You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial information as of and for each of the years ended December 31, 2019, 2020 and 2021, and the six months ended June 30, 2022 and the accompanying notes included in the Accountant's Report set out in Appendix I to this document ("Historical Financial Information"). Historical Financial Information has been prepared in accordance with HKFRS, which may differ in material aspects from generally accepted accounting policies in other jurisdictions. Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

[**REDACTED**] ***should read the whole Historical Financial Information and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. For additional information regarding these risks and uncertainties in evaluation our business, please refer to "Risk Factors."***

OVERVIEW

As a company that has specialized in fresh fruit retailing for over 20 years, we have accumulated our insights and understanding on the uniqueness of fruits and our industry, and have built our business model upon these understandings, which include the management over upstream supply chain, a comprehensive fruit quality classification system for fruit products, standardized management system across the entire industry value chain, and the franchise business model with OMO and store-as-warehouse features.

Pagoda is a China Well-known Trademark. Moreover, we own a number of fruit product brands and channel brands in China. We have developed first of its kind flavor-oriented fruit quality classification system for fruit products, which allows us to identify high-quality fruit using objective and quantifiable measures to create a consistent and pleasant consumption experience for consumers. It also forms a barrier to entry by educating the consumers to understand and appreciate the premium value of high-quality fruit products. We have launched the instant refund service, which has enhanced consumer satisfaction.

We operate the largest community-based fruit specialty franchise network with OMO and store-as-warehouse features in China. As of the Latest Practicable Date, our offline store network had a total of 5,643 stores located in over 140 cities covering 22 provinces and municipalities across China, among which 5,624 were franchised stores. In addition, we also sell products through other multiple distribution channels including self-operated stores, regional dealers and online channels. We engage in direct sales and on a small scale, wholesale business. The number of our members accumulated through various distribution channels had reached over 73 million. As of the Latest Practicable Date, we had accumulated over 930 thousand paying members.

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

BASIS OF PREPARATION

Our Company was incorporated in the PRC on December 3, 2001 as a limited liability company under the PRC Company Law. In preparation for this [**REDACTED**], the Company was converted to a joint stock company with limited liability on April 10, 2020. The Historical Financial Information has been prepared in accordance with the HKFRS and is presented in Renminbi.

All intra-group transactions and balances have been eliminated on consolidation.

SIGNIFICANT FACTORS AFFECTING OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General Economic Conditions, Industry Demand and Competition in China

Our ability to increase sales and grow our revenue is driven largely by the increasing demand in China for high-quality fresh fruits, vegetables and other fresh grocery products. Such demand, in turn, is dependent upon overall economic conditions in China. General economic factors, including the level of per capita disposable income, inflation rate, and the consumer price index, may affect consumers' willingness and ability to purchase our products. In addition, the economic growth and increasing per capita disposable income in China in the past decade have driven the consumption upgrade, improved people's living standards and raised the awareness of healthy lifestyle. People pay more attention to food safety and food source, and are willing to pay a premium for high-quality products.

Furthermore, the demand for our products is also affected by the competition in our industry. We mainly operate in a fragmented and highly competitive fruit retail industry. Our competitors include traditional markets, modern retail operators (including supermarkets, fresh food supermarkets and convenience stores), e-commerce operators, and fruit specialty retail operators (including national fruit specialty chain retail, regional fruit specialty chain retail and mom-pop stores). We compete with these competitors for consumers on a combination of factors, primarily product selection, quality, shopping experience and convenience, customer engagement, desirable store location, price and delivery options. Our success will continue to depend on our ability to further penetrate the market by occupying a broader price range and offer the products that appeal to our consumers' preferences.

Our Ability to Execute Our OMO Strategy and Further Improve Operating Efficiency

We endeavor to execute our OMO strategy and eventually establish an omni-channel model that offers a broad and seamless integration of online and offline shopping experience. We have been in the past benefited from the expansion of our distribution channels. We have also identified a number of new retail opportunities, such as establishing our presence on leading social commerce platforms and fostering cooperative relationships with influencers and KOLs as well as with major food delivery platforms.

