become inactive, their purchases may decrease, which in turn, will materially and adversely affect business, results of operations and financial condition.

Our failure to recover a significant portion of our trade and other receivables in a timely manner may have a materially adverse effect on our business and financial results.

We generate trade receivables in the ordinary course of business, which mainly represent outstanding payments for purchases of our products by our customers, which mainly comprise franchisees, regional dealers and other direct sales customers. As of December 31, 2019, 2020 and 2021 and June 30, 2022, our trade receivables amounted to RMB1,443.7 million, RMB1,290.9 million, RMB1,156.2 million and RMB1,083.1 million, respectively. We generally grant our customers a credit term of up to three months. In addition, during the Track Record Period, we also recorded certain amounts of other receivables, including the loans we provided from time to time to our franchisees, certain associates and selected third parties. These third parties were fruit retail industry participants, mainly fruit suppliers, which we considered strategically cooperating with. As of the Latest Practicable Date, except for the financial supports to our franchisees, regional dealers and suppliers, we had ceased to provide loans to associates and third parties. As of December 31, 2019, 2020 and 2021 and June 30, 2022, the outstanding balance of our loans to franchisees, certain associates and selected third parties amounted to RMB80.3 million, RMB139.3 million, RMB185.4 million and RMB190.8 million, respectively. As of the same dates, the outstanding financing amounts under factoring arrangements with regional dealers and suppliers were RMB262.3 million, RMB252.4 million, RMB238.0 million and RMB169.5 million, respectively. The ability of our franchisees, regional dealers, suppliers, certain associates and other selected third parties to repay such loans and other receivables depends on a number of factors, some of which are beyond our control. If the performance or creditworthiness of the above parties deteriorates, they may not be able to make repayment of loans or other outstanding payments to us in full in a timely manner. Although the ageing of the majority of our trade receivables was less than three months during the Track Record Period, and these third parties generally kept a sound repayment track record, we cannot guarantee that we will always be able to recover these amounts in a timely manner in the future. A provision for doubtful debts is made for the amounts of trade receivables that represents the expected credit loss which we have assessed by considering historical default rates, existing market conditions and forward-looking information. If the receivables are determined to be irrecoverable, the provision for doubtful debts of such receivables will be written off. In the event that our trade or other receivables increase significantly and we fail to collect these receivables in a timely manner, our financial condition and business operations may be materially and adversely affected.

We may need to make allowance for impairment of prepayments, deposits and other receivables.

As of December 31, 2019, 2020, 2021 and June 30, 2022, our current portion of prepayments, deposits and other receivables was RMB577.5 million, RMB619.1 million, RMB861.8 million and RMB766.6 million, respectively; our non-current portion of prepayments, deposits and other receivables was RMB83.9 million, RMB247.9 million, RMB321.4 million and RMB350.9 million as of the same dates, respectively. Our prepayments, deposits and other receivables mainly include (i) prepayment for purchases of fruits and other food products, which represent prepayments we paid to third-party suppliers for fruits and other food products; (ii) interest-bearing loans to franchisees; (iii) factoring amounts to regional dealers, which represent our provision of financing to the regional dealers; (iv) other prepayments, which mainly represent prepayments we assumed in connection with equipment and decoration for franchised stores under our modified arrangements. There is no guarantee that counterparties will perform their obligations in a timely manner, and we are subject to credit risk in relation to prepayments, deposits and other receivables. We make allowance for impairment of prepayments, deposits and other receivables when we determine the chances of recovering the relevant amounts due are remote. We conduct assessments on the recoverability of prepayments, deposits and other receivables based on, among others, our historical settlement records, our relationship with relevant counterparties, payment terms, economic trends and to a certain extent, the larger economic and regulatory environment, which involve the use of various judgments, assumptions and estimates by our management. The balance of our allowance for impairment of prepayments, deposits and other receivables was RMB11.8 million, RMB7.6 million, RMB7.8 million and RMB6.7 million as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively. During the Track Record Period, in relation to such prepayments, deposits and other receivables, we recorded (i) net impairment losses amounting to RMB7.8 million for the year ended December 31, 2019; (ii) net reversal of impairment loss amounting to RMB4.2 million for the year ended December 31, 2020; (iii) net impairment losses amounting to RMB0.2 million for the year ended December 31, 2021; and (iv) net reversal of impairment loss amounting to RMB1.1 million for the period ended June 30, 2022. As our management's estimates and related assumptions were made in accordance with information available to us at the time the allowance was determined, there is no assurance that our expectations or estimates will remain accurate for the future. If we are not able to recover the amount as scheduled, we may need to make allowance for impairment of prepayments, deposits and other receivables and our business, financial condition and results of operations may be adversely affected.

Our development strategies may not achieve the expected goals in the near term, if at all.

We focus on the long-term development and interests of us and the participants in our ecosystem. We from time to time develop and adjust our business strategies in order to adapt into the competitive industry and maintain our leading market position. However, our strategies may not achieve the expected goals as planned. For example, we have invested, and will continue to invest, in strategic acquisitions which we believe are supplementary to our existing operations, and/or enable us to better access and control the downstream or upstream of our value chain. However, our newly invested businesses may have lower or negative margins, and are in the early stages of exploring, establishing and optimizing their business models. We believe these investments and initiatives are crucial to our success and future growth, but they may have an effect of increasing our costs and lowering our margins and profit, and this effect may be significant in the short term and potentially over a prolonged period. Acquired businesses that are loss-making may continue to sustain losses and may not become profitable in the near future or at all. The performance of our current and future equity investees and investment areas may also adversely affect our net income. There can be no assurance that we will be able to grow our acquired or invested businesses, or realize returns, benefits of synergies and growth opportunities we expect in connection with these investments and acquisitions. For more details about the risks relating to our acquisitions and investments, please also refer to "— Our operations are subject to the risks associated with acquisitions and investments in joint ventures and associates."

In addition, we may explore new business initiatives. For instance, we have expanded our business to fresh groceries other than fruits. We believe our proven track record of and experience in selling high-quality fruits, as well as our franchise business model with well-established warehousing and logistic network, will enable us to duplicate the success when expanding to other sectors of fresh groceries. However, the fresh grocery retail industry in the PRC is highly dispersed and competitive. To compete effectively as a new comer, we may adopt various marketing and promotional initiatives to attract consumers and boost sales, which may result in an increasing marketing expenses and a lowered margin in the near term. There is no assurance that our marketing and promotional initiatives will be successful and we may not be able to retain the consumers if our promotions, such as sales discounts, are discontinued. Moreover, further development of fresh grocery retailing business will also place higher demands on us in connection with supply chain management, storage and logistics and may generate higher operating expenses.

Disruption of relationships with our significant suppliers could negatively affect our business. A shortage in the production capacity of our suppliers, or a material fluctuation in the procurement cost, may materially and adversely affect on our business and the results of operations.

Identifying high-quality suppliers and maintaining a stable business relationship with them are critical for our business operations. We currently had over 1,000 suppliers as of the Latest Practicable Date. During the Track Record Period, purchases from our five largest suppliers amounted to RMB1,668.1 million, RMB1,586.0 million and RMB1,797.1 million in the years ended December 31, 2019, 2020 and 2021, respectively, representing approximately 21.4%, 20.4% and 20.6% of total purchases over the same periods. Purchases from our largest supplier amounted to RMB577.1 million, RMB586.4 million and RMB705.3 million in the years ended December 31, 2019, 2020 and 2021, respectively, representing approximately 7.4%, 7.7% and 8.1% of total purchases over the same periods. In the six months ended June 30, 2022, aggregate purchases from top five suppliers amounted to approximately RMB1,136.3 million, accounting for approximately 22.8% of our total purchase cost, and purchase from our largest supplier amounted to approximately RMB455.2 million, accounting for approximately 9.1% of our total purchase cost in the same period, respectively. Any cancellation of our supply arrangements with these suppliers or any disruption, delay or inability of these suppliers to supply us with fruits that meet our quantity and/or quality requirements may materially and adversely affect our business and operating results.

Our ability to continue to source high-quality products from our suppliers in a timely and cost-effective manner is subject to a number of factors, some of which are not within our control. These factors include the ability of our suppliers to maintain a continued and stable source of supply, and our ability to effectively compete and obtain competitive prices from suppliers. The productivity of our suppliers may also be negatively affected by staffing shortages, strikes or other circumstances resulting in disruption of work of employees. Mainly due to the broad variety of fruit products we sell in different seasons, during the Track Record Period and up to the Latest Practicable Date, we had not encountered any delay or shortage in the supply of any particular type of fruit products that had materially and adversely interrupted our business operations. However, we cannot assure you that our suppliers could maintain their supply at the same or similar level of product quality and quantity in the future, nor could we assure you that we would be able to find replacement suppliers on commercially reasonable terms if our purchase agreements with the suppliers expire and are not renewed promptly or terminated early, which would have a material adverse effect on our financial condition, results of operations and cash flows. In particular, it will be more challenging for us to identify replacement suppliers for our Excellent and Grade A fruits which generally have higher quality standards. If our business relationships with such key suppliers are interrupted, we may lose our competitive advantage of providing fruits with premium quality, which in turn, may materially and adversely affect our brand image, financial condition and results of operations.

Failure to maintain optimal inventory levels could increase our loss rate or cause us to lose sales, either of which could have a material adverse effect on our business, financial condition and results of operations.