However, carrying out our OMO strategy can be costly and involve uncertainties. For example, we have incurred, and expect to continue to incur, costs and expenses to upgrade our information technology systems to support the omni-channel model. We have also invested in various online content marketing and membership marketing activities to, on one hand, acquire online consumers, and on the other, drive online traffic to experience offline shopping at the retail stores. We have also been in the process of further improving the standardized operations of the retail stores, such as upgrading their POS system and optimizing in-store warehousing designs, enabling such stores to quickly adapt to the OMO retail scenarios. We have implemented a standardized store performance evaluation system to facilitate us to monitor and improve store management. Our OMO strategy, nevertheless, may not be successful and our investments in this regard may not deliver the economic returns as we anticipate.

Moreover, along with our continuous growth, we expect that our results of operations will in part be affected by our ability to improve operational efficiency and achieve economies of scale, which in turn, mainly relies on our ability to control costs and expenses. During the Track Record Period, costs of inventories sold, mainly representing our procurement costs of fruits, were the largest component of our cost of sales, accounted for 96.2%, 95.2% and 95.3% of total cost of sales for the years ended December 31, 2019, 2020 and 2021, respectively. Costs of inventories sold accounted for 95.6% and 95.3% of total cost of sales for the six months ended June 30, 2021 and 2022, respectively. We expect such cost in absolute amount will continue to increase as our business continues to grow. We will continue to identify and collaborate with more high-quality fruit suppliers, in particular, those with the capacity to supply fruits that meet the quality standards of our Excellent and Grade A categories. Such fruits are able to enhance consumer loyalty, and increase profitability driven by brand premium. Also refer to "— Variety, Availability and Costs of Fruits" below. On the other hand, we also intend to further increase our bargaining power arising from our centralized procurement. Furthermore, labor costs, mainly those employees working at our preliminary processing and distribution centers, comprised a large portion of our cost of sales during the Track Record Period. We also experienced increases in salaries and staff welfare for our selling and marketing, administrative as well as research and development staff, mainly because of the increase in average annual employee benefit expenses of senior management and the proportion of higher average annual employee benefit expenses, such as those of our IT staff. We anticipate such staff costs and expenses will continue to increase as our business continues to grow. To this end, we aim to enhance our cost efficiency and profit margins by improving our operational efficiency, such as increasing the automation level in our logistic and warehousing processes, upgrading our IT systems and accelerating the digitalization of all material aspects with respect to our operations.

Sustainable Development of The Franchised Stores and Their Ability to Profit

Our revenue is largely affected by the number and performance of the franchised stores. In particular, the number of newly opened franchised stores and their performance have a continuing impact on our revenue derived from sales of products and royalty and franchising income. Historically, revenue contributed by all of the franchised stores, including revenue derived from sales of goods and royalty and franchising income, decreased from RMB7,871.7 million in 2019 to RMB7,440.5 million in 2020. Revenue contributed by franchised stores then increased to RMB8,287.3 million in 2021. Revenue derived from sales of fruits and other products contributed by franchised stores increased by 5.6% from RMB4,356.7 million for the six months ended June 30, 2021 to RMB4,602.8 million in the corresponding period in 2022. Such revenue accounted for approximately 87.7%, 84.0%, 80.5%, 78.8% and 78.1%, respectively, of our total revenue in 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022. The slight decrease from 2019 to 2020 was a net impact of the decrease in daily average revenue of sales of product per franchised store supervised by us as an adverse result of the COVID-19 pandemic, partially offset by a net increase of 192 franchised stores supervised by us. Since the COVID-19 pandemic was generally under control in 2021, revenue from sales of fruits and other food products recovered gradually in daily average revenue of sales of product per franchised store supervised by us and there was a net increase of 362 franchised stores supervised by us in 2021. In 2019, 2020 and 2021, there were 928, 695 and 865 newly opened franchised stores, respectively, which included 461, 192 and 362 franchised stores supervised by us, respectively. In the six months ended June 30, 2022, there were 431 newly opened franchised stores, 343 of which were supervised by us. We had penetrated in over 140 cities in 22 provinces and municipalities in China as of the Latest Practicable Date. Thus, our ability to continue to identify and cooperate with quality and capable franchisees is critical to our future revenue growth.