Maintaining an optimal level of inventory is critical to the success of our business. Fresh fruits generally have a short storage and shelf life and high turnover in nature. For example, with respect to perishable fruit products, pursuant to our inventory policies, the average inventory turnover from our preliminary processing and distribution centers to the retail store is generally around 2.5 days. We are exposed to increased inventory risks as a result of a variety of factors beyond our control, including changing consumer preferences, expansion of our store network, uncertainty of market acceptance of our new products, unexpected extreme weather conditions or seasonality. Although we proactively adjust our procurement plans from time to time based on our analysis of data collected from the retail stores, including their procurements and inventory level, we cannot assure you that there will not be under- or over-stocking of any particular product. Moreover, we generally estimate demands for our products ahead of procurement and the actual time of sales. We cannot assure you that our predictions are always accurate to avoid any under- or over-stocking inventory. If a sudden decrease in the market demand and the corresponding unanticipated drop in the sales of our products could cause our inventory to accumulate, we may suffer from an increasing loss rate given the nature of the fresh fruits. Additional markdowns or promotional activities or increasing loss rate will adversely affect our financial condition and results of operations. On the other hand, if we experience under-stock inventory while we underestimate the popularity of a particular product, we will lose the sales opportunity and our results of operations may also be adversely affected.

During the Track Record Period, we did not record any material inventory write-offs. Inventory loss accounted for approximately 0.010%, 0.003%, 0.034% and 0.045% of total cost of inventories sold, respectively, in the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022. However, if we fail to manage our inventory effectively, we may be subject to a heightened risk of inventory obsolescence, a decline in inventory values, and significant inventory write-downs or write-offs. In addition, we may be required to lower sale prices in order to reduce inventory level, which may lead to lower gross margins. High inventory levels may also require us to commit substantial capital resources, preventing us from using that capital for other important business purposes. Any of the above may materially and adversely affect our cash flow, results of operations and financial condition.

Our regional preliminary processing and distribution centers, self-operated stores and most of our franchisees' franchised stores are located in leased properties. We, our regional dealers and franchisees may not be able to renew current leases or locate desirable alternatives for relevant leased properties.

Currently, all of our regional preliminary processing and distribution centers across China are located in leased premises. Leases for our distribution centers generally have a term ranging from five to ten years and may be renewed upon mutual agreement. However, we cannot assure you that our rights to use these premises may not be challenged or we will always be able to successfully renew such leases upon their expiry. If we are required to relocate our preliminary processing and distribution centers, we may not be able to secure desirable locations in a timely manner or on reasonable commercial terms, which in turn, may cause interruption to our operations. In addition, we would incur additional relocation costs, thus affecting our business operations and financial condition. In addition, our certain leased properties may be exposed to the risk of invalid lease agreements under the relevant laws and regulations as a result of the failure to obtain valid proof of ownership of the property by the landlords. If our lease agreements are deemed to be invalid and we are required to vacate the existing property, and we are unable to find alternative premises, our business operations will be adversely affected.

On the other hand, most of our self-operated stores and the franchised stores are also located on leased premises. Leases for these stores are generally in a short term. Our and our franchisees' ability to renew existing leases upon their expiry at reasonable commercial terms is crucial to the stores' continuous operations and profitability, especially for those in locations with high volume of consumer traffic. At the end of each lease term, we and our franchisees may not be able to negotiate an extension of the lease with the landlord and may therefore be forced to vacate the leased premise and move to a less favorable location. Moreover, due to rapid rental increases in the PRC, we and our franchisees may not be able to renew the existing leases at reasonable prices. We compete with other retail businesses, including our competitors, for premises at desirable locations and/or of desirable sizes. Therefore, we and our franchisees may not be able to obtain new leases at desirable locations or renew our existing leases on acceptable terms, in a timely fashion or at all, resulting in the closure or relocation of the relevant stores to areas with unsatisfactory flow, which may materially and adversely affect their results, and in turn could materially and adversely affect our business and results of operations.

We may be forced to relocate due to title defects of such leased properties or be subject to fines as a result of unregistered leases.

Certain office spaces, including the premises where our current headquarters are located, and certain preliminary processing and distribution centers are located in leased properties that have title defects due to various reasons, which may subject us to challenges by third parties or relevant authorities, such that our leases may be deemed invalid or unenforceable and we may be forced to vacate from these leased properties. For example, some leased properties did not obtain the certificate of ownership because of historical reasons relating to urbanization process and the application procedure. Some leased properties are located on state-appropriated land on collectively owned land. Some lessors are not able to provide us sufficient or valid confirmation certificate to prove that we have satisfied requirements relating to the leased properties. We believe that land with such defects is not uncommon in China. As of the Latest Practicable Date, there are approximately 73,209 square meters of leased properties in total that has the above mentioned defects, approximately 26,352 square meters of which are our preliminary processing and distribution center. As advised by our PRC Legal Adviser, it is the relevant lessors' responsibility to comply with the relevant requirements and to obtain the relevant ownership certificates. Any failure to fulfill such procedures may subject the relevant lessors to penalties imposed by the land administrative authorities, construction administrative authorities or planning authorities and the lease agreements may be deemed invalid and unenforceable in accordance with the relevant laws and regulations. As a tenant, we are not subject to any administrative punishment or penalties under relevant laws and regulations. However, our use of the defective leased properties may be affected by third parties' claims or challenges against the lease. Also, if the lessors do not have the requisite rights to lease the defective leased properties, the relevant lease agreements may be deemed invalid, and as a result we may be required to vacate from the such properties and relocate our offices or distribution centers, which may subject us to temporary interruption to our regional business operations and additional relocation costs, thus further affecting our business operations and financial condition. For risks in connection with relocating our preliminary processing and distribution centers, also see "— Any unexpected or prolonged disruptions for our warehouse operations could adversely affect our business."

The property leases for the remaining preliminary processing and distribution centers operated by our regional dealers were entered into by the relevant regional dealers themselves. Moreover, under the PRC law, all lease agreements are required to be registered with the relevant real estate administration bureaus. However, as of the Latest Practicable Date, all of our 175 lease agreements for leased properties had not been registered and filed with the relevant land and real estate administration bureaus in the PRC, mainly because the relevant landlords failed to provide necessary documents for us to register the leases with the local government authorities.

As advised by our PRC Legal Adviser, failure to complete the registration and filing of lease agreements will not affect the validity of such leases or result in our being required to vacate the leased properties. However, the relevant government authorities may impose a fine ranging from RMB1,000 to RMB10,000. The aggregate amount of maximum fine will be approximately RMB1.8 million. See "Business — Properties — Leased Properties — Lease Registration" for more details.

Any unexpected or prolonged disruptions for our warehouse operations could adversely affect our business.

Our nationwide warehousing network currently has 29 preliminary processing and distribution centers, 16 of which are operated by us, including 2 leased from third-party warehousing service providers. The remaining 13 are operated by our regional dealers in accordance with our requirements. In the event that there is any unexpected and prolonged disruption in the supply of utilities, such as water or electricity, or access to the premises, such as fire, and we cannot restore the affected distribution center, or to relocate to another suitable location promptly with well-equipped facilities, our business operations will be materially and adversely interrupted, which in turn, will affect our results of operations. For example, historically, certain preliminary processing and distribution centers had encountered fire incidents. During the Track Record Period and up to the Latest Practicable Date, such fire incidents have not caused any interruption to our operations that has a material adverse impact, nor have they subjected us to any material administrative penalties. We have implemented enhanced fire safety measures, see "Business — Health and Safety Matters" for more details. However, we cannot assure you that our enhanced prevention measures are effective and sufficient. If any of our preliminary processing and distribution centers experiences a material fire incident or the aforesaid prevention measures are not adequately implemented in the future, we may lose the products stored therein, incur significant costs and expenses to restore or to relocate such distribution centers, and/or be determined by the relevant authorities to be in violation of the fire safety laws and regulations and subject to relevant administrative penalties. If such a fire incident causes damages to other third parties, we may also be required to compensate if we are determined to be partially or fully responsible for such fire. Under such circumstances, our business operation, results of operations and financial condition may be adversely affected.

In particular, due to the fragile and perishable nature of our fruits, we have established detailed technical criteria as to temperature and humidity for the warehousing and logistics of each type of fruits. Moreover, our preliminary processing and distribution centers are separated into different temperature zones to satisfy the different warehousing requirements. In addition, each of our preliminary processing and distribution centers is also equipped with ripening rooms which allow the artificial ripening process under our controlled conditions. If we incur any material equipment breakdown, such as the equipment failure for temperature or humidity control for a prolonged period of time, the quality of the fruits stored in the relevant warehousing spaces may be compromised. We may have to downgrade their quality level or even discard and absorb the relevant costs. In addition, repairing or adding equipment and machinery for our preliminary processing and distribution centers may be expensive and time consuming. During the Track Record Period and up to the Latest Practicable Date, we had not encountered any material interruption to our preliminary processing and distribution centers.

We and the retail stores require various approvals, licenses and permits to operate our business and any failure to obtain or renew any of these approvals, licenses and permits could materially and adversely affect our business and results of operations.

In accordance with the laws and regulations of the PRC, we are required to maintain various approvals, licenses and permits in order to operate our business in the PRC. Currently, we are required to maintain business license for our operations. Moreover, as we continue to expand the offerings of our products and services both offline and online, we may be further required to obtain additional licenses or permits.

These approvals, licenses and permits are granted upon satisfactory compliance with, among other things, the applicable laws and regulations in relation to food safety, hygiene, environmental protection and fire safety. These approvals, licenses and permits are subject to examinations or verifications by relevant authorities and are valid only for a fixed period of time subject to renewal and accreditation. Complying with government regulations may require substantial expenses, and any non-compliance may expose us to liability. In case of any non-compliance, we may have to incur significant expenses and divert substantial management time and resources to resolving any deficiencies. Although pursuant to our franchise arrangements, our franchisees are responsible for obtaining and maintaining requisite license and permits for their franchised stores, any no-compliance may cause a temporarily close to the relevant retail store until it satisfies all legal and regulatory requirements, which may in turn adversely affect the operations and results of operations. We and our franchisees are experiencing difficulties, delays or failures in obtaining the necessary approvals, licenses and permits for new stores or other operations. We may also experience negative publicity arising from such deficiencies, which may materially and adversely affect our reputation, business and financial performance. In addition, there can be no assurance that we or our franchisees will be able to obtain or renew all of the approvals, licenses and permits required for existing stores and business operations in a timely manner, if at all. If any of these occurs, our ongoing business could be interrupted and our expansion plan may be delayed.

IT system failures or breaches of our network security could interrupt our operations and adversely affect our business.

Our business relies on the proper functioning of our IT systems. We rely on our advanced IT systems and network infrastructure, which seamlessly integrate Pagoda ERP, store-level POS system and other operational sectors, to enable us to quickly and efficiently retrieve, process and analyze our operational and financial data and information, including procurement, inventory, logistics and sales, on a daily basis. We also leverage the store-level POS system to monitor the daily operations of our retail store network. We use our Pagoda ERP system to process the purchase orders requested from the retail stores on a daily basis, make logistics arrangements and financial settlement, which in turn, facilitates us to analyze and manage our inventory control and procurement plans. As such, any damage or failure of our IT systems or network infrastructure that causes an interruption to our operations could have a material and adverse effect on our business and results of operations. We also need to constantly upgrade and improve our IT systems to keep up with the continuous growth of our operations and business. Although we did not experience any material IT system breakdown during the Track Record Period, we cannot assure you that our IT systems will always operate without interruption in the future.

Moreover, our business generates and processes a large quantity of personal, behavioral, transaction and demographic data. We face risks inherent in handling and protecting large volumes of data, especially consumer data. We cannot guarantee that the information security measures we currently maintain are adequate or that our IT systems can withstand intrusions from or prevent improper usage by third parties. We utilize our IT systems to collect and archive information of members of our membership program and we receive and maintain certain personal information about our consumers when accepting credit cards or prepaid cards for payment or accepting orders through online channels. If our network security is compromised and such information is stolen or obtained by unauthorized persons or used inappropriately, we may subject to negative publicity and lose consumers as a result of a loss of their confidence in us, and may also become subject to litigations or other proceedings brought by relevant consumers and financial institutions. Any such proceedings could divert management attention and our other resources from our business and cause us to incur significant unplanned losses and expenses. Consumer perception of our brand could also be negatively affected by these events, which could further adversely affect our business and results of operations. In addition, PRC government has been implementing more stringent regulations and policies relating to data collection, storage, transfer, disclosure and privacy protection, which may subject us to additional potential risks and further increase our compliance costs by enhancing our IT systems or improving our information security measures.

In addition, we may not always be successful in developing, installing, running or implementing new software or advanced IT systems that are suitable for our business development. Even if we are successful in this regard, significant capital expenditure may be required, and we may not be able to benefit from the investment immediately. All of these may have a material adverse impact on our profitability.

If our relationships with various third-party online platforms are interrupted or discontinued, our business and results of operations may materially and adversely be affected.

As a part of our OMO strategy, we cooperate with various third-party online platforms, including leading social commerce platforms, e-commerce marketplaces and food delivery platforms. In addition to contributing revenue directly, more importantly, these online channels enable us to reach, acquire and interact with consumers, and engage innovative online marketing and branding campaigns. For example, currently, under our supervision, our retail store managers operated an aggregate over 49,800 store-based WeChat groups to engage real-time communication and transact with over 8.5 million WeChat community followers. These accounts release appealing and engaging contents to promote our products and member activities from time to time. We also collaborate with influencers and key opinion leaders (KOLs) on social commerce platforms, such as Douyin, and adopt new forms of marketing approaches, such as live streaming and short-form videos featuring our brands and products, to reach a broader potential consumer base, engage interactions with targeted consumers, and enhance brand recognition. If we fail to establish our presence on more online channels, or if we are not able to renew our cooperative relationships with the existing online channels in a timely manner, on reasonable commercial terms or at all, our competitiveness of acquiring online consumers at a relatively low cost may be compromised, and our online sales and brand visibility may be adversely affected. If our cooperation with the online channels are discontinued, our fresh grocery strategy may fail, which in turn, may materially and adversely affect our long-term development plans.

We may incur significant costs in connection with our branding and marketing efforts, and some marketing campaigns may not be effective in attracting or retaining consumers.

We continuously invest in our brands to further raise brand recognition and acceptance and engage in various marketing campaigns to promote our products. We rely on different marketing efforts tailored for our target consumer groups to increase brand awareness and boost our sales. We market our brands and products across a wide variety of media, ranging from traditional to new media channels, such as content marketing on WeChat, video marketing through short-form videos and live streaming. We also participate in trade fairs and exhibitions to demonstrate our brands and products on one hand, and to explore relationship with potential suppliers, business partners and consumers on the other. Moreover, as we continue to build up our online platforms, we expect our marketing expenses relating to cooperation with online channels to continue to increase. For the years ended December 31, 2019, 2020 and 2021, our selling expenses amounted to RMB344.9 million, RMB394.6 million and RMB451.7 million, respectively, representing approximately 3.8%, 4.5% and 4.4%, respectively, of total revenue over the same periods. For the six months ended June 30, 2021 and 2022, our selling expenses amounted to RMB220.6 million and RMB246.2 million, respectively, representing approximately 4.0% and 4.2% of total revenue over the same periods, respectively. However, we cannot guarantee that our marketing efforts will be well-received by consumers and result in higher levels of sales. In addition, marketing trends and approaches in the consumer products market in China are evolving, which requires us to enhance our marketing approaches and experiment with new marketing methods to keep pace with industry developments and consumer preferences. Failure to refine our marketing approaches or to adopt new, more cost-effective marketing techniques could negatively affect our business, growth prospects and results of operations.

We may be subject to penalties from the PBOC or adverse judicial rulings as a result of our financial support.

During the Track Record Period, we from time to time provide financial support to our franchisees, some of which being corporate entities, to ease their temporary capital needs.

In particular, we provided financial support to certain franchisees subject to our franchise arrangements during the Track Record Period. Prior to 2019, we provided interest-free loans to franchisees to support their initial store opening and ongoing store operation. As of December 31, 2019, 2020 and 2021 and June 30, 2022, the outstanding balance of the interest-free loans accounted under other receivables amounted to RMB14.0 million, nil, nil and nil, respectively, extended to 64, nil, nil and nil franchisees for their 236, nil, nil and nil franchised stores, respectively, as of the same dates. Since 2019, we renewed our financial support arrangements under the franchise arrangements and commenced to extend interest-bearing loans to franchisee applicants in connection with new franchised stores. As of December 31, 2019, 2020 and 2021 and June 30, 2022, the outstanding balance of the interest-bearing loans accounted under other receivables amounted to RMB50.2 million, RMB131.6 million, RMB179.0 million and RMB190.8 million, respectively, extended to 196, 200, 309 and 421 franchisees for their 512, 621, 815 and 971 franchised stores, respectively, as of the same dates. In addition, we also provided factoring financing to our regional dealers. As of December 31, 2019, 2020 and 2021 and June 30, 2022, the aggregate outstanding factoring amounts under these arrangements were RMB148.0 million, RMB179.8 million, RMB221.5 million and RMB169.5 million, respectively, involving 10, 12, 13 and 13 regional dealers, respectively. Such outstanding factoring amounts were accounted for as other receivables in the relevant period. Please refer to "Business — Fruit Specialty Retail Operator with OMO and Store-as-Warehouse Features — Offline Retail Store Network — Franchised Stores — Financial support provided to franchisees" and to "Business — Fruit Specialty Retail Operator with OMO and Store-as-Warehouse Features — Offline Retail Store Network — Regional Dealers — Financial support provided to regional dealers" for more details about such arrangements.

According to the General Lending Provisions (《貸款通則》) (the "**General Provisions**"), promulgated by the PBOC, only financial institutions may legally engage in the business of extending loans, and loans between companies that are not financial institutions are prohibited. The PBOC may impose a fine of one to five times of the income generated (being interests charged) from the loan advancing activities between enterprises. Based on the aggregate interests we received from the interest-bearing loans extended to franchisees, certain associates and selected third parties that are private companies during the Track Record Period, the amount of maximum fine will be approximately RMB7.4 million pursuant to the General Lending Provisions. However, according to the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) (the "**Private Lending Provisions**"), which became effective on September 1, 2015 and was revised on August 20, 2020, loan agreements among legal persons or among non-legal persons or among legal persons and non-legal persons are valid if extended for the purpose of financing production or business operations except for the circumstances stipulated in Article 146, Article 153, Article 154 of the Civil Code and Article 13 of the Provision, the People's Court shall support the claim of the parties that the civil loan contract is valid. The lender requests the borrower to pay interest at the contracted rate. The People's Court shall support the request of the lender that the borrower pays interest at the contracted rate, except when the interest rate agreed between the parties exceeds four times the quoted market rate for a one-year loan at the time of the contract formation.