The performance of a franchised store typically depends on our brand recognition, the store's maturity, location, consumer traffic, product offerings, competition in its community, spending propensity and disposable income of its targeted consumers. In addition, the ability of franchisees to operate the franchised stores also varies from person to person. A new franchised store is generally subject to a series of adjustments during the start-up period that is typical for newly opened retail stores, therefore, it requires a certain period of time to reach expected operating levels.

Moreover, since 2018, we commenced to cooperate with regional dealers who facilitate us to identify and refer qualified franchisees to us. We delegate to the regional dealers certain managerial responsibilities over the franchised stores operated by the franchisees referred by them in designated regions. Regional dealers also purchase products from us and re-sell to the franchised stores under their management. The abilities of these regional dealers to identify qualified franchisees and to manage the franchised stores in compliance with our standards and requirements are significant to the performance of the franchised stores, which in turn, affect our revenue.

We provide various financial supports, including loans to franchisees and financing under factoring arrangements to regional dealers, so as to attract franchisees and sustain the effective and stable development of our store network. The franchisees and regional dealers typically use the proceeds from sales of our products to repay the outstanding loans and factoring amounts from us. Therefore, if a franchised store experiences poor performance, it may fail to repay part or all of such outstanding amounts and procurements from us. If a large number of franchised stores and regional dealers experience such poor performance at the same time, our credit risks may increase and the outstanding amounts due from franchisees and regional dealers, including procurement and loans, may also increase. For more details about our franchise arrangements with franchisees, see "Business." The ability of the franchised stores to profit will continue to have an impact on our revenue.

Lastly, the offline store network's geographic coverage and degree of penetration also have affected our operational and financial performance. For example, stores located in more developed cities typically record higher average daily sales, mainly as a result of greater purchasing power of local residents, more advanced delivery services and stronger brand recognition in those areas. During the Track Record Period, in terms of number of franchised stores supervised by us and self-operated stores (calculated as the average of the number of stores at the beginning and ending of the year/period), the proportion of the stores located in first-tier cities out of total stores was 36.7%, 36.1%, 34.7% and 33.2% in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. However, in terms of revenue contribution, those stores accounted for 43.5%, 40.7%, 37.1% and 36.2%, respectively, of revenue of total stores over the same periods. We intend to continue to penetrate in first- and second-tier cities and to explore market opportunities in more lower-tier cities at the same time.

Variety, Availability and Costs of Fruits

Our revenue derived from sales of fruits amounted to RMB8,448.1 million, RMB8,329.5 million and RMB9,485.2 million, respectively, in 2019, 2020 and 2021, accounting for 96.5%, 96.4% and 95.0%, respectively, of total revenue from sales of fruits and other food products over the same periods. Revenue derived from sales of fruits amounted to RMB5,164.2 million and RMB5,449.3 million, respectively, for the six months ended June 30, 2021 and 2022, accounting for 96.2% and 95.1%, respectively, of total revenue from sales of fruits and other food products over the same periods. As such, our ability to source more delicious and affordable fruits is critical to maintain our reputation and market position. In addition, leveraging our fruit quality classification system for fruit products, we are able to price differently based on different quality levels of fruits, allowing us to maximize the value of fruits and achieve good value-for-money. Among others, fruits under our categories of Excellent and Grade A are in higher quality conditions and generally have a higher selling price and margin. Therefore, our ability to continue to source and offer a variety of fruits, especially those higher quality types that are rare in the market, is of extreme importance for us to attract consumers, boost sales and increase our market share. Lastly, intensified competition in our industry may also cause us additional costs and expenses to secure high-quality suppliers.

Availability and procurement costs of fruits are subject to substantial volatility that is beyond our control. Cultivation of fruits is vulnerable to extreme weather conditions and unexpected natural disasters, which can reduce fruit yield and quality. In addition, the stable supply of a particular type of fruits may also be interrupted by crop diseases and pest infestations. Under certain circumstances, availability and procurement costs of fruits may also be materially and adversely affected by events other than natural disasters. For example, due to the COVID-19 outbreak since the end of 2019, the retail industry nationwide have been interrupted by temporary disruptions to regional logistic services and retail stores in many affected cities were forced to temporarily close, both of which were mainly caused by the precautionary measures imposed by local governments.