Considering that (i) lending is not our primary business and the financial supports we provide to third parties are for the purpose of sustainable development of these business partners in our value chain, rather than for the purpose of collecting interests, (ii) the interest rates did not exceed the rate provided by the Judicial Interpretations on Private Lending Cases, and (iii) the financial support arrangements were available to our franchisees, certain associates and selected third parties who were fruit retail industry participants, mainly fruit suppliers, which we considered strategically cooperating with, instead of providing to any third party, our financial support arrangements with such third parties do not constitute the circumstances as provided by Article 146, Article 153, Article 154 of the Civil Code and Article 13 of the Provision. In addition, based on the interview conducted with the Shenzhen Branch of the PBOC, it only regulates the loans extended by financial institutions and it does not regulate nor impose punishment on any loans among enterprises or among enterprises and individuals. Instead, the validity of such loans among enterprises or among enterprises and individuals shall be determined by the PRC courts. Therefore, our PRC Legal Adviser is of the opinion that based on the Private Lending Provisions and the interview with the relevant government authority, the arrangements with respect to our loans provided to franchisees and certain other third parties are legally binding.

As of the Latest Practicable Date, we had not been subject to any administrative penalties, investigations, enforcement actions or received any notice from any regulatory authority with respect to any administrative penalties, investigations or enforcement actions as a result of our provision of the loans described above. Our PRC Legal Adviser is of the view that the risk of us being penalized based on the General Lending Provisions is remote, and our financial support does not constitute material non-compliance of any applicable laws and regulations in material aspects on the basis that (i) according to our intermediary's interviews with the Shenzhen Central Branch of the People's Bank of China, it does not penalize inter-enterprise lending or enterprise lending to individuals; and (ii) according to the Private Lending Provisions, such contracts are valid and are legally binding. However, the final determination of the relevant regulatory authorities could be different, and we may be subject to penalties from the PBOC or adverse judicial rulings as a result of our provision of loan financings to related parties or any third parties during the Track Record Period. Any of these penalties or adverse judicial rulings could have a material adverse effect on our business, financial position and results of operations.

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.

Our business generates and processes a large quantity of personal data as well as consumer profiles. We face risks inherent to handling and protecting a large volume of data, especially consumers' personal data. In particular, we face a number of challenges relating to data security and privacy, including but not limited to:

- protecting the data in and hosted on our system, including against attacks on our system by outside parties, data leakage or fraudulent behavior or improper use by our employees or business partners;

- addressing concerns, challenges, negative publicity and litigation related to data security and privacy, collection, use and actual or perceived sharing (including sharing among our own businesses, with business partners or regulators), safety, security and other factors that may arise from our existing businesses or new businesses or new technologies; and

- complying with applicable laws and regulations relating to the collection, use, storage, transfer, disclosure and security of personal data, including requests from data subjects and compliance requirements in accordance with applicable laws and regulations.

We have adopted internal guidelines for the protection of personal data of our members, and to ensure our Group's compliance with relevant PRC laws and regulations with respect to privacy and personal data protection. Nevertheless, the efforts that we take to protect our members' personal information may not always be sufficient or effective. Any improper handling of our consumers' personal information as a result of any misconduct by our employees or any information leakage due to external factors, such as unauthorized access to our consumers' database by hackers, could result in civil or regulatory liabilities which may subject us to significant legal, financial and operational consequences. During the Track Record Period, we have been warned and ordered to make corrections after being identified as having system security vulnerabilities and information leakage hazards during several exercises and evaluations conducted by the public information network security inspection department of the local public security bureau. We were warned and ordered to make corrections, including a fine of RMB10,000 on one occasion. As of the Latest Practicable Date, we had rectified our system failures and fully paid the fines. We believe these administrative penalties do not have any material and adverse impact on our business and financial performance.

We are subject to laws and regulations relating to the collection, storage, use, processing, transmission, retention, security and transfer of personal information and other data. For example, recent legal developments in mainland China have created compliance uncertainty regarding certain transfers of personal information and other data. On June 10, 2021, the SCNPC promulgated the Data Security Law of the PRC (《中華人民共和國數據安全法》), which came into effect on September 1, 2021. The Data Security Law imposes certain data security and privacy obligations on entities and individuals carrying out data activities, like us, and prohibit any PRC individual and entity from providing data stored within the PRC for foreign judicial or law enforcement authorities without approval by competent authorities in the PRC. Further, the Personal Information Protection Law (《個人信息保護法》) was passed by SCNPC on August 20, 2021 and came into effect on November 1, 2021. The law applies to all activities conducted in our establishments within the PRC or related to services that we offer to natural persons within the territory of the PRC. It creates a range of new compliance obligations, which could cause us to change our business practices, and may impose substantial penalties for non-compliance.

Further, on January 4, 2022, the CAC published the Revised CAC Measures on its website, which became effective 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. However, the Revised CAC Measures provides no further explanation or interpretation for "list abroad." As of the Latest Practicable Date, we had not received any notification from relevant government authorities that we will or may be recognized as a critical information infrastructure operator.

On November 14, 2021, the CAC published the Draft Cyber Data Security Regulations, which applies to activities relating to the use of networks to carry out data processing activities within the territory of the PRC. Our Special PRC Legal Adviser advises that the Draft Cyber Data Security Regulations are applicable to the data processing activities of certain of our subsidiaries in the PRC, if the draft regulations were to be implemented in their current form. It stipulates that a data processor who processes more than one million persons' personal information aiming to list abroad or a data processor who seeks to complete a listing in Hong Kong which affects or may affect national security is required to apply for cybersecurity review pursuant to relevant rules and regulations. However, the Draft Cyber Data Security Regulations does not provide the standard to determine the circumstances that would be determined to "affect or may affect national security."

As of the Latest Practicable Date, we had not been subject to any material administrative penalties, mandatory rectifications, or other sanctions by any competent regulatory authorities in relation to cybersecurity and data protection, nor had there been material cybersecurity and data protection incidents or infringement upon any third parties, or other legal proceedings, administrative or governmental proceedings, pending or, to the best of our knowledge, threatened against or relating to us. If the Draft Cyber Data Security Regulations was to be implemented in their current form, based on the foregoing and a detailed analysis of their provisions by our Special PRC Legal Adviser, we and our Special PRC Legal Adviser do not foresee any impediment for us to comply with the Revised CAC Measures and the Draft Cyber Data Security Regulations in any material aspect, given that as disclosed in "Business — Data Privacy and Data Protection" of this document, we have implemented a comprehensive set of 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, if any, and we will adjust and enhance our data practices in a timely manner to ensure compliance once the regulations come into effect.

The interpretation and application of laws, regulations and standards on data protection and privacy are still uncertain and evolving. We cannot assure you that our data privacy and protection measures are, and will be, always considered sufficient under applicable laws and regulations. Nor can we assure you that the governmental authorities will not interpret or implement the laws or regulations in ways that negatively affect us. We may be subject to investigations and inspections by government authorities regarding our compliance with laws and regulations on data privacy, and we cannot assure you that our practices will always fully comply with all applicable rules and regulatory requirements. In addition, laws, regulations and standards on data protection and privacy continue to develop and may vary from jurisdiction to jurisdiction. Complying with emerging and changing international requirements may cause us to incur substantial costs or require us to change our business practices. Additionally, the integrity of our data privacy and protection measures is also subject to risks of systemic failure, interruption, inadequacy, security breaches or cyber-attacks. If we are unable to comply with the then applicable laws and regulations, or to address any data privacy and protection concerns, such actual or alleged failures could damage our reputation, impact our ability to manage digital operations and could subject us to significant legal, financial and operational consequences.

We may not be able to adequately protect our intellectual property, which could adversely affect our business and operations.

We rely on a combination of trademarks, copyrights, trade secrets and other intellectual property laws as well as confidentiality agreements with our senior management team, research and development team members, and franchisees to protect our trademarks, copyrights, trade secrets and other intellectual property rights. Details of our intellectual property rights are set out in "Business — Intellectual Property" and "Appendix VI — Statutory and General Information — B. Further Information about our Business — 2. Intellectual Property Rights of the Group." In particular, we have accumulated a variety of trade secrets and know-hows in connection with fruit quality classification and standardization, cultivation and post-harvest techniques, as well as quality control procedures and protocols. Such trade secrets and know-hows are one of our key competitive advantages that is extremely valuable for us to attain our current leading market position. However, such trade secrets and know-hows are usually not patented, either because they do not meet the patentability criteria or because we intentionally do not apply for patent registration to avoid the possibility of disclosing material information to the public in complying with the patent registration procedures. The level of protection available to trade secrets and know-hows is generally weaker than that of registered patents in the PRC. As such, we cannot assure you that our current protection measures are adequately to prevent third parties from accessing and using our trade secrets and know-hows without authorization. It is also likely that other third parties may develop the same or similar trade secrets and know-hows and seek for protection from patent registrations in the PRC. Under such circumstances, our ability to continue to adopt such intellectual property rights may be materially limited.