Unstable or reduced supply of a particular type of fruits will increase our procurement costs due to the additional expenses incurred by the suppliers or intensified competition. As such, if we are not able to pass on such increased costs to our consumers, our profitability may be adversely affected. On the other hand, if we are not able to properly price the fruit products at such level that remains acceptable by our consumers, we may lose sales opportunities.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

We have identified certain accounting policies that are significant to the preparation of our financial statements. Our significant accounting policies, which are important for an understanding of our financial condition and results of operations are set forth in detail in Note 2 to the Accountant's Report included in Appendix I to this document. Some of our accounting policies involve subjective assumptions, estimates and judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below those accounting policies that we believe involve the most significant estimates and judgments used in the preparation of our financial statements. Please refer to Note 2 to the Accountant's Report included in Appendix I to this document for a detailed discussion of our significant accounting policies.

Basis of consolidation

In the normal course of business of our Group with franchisees, rights and obligations of the two parties are stipulated by the respective franchising agreements. Our Group exercises judgement in determining whether our Group has the power to control and therefore should consolidate the franchisees. In consideration of such matter, management considered whether we are exposed, or have rights, to variable return from our Group's involvement with the franchisees and have the ability to affect those returns through our power over the franchisees. Management also consider whether our Group obtain benefit (including non-financial benefits) from our power to control the franchisees. Based on our Group's analysis on various areas, including but not limited to the collection of sales proceeds, design of the customer loyalty program and the costs and expenses in relation to the store opening, price setting, product mix determination, determination of store location, the extent of group-wide promotion activities and interest-free and interest-bearing financing, our management is of the view that our Group does not control the critical relevant activities of the franchisees and is subject to a lower degree of variability in return. Therefore, management considers that it is appropriate for our Group not to consolidate the franchisees in the presentation of the historical financial information.

Revenue Recognition

Revenue is recognized when or as the control of the goods or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods or services may be transferred over time or at a point in time. Revenue is recognized when a performance obligation is satisfied by transferring control of the promised products or services to a customer in an amount that reflects the consideration expected to be collected in exchange for those products or services.

Management performs assessment at contract inception to identify performance obligations for each promise to transfer to the customer a product or a service (or bundle of products or services) that is distinct. To identify the performance obligations, we consider all the products and services promised in the contract with the customer based on our customary business practices, published policies, or specific statements.

Control of the goods or service is transferred over time if our performance: (i) provides all of the benefits received and consumed simultaneously by the customer; (ii) creates or enhances an asset that the customer controls as we perform; or (iii) does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date.

If control of the goods or service transfers over time, revenue is recognized over the period by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods or service.

Sales of fruit and other food products — regional dealers and franchised stores

We sell fruits and other food products to regional dealers, who manage certain franchised stores in exclusive regions by following our store management standards, and also directly to franchisees in other regions. Revenue is recognized when control of the products has been transferred, being when the products are delivered to the customer, the customer has accepted the products, the collection of the related consideration is probable and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Upon the transfer of products to regional dealers and franchisees, they are regarded as the principal as they would control the products before the products are sold to franchisees or sold to end consumers, respectively.

No significant element of financing is deemed present as the sales are made with a credit term of up to 90 days.

It is our policy that the franchisees sell the products to the end consumers with right of return, part of which cost is allocated and borne by us. The fees payable by us are regarded as the variable consideration and a refund liability is recognized for the expected costs that will be borne by us. Accumulated experience are used to estimate the variable consideration to the extent that it is highly probable that a significant reversal will not occur, using the expected value method, to be included in the transaction price. The validity of this assumption and the estimated amount of rebates are reassessed at each reporting date.

Sales of fruit and other food products — self-operated stores

We operate several retail stores selling fruits and other food products. Revenue from the sale of goods is recognized when the control of the product is transferred to the end consumers. Payment of the transaction price is due immediately when the customer purchases the fruits and other food products and takes delivery in store.

Royalty and franchising income

The royalty fee represents the majority of the monthly fee and is determined based on a predetermined progressive rate as a percentage of the applicable franchisee's stores gross profits. Royalties and other fees are generally invoiced and settled on a monthly basis. We apply "sales-based royalty" under HKFRS 15 to recognize the revenue when the related franchisee sales occur.

Our franchise agreements also typically include certain less significant, initial franchise fees. Initial franchise fees represent pre-opening support services provided to the franchisees, including market and location analysis, certain advisory services like license application, general management training and pre-opening marketing and so on. Those services are highly interrelated with the franchise right and are not individually distinct from the ongoing services provided to the franchisees. As a result, initial franchise fees are recognized on a straight line basis over the expected franchise period.

A contract liability is our obligation to transfer the promised goods to a customer for which we have received consideration (or an amount of consideration is due) from the customer. Unrecognized initial franchise fees are recognized as contract liabilities in the consolidated financial statements.

Starting from 2019, we undertook certain costs in relation to pre-opening capital expenditure including decoration and purchasing equipment in return for a higher monthly royalty rate from certain franchisees. These amounts do not represent distinct goods or services provided to the franchisees and are accounted for as a reduction of the royalty income on a straight-line basis over the expected franchise period. The unrecognized portion is recognized as other prepayment in the consolidated statements of financial position.

Membership income

We initiated the paid membership plan since late 2018. End customers of franchisees may subscribe to the paid membership for a 12-month period at a fixed fee payable to us. The paying members will enjoy discounts from the purchases at offline retail stores equivalent to at least the membership fee paid. Otherwise, we will refund to the end consumers for any shortfall. Revenue is recognized in the same period when the obligations to refund to the end consumers expire.

Trading of fruits

We trade fruit products under short term contracts to domestic and overseas corporate customers. Revenue is recognized when control of the products has been transferred, being when the products are delivered to the customers, the customer has accepted the products, the collection of the related consideration is probable and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

No significant element of financing is deemed present as the sales are made with a credit term of up to 90 days. If the prepayments have been made by customers for the products to be delivered, a contract liability is recognized.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. The cost comprises costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Costs of purchased inventory are determined after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

Property, Plants and Equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to us and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Building	20 years
Leasehold improvements	Shorter of lease term or 5 – 10 years
Plant and machinery	5 – 20 years
Furniture and equipment	3 – 5 years
Motor vehicles	4 years
Mature fruit trees	10 – 20 years

Our fruit trees qualify as bearer plants under the definition in HKAS 41 "Agriculture" and are therefore accounted for under the rules for plant and equipment. Fruit trees are classified as immature until the produce can be commercially harvested which usually takes two to four years. At that point they are reclassified and depreciation commences. Immature fruit trees are measured at accumulated cost less impairment.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other gains, net" in the consolidated statements of profit or loss.

Assets under construction are stated at historical cost less any impairment loss. Historical cost includes expenditure that is directly attributable to the development of the assets which comprises construction costs, amortisation of land use rights during the construction period, borrowing costs on qualifying assets and professional fees incurred during the development period. On completion, the assets are transferred to buildings within property and equipment.

No depreciation is provided for assets under construction. The carrying amount of an asset under construction is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Trade and Other Receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade and other receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. We hold the trade receivables with the objective of collecting the contractual cash flows and therefore measure them subsequently at amortized cost using the effective interest method.

We have certain amounts due from regional dealers and suppliers under factoring arrangements which are included in other receivables. Factoring arrangements with regional dealers are without recourse whereby our Group derecognizes the trade receivable that is originally due from the regional dealers, and recognizes an interest-bearing other receivable; while factoring arrangements with suppliers are with recourse whereby our Group retains the trade payable and recognizes an interest-bearing other receivable. Such amounts are assessed for impairment using the expected credit loss model under HKFRS 9 by considering whether there is a significant increase in credit risk taking into account available reasonable and supportive forward-looking information.

Trade and Other Payables

These amounts represent liabilities for goods and services provided to us prior to the end of financial year which are unpaid. The amounts are unsecured. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

Provisions

Provisions for legal claims, service warranties and make good obligations are recognized when we have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For more details about the accounting policies in relation to our impairment of goodwill, please refer to Note 2.10 to the Accountant's Report included in Appendix I to this document.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose. We classify the goodwill relating to Shenzhen Yimiaotong, Youguolian Brand and Younongdao Beijing as the others segment, whereas the goodwill relating to Haiyang Jinchengtai as the trading segment. We complete our impairment test for goodwill allocated to the cash generating units by comparing the recoverable amounts to the carrying amounts as at the end of reporting period. Goodwill impairment reviews have been performed at the level of cash generating units, and for each cash generating unit, the key parameters under consideration include period of financial budgets, average annual growth rate, long-term growth rate, average profit margin and pre-tax discount rate. For more details about the key parameters used in the impairment tests of goodwill, please refer to Note 18 to the Accountant's Report included in Appendix I to this document. Recoverable amount of the cash generating units is determined as higher of fair value less cost of disposal ("FVLCOD") and value in use ("VIU") of the underlying assets.