We have registered the Chinese and English characters as well as the logos of our Pagoda trademarks under several classes in China that most related to our core business operations. We have also registered a number of other trademarks covering our existing and potential product and channel brands, and there are a number of pending trademark registrations in China. However, we are not required, nor do we intend, to register our trademarks under all classes. For example, historically, we were sued by a third party who claimed that our use of Pagoda has infringed on its trademark that is registered under a different class. The case was fully dismissed by the relevant people's court and we had obtained the court decision in our favor. However, we cannot assure that we will not be involved in similar disputes, lawsuits or other legal proceedings that are brought by third parties for trademark or other intellectual property infringement in the future. We may have to incur significant expenses and divert substantial management time and resources to respond to those cases. Such legal proceedings may materially and adversely affect our brands and damage our brand value, regardless of their merits.

As of the Latest Practicable Date, we were not aware of any material violations or infringements of our trademarks, copyrights, trade secrets or any other intellectual property rights.

We cannot ensure that third parties will not infringe our intellectual property rights. We may, from time to time, have to initiate litigations, arbitrations or other legal proceedings to protect our intellectual property rights. Regardless of the judgment, these proceedings would be lengthy and costly, would divert the management's time and attention, and would seriously harm our business, financial conditions and results of operations.

On the other hand, we may be likely to encounter claims of infringement that interfere with our use of trade secrets and other intellectual property rights. Defending against such claims could be costly, and if we are unsuccessful in defending such claims, we may be prohibited from continuing to use such proprietary information in the future, or may be compelled to pay damages, royalties or other expenses for the use of such proprietary information. Any of the above could negatively affect our sales, profitability, operations and prospects.

Our success depends on the continuing efforts of our senior management team and industry experts and our business may be harmed if their services discontinue.

Our success has been, and will continue to be, dependent on our ability to recruit and retain visionary and skillful senior management. The expertise, industry experience and contributions of our senior management are crucial to our long-term development. If any member of our senior management is unable or unwilling to continue in present position, we may not be able to find a replacement in a timely manner or at all. As a result, our business may be disrupted, our management quality may deteriorate and our results of operations may be materially and adversely affected. In addition, if any member of our senior management team joins a competitor or forms a competing business, we may lose trade secrets and business know-how as a result. Moreover, our ability to constantly cultivate, source and sell high-quality fruits is partially attributable to a number of industry experts and skilled employees who are familiar with and adept at our quality standards and processing technologies.

Competition for experienced management and experts in our industry is intense, and the pool of qualified candidates is limited. We may not be able to retain the services of these personnel or attract and retain additional high-quality senior executives and experts at a reasonable cost, and our business and results of operations may be materially and adversely affected.

We may be required to make additional social security and housing fund contributions, as well as pay late contributions and fines imposed by the relevant government authorities.

In accordance with the Social Insurance Law of the People's Republic of China and the Housing Provident Fund Management Ordinance, we are required to make social insurance and housing provident fund contributions to our employees. Our PRC subsidiaries did not make full social insurance premiums and housing fund contributions (collectively, the "**Defined Contribution Plans**"). As of December 31, 2019, 2020, and 2021 and June 30, 2022, our total salary compensation (i.e. total employee benefits less benefits and allowances and defined contribution plans) was RMB463.8 million, RMB483.2 million, RMB593.9 million and RMB303.1 million, respectively. During the same periods, the percentages of total salary compensation for the Defined Contribution Plan that we incurred were approximately 11.1%, 8.5%, 9.1% and 11.3%, respectively. In this regard, we made provisions of approximately RMB24.5 million, RMB13.8 million, RMB12.8 million and RMB5.9 million in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. We are not aware of any complaints or requests from employees in regard to the payment of such contributions. Our PRC Legal Adviser is of the view that we may be required to pay the unpaid social insurance premiums and an overdue payment for the unpaid amount at the rate of 0.05% per day. If we fail to pay the outstanding social insurance contributions within the specified period, we may be subject to a fine of one to three times the amount of the outstanding social insurance contributions. If we do not pay or underpay the housing provident fund, the housing provident fund management centers shall order us to pay within a certain period. If we still do not pay, the centers can apply for a compulsory enforcement from the People's Court.

In addition, during the Track Record Period, certain PRC subsidiaries of us engaged a third-party human resource agency to pay social insurance premium and housing provident funds for certain of our employees. For details, see "Business — Non-compliance." As of the Latest Practicable Date, our relevant PRC subsidiaries had not received any administrative penalty or labor arbitration application from employees for its arrangement with the third-party human resource agency. We have taken remedial measures to rectify such non-compliance incidents. However, we cannot assure you that the relevant competent government authority will not be of the view that this third-party agency arrangement does not satisfy the requirements under the relevant PRC laws and regulations, nor can we assure you that the authority will not impose fees, pecuniary penalties or other administrative actions on us for our such non-compliance. Pursuant to the agreements entered into between the third-party human resource agency and our relevant subsidiaries, the third-party human resource agency has the obligation to pay social insurance premium and housing provident funds for our relevant employees. As of the Latest Practicable Date, based on the confirmations obtained from the agency, the third-party human resource agency that our relevant subsidiaries cooperate with did not fail to pay, or delay in paying, any social insurance premium or housing provident fund contributions for our employees. However, if the human resource agency fails to pay the social insurance premium or housing provident fund contributions for and on behalf of our employees as it agreed or if such arrangements are challenged by government authorities, we may be ordered to rectify such failures or be subject to penalties. We confirm with the third-party human resource agency about the payment status on a monthly basis. Therefore, we believe the outstanding payment, if any, would be identified and rectified within the month. Based on the amount of the social insurance premium for employees we instructed the third-party human resource agency to pay in the latest month (i.e. October 2022), if the third-party human resource agency fails to pay the social insurance premium for employees in that month and we fail to make the payment within the prescribed time limit, the maximum fine imposed on us would be RMB10 million. As a result of any of the above, our financial condition and results of operations may be adversely affected.

Please refer to "Business — Non-Compliance" for further details.

We have limited insurance to cover our potential losses and claims.

We maintained limited statutory insurance, which we believe is customary for businesses of our size and type and in line with the standard commercial practice in our industry. See "Business — Insurance" for more details on our insurance policies. If we were held liable for uninsured losses, our business and results of operations might be materially and adversely affected.

In addition, we are not insured against product liability or business interruptions resulting from natural disasters such as droughts, floods, earthquakes or severe weather conditions, any suspension or cessation in the supply of utilities or other calamities. Any liability claim for damages relating to our products, interruption to our operations, and the resulting losses or damages, could materially and adversely affect our business, results of operations and financial condition.

Our success depends on our ability to remain competitive in the industry.

The industry we operate in is intensely competitive with respect to, among other things, brand recognition, consistent fruit quality, services, prices and store locations. Our competitors include a variety of independent local operators, in addition to regional, national and international fruit distributors at different levels. We are also facing increasing pressure from online vegetarian fresh food platforms. Furthermore, new competitors may emerge from time to time, which may further intensify the competition. In particular, market players initially in other food sectors may start to offer fruits that imposes direct competition against us. There are also many well-established competitors with substantially greater financial, marketing, personnel and other resources than ours, and several of our competitors are well established in certain regional markets where we currently have stores or intend to open stores.

Our ability to effectively compete will depend on various factors, including the successful implementation of our retail store network expansion strategy, and our ability to continuously source high-quality fruits, to expand product portfolio, and to enhance our operational efficiency. Failure to successfully compete may prevent us from increasing or sustaining our revenue and profitability and potentially lead to a loss of market share, which could have a material and adverse effect on our business, financial condition, results of operations and cash flows.

We rely on third-party logistics companies to fulfill our delivery needs.

We currently engage third-party logistics companies to fulfill our busy daily delivery needs from our distribution centers to retail stores across the country. Disputes with or a termination of our contractual relationships with one or more of our logistics companies could result in delayed delivery of products or increased costs. There can be no assurance that we can continue or extend relationships with our current logistics companies on terms acceptable to us, or that we will be able to establish relationships with new logistics companies to ensure accurate, timely and cost-efficient delivery services. If we are unable to maintain or develop good relationships with logistics companies or to engage additional logistic services to expand the coverage to cities where the retail stores are located, or planned to be located, it may inhibit our ability to offer products in sufficient quantities, on a timely basis.

In addition, as we do not have control over these logistics companies, we cannot guarantee their quality of services. If there is any delay in delivery, damage to products or any other issue, our sales and brand image may be affected. Due to the nature of our products, we require our logistic service providers to comply with a comprehensive set of technical protocols with respect to temperature, humidity, hygiene and physical conditions for fruits in transit. However, we may not be able to effectively and timely identify any non-compliance of these logistic service providers. As such, if there is any material non-compliance of our technical protocols which causes damage to our products, our business, financial condition and results of operations may be materially and adversely affected.

We recognized a certain scale of goodwill and intangible assets during the Track Record Period. If we determine our goodwill and/or intangible assets to be impaired, it would adversely affect our financial condition and results of operations.