There are a number of assumptions adopted in these calculations required the use of judgements and estimates and the recoverable amounts of our Group's cash generating unit have been determined based on value-in-use calculations. The VIU is determined by applying discounted cash flow model on pre-tax cash flow projections based on a five-year financial budgets approved by the management. The discount rate used is pre-tax and reflects specific risks related to the relevant operation. The volume of revenue in each period is the main driver for revenue and costs. The growth in revenue and the relevant costs are estimated based on past performance and management's expectations for the market development. The long-term growth rate is the weighted average growth rate used to extrapolate cash flows beyond the budget period. The rates are consistent with forecasts included in the relevant industry reports.

The key assumptions used for VIU calculations of Shenzhen Yimiaotong for the periods indicated are as follows:

	Year ended December 31,			Six months ended June 30,
	2019	**2020**	**2021**	**2022**
Period of financial budgets	5-year	5-year	5-year	5-year
Average annual growth rate	33.2%	12.0%	9.4%	5.0%
Long-term growth rate	3.0%	3.0%	3.0%	3.0%
Average profit margin	32.8%	32.8%	32.8%	32.8%
Pre-tax discount rate	21.6%	21.6%	21.6%	21.6%

Long-term growth rate is based on forecasts included in various industry reports which is consistent across the Track Record Period. Average profit margin is determined based on the past performance and management's expectations for the future which is consistent across the Track Record Period. Pre-tax discount rate is consistent as there has been no significant change in capital structure or specific risks of Shenzhen Yimiaotong throughout the Track Record Period.

The VIU of Shenzhen Yimiaotong is estimated to exceed the carrying amount by RMB15.8 million, RMB14.8 million, RMB15.5 million and RMB20.0 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. No impairment loss was recognized in the Track Record Period. Our Directors and management have considered and assessed reasonably possible changes for the relevant assumptions and have not identified any instance that would cause the carrying amount of Shenzhen Yimiaotong to exceed its VIU.

	As of December 31,		As of June 30,
	2020	**2021**	**2022**
Period of financial budgets	5-year	5-year	5-year
Average annual growth rate	8.2%	7.8%	7.1%
Long-term growth rate	3.0%	3.0%	3.0%
Average gross margin	19.38%	19.38%	19.38%
Pre-tax discount rate	12.15%	12.15%	12.15%

Long-term growth rate is based on forecasts included in various industry reports which is consistent across the Track Record Period. Average profit margin is determined based on the past performance and management's expectations for the future which is consistent across the Track Record Period. Pre-tax discount rate is consistent as there has been no significant change in capital structure or specific risks of Haiyang Jinchengtai throughout the Track Record Period.

The VIU of Haiyang Jinchengtai is estimated to exceed the carrying amount by RMB14.8 million, RMB17.6 million and RMB22.2 million as of December 31, 2020 and 2021 and June 30, 2022, respectively. No impairment loss was recognized in the Track Record Period. Our Directors performed sensitivity analysis based on the assumptions that average annual growth rate or long-term growth rate or average gross margin or pre-tax discount rate have been changed.

The VIU of Haiyang Jinchengtai would equal its carrying amount if the key assumptions were to change as follows:

	As of December 31,				As of June 30,	
	2020		**2021**		**2022**	
	From	**To**	**From**	**To**	**From**	**To**
Average annual growth rate	8.20%	6.20%	7.80%	5.74%	7.10%	4.50%
Long-term growth rate	3.00%	2.70%	3.00%	2.30%	3.00%	2.03%
Average gross margin	19.38%	18.88%	19.38%	18.68%	19.38%	18.78%
Pre-tax discount rate	12.15%	12.55%	12.15%	12.55%	12.15%	12.80%

Our Directors performed sensitivity analysis based on the assumptions that average annual growth rate or long-term growth rate or average gross margin or pre-tax discount rate have been changed. Had the estimated key assumptions during the forecast period been changed as below, the headroom would decrease as follows:

Reasonably possible changes in key assumptions	**As of December 31,**		**As of June 30,**
	2020	**2021**	**2022**
		RMB'000	
Average annual growth rate decreases by 1%.	10,381	9,458	9,570
Long-term growth rate decrease by 1%	25,811	25,946	22,748
Average gross margin decrease by 1%	32,237	32,469	34,774
Pre-tax discount rate increase by 1%	34,673	34,880	32,602

In addition, a reasonable possible change of decrease in long-term growth rate by 1%, decrease in average gross margin by 1% or increase in pre-tax discount rate by 1%, individually, will result in the carrying amount of the cash generating unit to exceed its recoverable amount.

The assumptions on average profit margin at 32.8% and pre-tax discount rate at 21.6% of Shenzhen Yimiaotong and average gross margin at 19.38% and pre-tax discount rate at 12.15% of Haiyang Jinchengtai were made based on historical data upon the acquisition date. Given no significant changes in the operating environment, cost of equity, risk premium, cost of debt and capital structure of the companies since the acquisition date and the assumptions were within the range of actual profit margin and actual gross margin of Shenzhen Yimiaotong and Haiyang Jinchengtai, respectively, during the Track Record Period, there is no change in key assumptions.

For a detailed discussion about the determination of goodwill during Track Record Period and the underlying assumptions, including goodwill in relation to Youuolian and Younonggdao we acquired, please refer to Note 18 to the Accountant's Report included in Appendix I to this document.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	Year ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(unaudited)			
Revenue	8,976,133	100.0	8,853,693	100.0	10,289,375	100.0	5,525,424	100.0	5,914,721	100.0
Cost of sales	(8,099,777)	(90.2)	(8,046,263)	(90.9)	(9,132,939)	(88.8)	(4,924,177)	(89.1)	(5,237,328)	(88.5)
Gross profit	876,356	9.8	807,430	9.1	1,156,436	11.2	601,247	10.9	677,393	11.5
Other income	59,484	0.7	49,195	0.6	34,559	0.3	18,295	0.3	29,526	0.5
Other gains, net	34,046	0.4	28,203	0.3	8,055	0.1	7,635	0.1	7,676	0.1
Selling expenses	(344,863)	(3.8)	(394,593)	(4.5)	(451,730)	(4.4)	(220,561)	(4.0)	(246,184)	(4.2)
Administrative expenses	(236,871)	(2.6)	(215,591)	(2.4)	(307,065)	(3.0)	(156,347)	(2.8)	(157,205)	(2.7)
Research and development expenses	(59,252)	(0.7)	(106,053)	(1.2)	(139,742)	(1.4)	(65,222)	(1.2)	(86,280)	(1.5)
Net (provision)/net reversal of impairment loss on financial assets	(11,048)	(0.1)	(20,891)	(0.2)	(5,370)	(0.1)	(11,783)	(0.2)	754	0.0
Operating profit	317,852	3.5	147,700	1.7	295,143	2.9	173,264	3.1	225,680	3.8
Finance income	3,031	0.0	12,192	0.1	24,091	0.2	5,137	0.1	15,423	0.3
Finance costs	(44,673)	(0.5)	(52,065)	(0.6)	(78,190)	(0.8)	(33,781)	(0.6)	(43,499)	(0.7)
Finance costs, net	(41,642)	(0.5)	(39,873)	(0.5)	(54,099)	(0.5)	(28,644)	(0.5)	(28,076)	(0.5)
Share of (losses)/profit of associates and joint ventures, net	(7,529)	(0.0)	(9,763)	(0.1)	16,483	0.2	9,536	0.2	9,444	0.2
Losses on the impairment of an associate	–	–	(26,354)	(0.3)	–	–	–	–	–	–
Profit before income tax	268,681	3.0	71,710	0.8	257,527	2.5	154,156	2.8	207,048	3.5
Income tax expenses	(20,384)	(0.2)	(26,052)	(0.3)	(36,164)	(0.3)	(20,363)	(0.4)	(21,498)	(0.4)
Profit for the year/period	248,297	2.8	45,658	0.5	221,363	2.2	133,793	2.4	185,550	3.1
Profit is attributable to:										
Owners of the Company	249,453	2.8	49,063	0.6	230,345	2.2	139,209	2.5	194,452	3.3
Non-controlling interests	(1,156)	(0.0)	(3,405)	(0.0)	(8,982)	(0.1)	(5,416)	(0.1)	(8,902)	(0.2)
	248,297	2.8	45,658	0.5	221,363	2.2	133,793	2.4	185,550	3.1