Our goodwill amounted to approximately RMB170.0 million, RMB170.5 million, RMB170.5 million and RMB170.5 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. The goodwill primarily arose from our acquisitions of 100% equity interests in Shenzhen Yimiaotong and Haiyang Jinchengtai in 2018 and 2019, respectively. Such goodwill recorded reflected the excess of the total acquisition consideration in the acquired companies over the total fair value of identifiable net assets of the companies we acquired. We also recorded intangible assets of RMB76.6 million, RMB81.5 million, RMB77.3 million and RMB70.9 million as of December 31, 2019, 2020 and 2021, and June 30, 2022, respectively, which mainly represented trademark, software and customer relationship. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate potential impairment. Intangible assets that have a useful life are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We did not recognize impairment losses in respect of goodwill or intangible assets during the Track Record Period. For details on the impairment assessment methods for our intangible assets and goodwill, see Notes 2.9 and 2.10 to Appendix I to this document.

In evaluating the potential for impairment of goodwill, our management makes a number of assumptions, such as the continuity of the acquired businesses, their future operating performance, business trends, and market and economic conditions. This requires us to make subjective assumptions, and there are inherent uncertainties relating to this analysis and our management's judgment in assessing the recoverability of the goodwill. If any of the assumptions does not materialize, or if the performance of the acquired business is not consistent with such assumptions, we may be required to write-off part or all of our goodwill and record an impairment loss. On the other hand, adverse changes in the future may result in decreases in the value of our intangible assets, which in turn would result in an impairment loss. We also make certain assumptions when assessing the value of our intangible assets, including assumptions on their useful life. There are inherent uncertainties relating to these assumptions. We cannot assure you that our assumptions will prove to be correct. Any such change in our assumptions may require us to re-value our intangible assets, which may in turn result in impairment losses. Any significant impairment of goodwill or intangible assets could substantially affect our reported earnings in the periods when recognized. In addition, impairment charges would negatively affect our financial ratios which may limit our ability to obtain external financings.

Our operations are subject to the risks associated with acquisitions and investments in associates and joint ventures.

From time to time we review opportunities for strategic growth through acquisitions and majority equity investments. We have also pursued and may in the future pursue strategic growth through investments in associates. We may seek opportunities in additional businesses, product categories or channel brands that complement our existing businesses and expand our business scale. The integration of new businesses, product categories or channel brands may prove to be an expensive and time-consuming procedure. We can offer no assurance that we will be able to successfully integrate the newly acquired businesses, product categories or channel brands or operate the acquired businesses in a profitable manner.

Moreover, the performance of these associates and joint ventures has affected, and will continue to affect, our financial performance. For example, some of our newly invested businesses may have lower or negative margins, and are in the early stages of exploring, establishing and optimizing their business models. As such, we may incur share of losses of associates and joint ventures. During the Track Record Period, in 2019 and 2020, we recorded share of losses of associates and joint ventures, net in the amount of RMB7.5 million and RMB9.8 million, respectively. We recorded share of profit of associates and joints ventures, net in the amount of RMB16.5 million and RMB9.4 million, for the year ended December 31, 2021 and six months ended June 30, 2022, respectively. In addition, during the year ended December 31, 2020, we also recorded loss on impairment of an associate of RMB26.4 million related to our investments in Younongdao. If the associates and joint ventures do not perform as expected or do not generate sufficient profit in any financial period, our return on interests in the associates and joint ventures, and our financial condition or results of operations, could be materially and adversely affected. We are also subject to the risk that the associates and joint ventures may make business, financial or management decisions with which we do not agree, and over which we do not have control, or the management, of the associates and joint ventures may take risks or otherwise act in a manner that does not serve our interests. In particular, the carrying value of our investment in associates and joint ventures may be affected by a number of factors such as share of results, impairment, dilution, issuance of equity securities, and currency translation differences. Any of those above may adversely affect our business and results of operations.

On the other hand, our investments in a large number of associates and joint ventures may subject us to liquidity risks as we may be required to fulfil capital injections as agreed subject to the capital needs and financial performance of these associates and joint ventures. Even if profits of these associates and joint ventures are recognized, we may not immediately receive any final remittance of surplus funds, which are typically in the form of dividend distribution. Dividend distribution of these entities is generally subject to various requirements of applicable laws and regulations and the relevant entity's articles of association. As such, our consolidated financial performance is expected to continue to be subject to fluctuations in future periods in conjunction with our investments in associates and joint ventures and their performance.

These acquisitions and investments may involve large transactions or realignment of existing investments. These transactions present financial, managerial and operational challenges, including but not limited to:

- diversion of management attention from managing our existing business;
- difficulty with integrating businesses, operations, personnel, financial, data information and other systems;
- lack of experience and source in operating in the geographical or product markets of the acquired business;
- increased levels of debt potentially leading to associated reduction in ratings of our debt securities and adversely impacting our various financial ratios;
- assumption of and exposure to unknown or contingent liabilities of the acquired businesses;
- potential loss of or disputes with key employees and consumers of the acquired business;
- failure to achieve agreements with respect to common business goals and strategies with, and cooperation of, our joint venture partners; and
- the requirement that we periodically review the value at which we carry our investments in joint ventures and associates and, in the event we determine that the value at which we carry such investments has been impaired, the requirement to record a non-cash impairment charge, which could substantially affect our reported earnings in the period of the charge, would negatively impact our financial ratios and could limit our ability to obtain financing in the future.

Our results of operations, financial condition and prospects may fluctuate subject to the changes in fair value of our financial assets at fair value through other comprehensive income ("financial assets at FVOCI") and our financial assets at fair value through profit or loss ("financial assets at FVTPL") (other than structured deposits) due to the uncertainty of accounting estimates in the fair value measurement and use of significant unobservable inputs in the valuation techniques.

During the Track Record Period, apart from structured deposits, we also made equity and other forms of investments in high-quality and promising companies from time to time. For these investments, we recognized fair value gains on financial assets at FVTPL of RMB1.7 million in 2019 and fair value loss of RMB12.5 million and RMB10.1 million in 2020 and 2021, respectively. Fair value loss on financial assets at FVTPL with respect to equity investments amounted to RMB1.0 million for the six months ended June 30, 2022. As of December 31, 2019, 2020 and 2021 and June 30, 2022, such financial assets at FVTPL amounted to RMB79.7 million, RMB75.2 million, RMB82.3 million and RMB81.3 million, respectively. During the same period, we recognized fair value gains on financial assets at FVOCI of RMB38.4 million, RMB9.6 million in 2019 and 2020, respectively, and we recognized fair value loss on financial assets at FVOCI of RMB49.4 million in 2021. We recorded fair value loss on financial assets at FVOCI of RMB0.8 million for the six months ended June 30, 2022. As of December 31, 2019, 2020 and 2021 and June 30, 2022, our financial assets at FVOCI amounted to RMB76.3 million, RMB65.4 million, RMB10.9 million and RMB20.4 million.

Our financial assets at FVTPL and financial assets at FVOCI are measured at fair value with significant unobservable inputs used in the valuation techniques and the changes in their fair value are recorded in our consolidated income statements and consolidated statements of comprehensive income, therefore directly affecting our results of operations. There is no assurance that we will not incur such similar fair value losses in the future. If we incur significant fair value losses, our results of operations, financial condition and prospects may be adversely affected.

We are exposed to risks in relation to investment in structured deposits.

During the Track Record Period, as part of our cash management, we invested in various structured deposits from time to time. As of December 31, 2019, 2020 and 2021 and June 30, 2022, the financial products we invested in were structured deposits measured at fair value through profit or loss. The balance of which amounted to RMB765.8 million, RMB414.7 million, RMB1,040.0 million and RMB230.0 million, respectively. In 2019, 2020 and 2021 and the six months ended June 30, 2022, our fair value gains from such wealth management products amounted to RMB44.7 million, RMB23.0 million, RMB19.4 million and RMB13.1 million, respectively. In the future, when we consider that we have sufficient cash and potentially considerable investment returns, we will continue to invest in such and other structured deposits. We have established certain internal control procedures to mitigate the risks associated with such investments, but there is no assurance that such procedures will be effective and adequate. We could not assure you that we will not be exposed to losses on such investments in the future, nor could we assure you that such losses or other potential negative impacts would not have any material and adverse effect on our business and financial conditions.

Financial performance of our Group during the Track Record Period was affected by certain non-recurring items.

The financial results of our Group during the Track Record Period were affected by certain non-recurring items. For example, we recorded compensation income from warehouse relocation in the amount of RMB19.7 million in 2019, representing a one-time compensation payment from the landlord of our previous preliminary processing and distribution center located in Shanghai, which was vacated by the local government for municipal renovation. We did not record such income in the periods following 2019. In addition, we received government grants in the amount of RMB17.3 million, RMB14.8 million, RMB7.2 million and RMB16.3 million in the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022. We are typically required to meet certain requirements or standards to be qualified to receive such government grants and the timing and amount of each grant, if any, are out of our control. Since these events are non-recurring in nature, we cannot assure you that we may record such other income in future periods and our financial performance may be adversely affected.

We may require additional funding to finance our operations, which may not be available on terms acceptable to us or at all, and if we are able to raise funds, the value of your* [REDACTED] *in us may be negatively impacted.

We believe that our current cash and cash equivalents and the anticipated cash flows from operations will be sufficient to meet our anticipated cash needs for the next 12 months. We may, however, require additional cash resources to finance our continued growth or other future developments, including any investments or acquisitions we may decide to pursue. To the extent that our funding requirements exceed our financial resources, we will be required to seek additional financing or to defer planned expenditures. There can be no assurance that we can obtain additional funds on terms acceptable to us, or at all.

In addition, our ability to raise additional funds in the future is subject to a variety of uncertainties, including but not limited to our future financial condition, results of operations and cash flows, general market conditions for capital raising and debt financing activities, and economic, political and other conditions in China and elsewhere.

Furthermore, if we raise additional funds through equity or equity-linked financings, your equity interest in our Company may be diluted. Alternatively, if we raise additional funds by incurring debt obligations, we may be subject to various covenants under the relevant debt instruments that may, among other things, restrict our ability to pay dividends or obtain additional financing. Servicing such debt obligations could also be burdensome to our operations. If we fail to service such debt obligations or are unable to comply with any of these covenants, we could be in default under such debt obligations and our liquidity and financial condition could be adversely affected.

We may be involved in legal and other disputes from time to time arising out of our operations, including any disputes with our suppliers, customers, employees, landlords, business partners or other third parties, and may face significant liabilities as a result.

We have during the Track Record Period been and may from time to time be involved in disputes with various parties arising out of our operations, including fruit and equipment suppliers, customers, employees, landlords, business partners, or other third parties. These disputes may lead to arbitrations, legal or other proceedings and may result in damages to our reputation, substantial costs to our operations, and diversion of our management's attention. In addition, we may disagree with regulatory bodies in certain respects in the course of our operations, which may subject us to administrative proceedings and unfavorable decrees that result in liabilities or otherwise cause interruption to our operations. We believe that none of the current legal proceedings or claims will have a material adverse impact on us. For more details, refer to "Business — Legal Proceedings." However, we cannot assure you that we will not be involved in any major legal proceedings in the future. Any involvement in these disputes may materially and adversely affect our business, financial condition and results of operations.

Risks Relating to Doing Business in the PRC

Changes in PRC economic, political and social conditions, as well as government policies, laws and regulations, could have a material and adverse effect on our business, financial condition, results of operations and prospects.

All of our business assets are located in the PRC and almost all of our sales are currently derived from the PRC. Accordingly, our results, financial position and prospects are subject, to a significant degree, to the economic, political and legal developments of the PRC. Political and economic policies of the PRC government could affect our business and financial performance and may result in our being unable to sustain our growth.

In recent years, the PRC government implemented a series of laws, regulations and policies which imposed stricter standards with respect to, among other things, quality and safety control, and supervision, Cybersecurity and data security. See "Regulatory Overview" for more details. If the PRC government continues to impose stricter regulations on our industry, we could face higher costs in order to comply with those regulations, which may impact our profitability. In addition, from time to time, the central and local governments in the PRC may introduce various new laws, regulations and policies or further amend existing laws, regulations and policies. If such laws, regulations and policies relate to industries such as food sales and factoring business, our relevant business operations may be affected and we may need to adjust our business in accordance with the new or amended laws, regulations and policies.

The economy of the PRC differs from the economies of most developed countries in a number of respects, including the extent of government involvement, level of development, growth rate, and control of foreign exchange. China has been reforming the PRC economic system, and has also begun reforming the government structure in recent years. Although these reforms have resulted in significant economic growth and social progress, we cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on our future business, results or financial condition. Moreover, the PRC government continues to play a significant role in regulating industrial development. It also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policies and providing preferential treatments to particular industries or companies. All of these factors could affect the economic conditions in China and, in turn, our industry and our Company.

Uncertainties with respect to the PRC legal system could have a material and adverse effect on us.

Our business and operations are conducted in the PRC and are governed by PRC laws and regulations. The PRC legal system is based on written statutes and their interpretations by the Supreme People's Court. Prior court decisions may only be cited for reference. In addition, written statutes of the PRC are usually principle-oriented, and are subject to detailed interpretation of law enforcement authorities. Since 1979, the PRC government has enacted comprehensive laws, regulations and ordinances on economic affairs such as foreign investment, business organization and governance, commerce, taxation and trade. However, interpretation and enforcement of these laws, rules and regulations involve uncertainties and may not be as consistent and predictable as in other jurisdictions. As these laws and regulations continue to develop in response to the ever-changing economic and other conditions, and due to the limited number of cases published and their non-binding nature, any particular interpretation of PRC laws and regulations may be unclear. Furthermore, we could not predict the future development of the PRC legal system and its impact on our business operations.

In addition, the Company Law of the People's Republic of China differs from the company laws of common law jurisdictions such as Hong Kong and the US in a number of important areas, in particular in relation to investor protection, such as collective litigations by shareholders and measures to protect non-controlling shareholders; restrictions of directors; disclosure requirements; different classes of shareholders' rights; proceedings at general meetings and payment of dividends. Our Articles of Association contain provisions incorporated in accordance with the Listing Rules. However, notwithstanding these provisions, we could not assure you that our investors are protected in the same way as they would be protected in the companies constituted in common law jurisdictions.

Any significant changes in food safety regulations and related policies could affect our business.

The industry we operate shall comply with the laws and regulations of food safety in China. Such regulations set out the safety standards for food and food additives, packaging and containers, the information required to be disclosed on packaging, and the regulations on food production and siting, facilities and equipment used for transportation and sale of food. In recent years, the Chinese government has been stepping up its supervision on food safety. According to the newly amended Food Safety Law of the People's Republic of China and the Regulations for the Implementation of the Food Safety Law of the People's Republic of China, food manufacturers and operators should act in accordance with laws, regulations and food safety standards to engage in production and operating activities, establish a sound food safety management system, and take effective measures to prevent and control food safety risks, so as to ensure the food safety. This may increase compliance costs for retailers, including us. Failure to comply with the laws and regulations of food safety in China may result in corrective actions ordered by regulatory authorities, fines, confiscation of the proceeds, suspension of food production and operation as ordered, revocation of food production and operation permits, and in extreme cases, criminal liability. Despite our current compliance with existing laws and regulations of food safety, if the Chinese government makes further changes to its regulations on food safety, our production, sale and distribution costs may increase, and we may not be able to successfully pass the additional costs on externally, which will have adverse impacts on our business, financial condition and development prospects.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

We are a company incorporated under the laws of the PRC and all of our business, assets and operations are located in China. In addition, the majority of our Directors, Supervisors and executive officers reside in China, and substantially all of the assets of such Directors, Supervisors and executive officers are located in China. As a result, it may not be possible for you to effect service of process within the United States or elsewhere outside China upon us or such Directors, Supervisors or executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. While China and Hong Kong entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned which came into effect on August 1, 2008, pursuant to which a party with an enforceable final court judgment rendered by any designated people's court of China or any designated Hong Kong court requiring payment of money in a civil and commercial case according to a written choice of court agreement, may apply for recognition and enforcement of the judgment in the relevant people's court of China or Hong Kong court, there are still uncertainties as to whether the judgments in Hong Kong will be recognized under the arrangement. Moreover, China has not entered into a treaty for the reciprocal recognition and enforcement of court judgments with the United States, the United Kingdom, Japan and many other countries. In addition, Hong Kong has no arrangement with the United States for reciprocal enforcement of judgments. As a result, recognition and enforcement in China or Hong Kong of a court judgment obtained in the United States and any of the other jurisdictions mentioned above may be difficult or impossible.

Although we will be subject to the Listing Rules and the Takeovers Code upon the [**REDACTED**] of our H Shares on [**REDACTED**], the holders of H Shares will not be able to bring actions on the basis of violations of the Listing Rules and must rely on the Stock Exchange to enforce its rules. The Listing Rules and the Takeovers Code do not have the force of law in Hong Kong.

Our Articles of Association provide that, apart from disputes over the register of Shareholders which could be resolved other than by way of arbitration as defined by relevant Shareholders, disputes among holders of H Shares and ourselves, our Directors, Supervisors or senior management personnel or other Shareholders arising out of our Articles of Association or any rights or obligations conferred or imposed thereupon by the PRC Company Law and related laws and administrative regulations concerning our affairs are to be resolved through arbitration by the China International Economic and Trade Arbitration Commission ("CIETAC") or the Hong Kong International Arbitration Center. Awards made by the PRC arbitral authorities (including CIETAC) recognized under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong subject to provisions of the Arbitration Ordinance of

Hong Kong. Hong Kong arbitration awards are also enforceable in China, subject to the satisfaction of PRC legal requirements. We cannot assure you that any action brought in China by holders of H Shares to enforce a Hong Kong arbitration award made in favor of holders of H Shares would succeed.

You may be subject to PRC taxation.

Under applicable PRC tax laws, dividends paid by us to non-PRC resident individual holders of H Shares and gains realized by non-PRC resident individual holders of H Shares upon sale or other disposition of H Shares are both subject to PRC individual income tax. Pursuant to the Circular on Questions Concerning the Collection of Individual Income Tax following the Repeal of Guo Shui Fa [1993] No. 045 dated June 28, 2011 issued by the State Administration of Taxation,the rate for tax on dividends is between 5% and 20% depending on the applicable tax treaties or arrangements between the PRC and the specific jurisdiction in which the non-PRC resident individual holder of H Shares resides of 20% if there is no such treaty or arrangement. However, pursuant to the Circular Declaring That Individual Income Tax Continues to Be Exempted over Income of Individuals from Transfer of Shares issued by the PRC Ministry of Finance and the State Administration of Taxation on March 30, 1998, gains of individuals derived from the transfer of listed shares in enterprises may be exempt from individual income tax. We understand that in practice to date the PRC tax authorities have not sought to collect from non-PRC resident individuals either the tax on gains realized upon sale or other dispositions of H Shares, or any excess of the tax on dividends paid by a PRC company over the amount that was withheld at source.

In accordance with the Notice of the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to Shareholders which are Overseas Non-resident Enterprises issued by the State Administration of Taxation of the PRC and effective from November 6, 2008, dividends paid to, and gains realized by, non-PRC resident enterprise holders of H Shares are both subject to PRC enterprise income tax at a rate of 10%. Absent any further guidance from the PRC tax authorities, we intend to withhold 10% from any dividend payment made through CCASS without seeking prior consent from the PRC tax authorities. There are significant uncertainties as to the interpretation and application of applicable PRC tax laws due to several factors, including the relatively short history of certain of such laws. These uncertainties include, whether non-PRC resident individual holders of H Shares will be subject to PRC individual income tax at a flat rate of 20% even where payments are made through an organization such as CCASS (and if so, whether and how the excess of PRC individual income tax on the dividends paid by us to non-PRC resident individual holders of H Shares over any amount withheld by us will be collected by the PRC tax authorities in the future), and whether and how income tax on gains realized by non-PRC resident persons upon the sale or other dispositions of H Shares will be collected by the PRC tax authorities in the future. If there is any change to the applicable PRC tax laws and interpretations or applications in respect of such laws, holders of H Shares may be required to pay PRC income tax (in the case of individuals, at a rate of up to 20%) on the dividends paid by us and gains realized upon sale or other dispositions of H Shares which have not historically been collected by the PRC tax authorities in practice.

Any possible conversion of our Domestic Shares into H Shares in the future could increase the number of our H Shares in the market and negatively impact the* [REDACTED] *of our H Shares.

We have applied to the CSRC for the conversion of a portion of our Domestic Shares into H Shares. If the conversion is approved by the CSRC, such a portion of the Domestic Shares will be converted into H Shares upon [**REDACTED**], which will be [**REDACTED**] and [**REDACTED**]. If our separate application is approved by the CSRC, our remaining Domestic Shares may also be converted into H Shares in the future, and such converted shares may be [**REDACTED**] or [**REDACTED**], provided that prior to the conversion and [**REDACTED**] of such converted shares, any requisite internal approval by our Shareholders in a general meeting is duly obtained and the approvals from relevant PRC regulatory authorities shall be obtained. However, the PRC Company Law provides that in relation to the public offering of a company, the shares of that company which are issued prior to the public offering shall not be transferred within one year from the date of listing of the public offering. Therefore, upon obtaining the requisite approval, our Domestic Shares may be traded, after the conversion, in the form of H Shares on [**REDACTED**] one year after this [**REDACTED**], which at that time could further increase the number of our H Shares available in the market and may negatively impact the [**REDACTED**] of our H Shares.

Risks Relating to the [REDACTED]

There has been no prior* [REDACTED] *for our H Shares, and an active* [REDACTED] *market may not develop.

Before the [**REDACTED**], there was no public market for our Shares. The [**REDACTED**] of our H Shares, and the [**REDACTED**], will be the result of negotiations between the [**REDACTED**] (on behalf of the [**REDACTED**]) and us.

In addition, while we [have applied] to have our H Shares [**REDACTED**], there can be no guarantee that (i) an active [**REDACTED**] market for our H Shares will develop or, (ii) if it does, that it will be sustained following the completion of the [**REDACTED**], or (iii) that the [**REDACTED**] of our H Shares will not decline below the [**REDACTED**]. You may not be able to resell your shares at a price that is attractive to you, or at all.

***The* [REDACTED] *volume of our H Shares may be volatile which could result in substantial losses for investors purchasing our H Shares in* [REDACTED].**

The [**REDACTED**] volume of our H Shares may be volatile. The [**REDACTED**] of our Shares may fluctuate significantly and rapidly as a result of the following factors, among others, some of which are beyond our control:

- actual or anticipated variations of our results of operations;

- loss of key fruit suppliers;

- changes in securities analysts' estimates or market perception of our financial performance;
- announcement by us of significant acquisitions, depositions, strategic alliances or joint ventures;
- addition or departure of key senior management or other key personnel;
- fluctuations in the stock market price and volume;
- regulatory or legal developments, including involvement in litigations;
- fluctuations in [**REDACTED**] volumes or the release of lock-up or other transfer restrictions on our outstanding Shares or sales of additional Shares by us; and
- general economic, political and stock market conditions in Hong Kong, China and elsewhere in the world.

In addition, stock markets and the shares of other companies listed on the Stock Exchange with significant operations and assets in the PRC have experienced price increases and volume fluctuations in recent years, some of which have been unrelated or disproportionate to the operating performance of such companies. These broad market and industry fluctuations may materially and adversely affect the [**REDACTED**] of our Shares.

Future sale or major divestment of H Shares by our [**REDACTED**] ***Investors could materially and adversely affect the prevailing*** [**REDACTED**] ***of our Shares.***

The future sale of a significant number of our H Shares in the [**REDACTED**] after the [**REDACTED**], or the possibility of such sales, by our [**REDACTED**] Investors could materially and adversely affect the [**REDACTED**] of our H Shares and could materially impair our future ability to raise capital through [**REDACTED**] of our H Shares. Although such [**REDACTED**] Investors have agreed to a lock-up on their H Shares (including the H Shares converted from Domestic Shares upon [**REDACTED**], if applicable), any major disposal of such H Shares by any of such [**REDACTED**] Investors upon expiry of the relevant lock-up periods (or the perception that these disposals may occur) may cause the prevailing [**REDACTED**] of our Shares to fall which could negatively impact our ability to raise equity capital in the future.

Purchasers of our H Shares in the [**REDACTED**] ***will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.***

The initial [**REDACTED**] of our H Shares is higher than the net tangible asset value per H Share of the outstanding H Shares issued to our existing Shareholders immediately prior to the [**REDACTED**]. Therefore, purchasers of our Shares in the [**REDACTED**] will experience an immediate dilution in terms of the pro forma net tangible asset value. In addition, we may consider offering and issuing additional H Shares or equity-related securities in the future to raise additional funds, finance acquisitions or for other purposes. Purchasers of our H Shares may experience further dilution in terms of the net tangible asset value per H Share if we issue additional H Shares in the future at a price that is lower than the net tangible asset value per H Share.

The [**REDACTED**] of our H Shares is expected to be determined on the [**REDACTED**]. However, our Shares will not commence [**REDACTED**] on [**REDACTED**] until they are delivered, which is expected to be about four Hong Kong business days after the [**REDACTED**]. As a result, investors may not be able to sell or otherwise [**REDACTED**] our H Shares during that period. Accordingly, holders of our H Shares are subject to the risk that the [**REDACTED**] or value of our H Shares could fall when [**REDACTED**] commences as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time [**REDACTED**] begins.

There can be no assurance as to whether we will pay dividends in the future.

We did not declare any dividends during the Track Record Period. There is no assurance as to whether we will pay dividends in the future. Declaration and distribution of dividends shall be proposed and formulated by our Board of Directors at their discretion and will be subject to shareholder approval. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including, without limitation, our results of operations, financial condition, operating and capital expenditure requirements, distributable profits, future prospects and other factors that our Board of Directors may determine are important. Accordingly, our dividend distribution, if any, is not indicative of any future dividend distribution policy and [**REDACTED**] should be aware that the amount of dividends paid, if any, should not be used as a reference or basis upon which future dividends are determined. See "Financial Information — Dividend" for more details of our dividend policy.

Our interests may conflict with those of our Controlling Shareholders, who may take actions that are not in, or may conflict with, our or our* [REDACTED] *shareholders' best interests.

The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. If the interests of our Controlling Shareholders conflict with the interests of our other Shareholders, or if our Controlling Shareholders cause our business to pursue strategic objectives that conflict with the interests of our other Shareholders, the non-controlling shareholders could be disadvantaged by the actions that our Controlling Shareholders choose to cause us to pursue.

Our Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matter submitted to the Shareholders for approval, including but not limited to mergers, privatizations, consolidations and the sale of all, or substantially all, of our assets, election of directors, and other significant corporate actions. Our Controlling Shareholders have no obligation to consider the interests of our Company or the interests of our other shareholders other than pursuant to the deed of non-competition, see "Relationship with Our Controlling Shareholders — Non-competition Undertaking" for more details. Consequently, our Controlling Shareholders' interests may not necessarily be in line with the best interests of our Company or the interests of our other Shareholders, which may have a material and adverse effect on our Company's business operations and the [**REDACTED**] at which our Shares are [**REDACTED**] on [**REDACTED**].

Certain statistics contained in this document are derived from a third party report and publicly available official sources.

This document, particularly the section headed "Industry Overview" in this document, contains information and statistics, including but not limited to information and statistics relating to the PRC and the fresh groceries and fruit industries and markets. Such information and statistics have been derived from various official government and other publications and from a third party report prepared by Frost & Sullivan commissioned by us. The information from official government sources has not been independently verified by us, the Sole Sponsor, any of its directors, officers, affiliates, advisors or representatives, or any other party involved in the [**REDACTED**]. We cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy, as the case may be, in other jurisdictions.

Forward-looking statements contained in this document are subject to risks and uncertainties.

This document contains certain statements and information that are forward-looking and uses forward-looking terminology such as "anticipate," "believe," "could," "going forward," "intend," "plan," "project," "seek," "expect," "may," "ought to," "should," "would" or "will" and similar expressions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this document should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. Subject to the requirements of the Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this document are qualified by reference to this cautionary statement.