	Year ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(unaudited)			
Other comprehensive (loss)/income										
Items that will not be subsequently reclassified to profit or loss										
Share of other comprehensive income of investments in associates and joint ventures	84	0.0	–	–	–	–	–	–	–	–
Changes in the fair value of financial assets at fair value through other comprehensive income ("**FVOCI**")	38,419	0.4	9,629	0.1	(49,437)	(0.5)	(58,077)	(1.1)	(822)	(0.0)
Income tax relating to these items	(9,578)	(0.1)	524	0.0	5,884	0.1	5,994	0.1	(500)	(0.0)
Other comprehensive income/(loss) for the year/period, net of tax	28,925	0.3	10,153	0.1	(43,553)	(0.4)	(52,083)	(1.0)	(1,322)	(0.0)
Total comprehensive income for the year/period	277,222	3.1	55,811	0.6	177,810	1.7	81,710	1.5	184,228	3.1

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

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

While these non-HKFRS measures provide additional financial measures for investors to assess our operating performance, the use of these non-HKFRS measures has certain limitations.

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

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

	Year Ended December 31,			**Six Months Ended June 30,**	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Profit for the year/period	248,297	45,658	221,363	133,793	185,550
Add:					
[**REDACTED**] expenses in connection with previous [**REDACTED**] preparation	4,721	19,624	13,157	13,145	–
[**REDACTED**] expenses in connection with this [**REDACTED**]	–	–	16,350	5,941	19,096
Adjusted net profit for the year/period (non-HKFRS measure)	253,018	65,282	250,870	152,879	204,646
Net profit margin	2.8%	0.5%	2.2%	2.4%	3.1%
Adjusted net profit margin (non-HKFRS measure)	2.8%	0.7%	2.4%	2.8%	3.5%

Without considering the impact of the [**REDACTED**] expenses, our adjusted net profit margin, a non-HKFRS measure, would have been 2.8%, 0.7%, 2.4%, 2.8% and 3.5% for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, respectively.

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

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

Revenue generated from sales of fruits and other food products represented the majority portion of our total revenue, and amounted to RMB8,749.8 million, RMB8,636.8 million and RMB9,991.8 million in 2019, 2020 and 2021, respectively, representing approximately 97.5%, 97.6% and 97.1%, respectively, of total revenue over the same periods. Revenue generated from sales of fruits and other food products amounted to RMB5,367.2 million and RMB5,730.7 million for the six months ended June 30, 2021 and 2022, respectively, representing approximately 97.1% and 96.9% of total revenue over the same periods. The decrease from 2019 to 2020 was a net impact of the decrease in sales of offline retail stores as an adverse result of the COVID-19 pandemic and a decline in our average sales to franchised stores supervised by us, partially offset by a net increase of 192 franchised stores supervised by us. The increase from 2020 to 2021 was driven by a net increase of 362 franchised stores supervised by us and a recovery in sales of offline retail stores and hence, in our average sales to franchised stores supervised by us since the COVID-19 pandemic was gradually under control in 2021. Revenue generated from sales of fruits and other food products increased in the six months ended June 30, 2022 from the corresponding period was primarily due to a net increase in the number of retail stores. During the Track Record Period, the number of franchised stores supervised by us increased from 3,700 as of December 31, 2019 to 3,892 as of December 31, 2020, and further to 4,254 as of December 31, 2021. As of June 30, 2021 and 2022, there were 4,018 and 4,454 franchised stores supervised by us, respectively. In addition, revenue from sales of products to regional dealers was primarily affected by the purchase volume, which in turn, was attributable to the number of franchised stores supervised by regional dealers and the procurement ratio they allocated between us and other designated third party suppliers. Total number of franchised stores supervised by regional dealers were 602, 856, 980, 907 and 981 stores as of December 31, 2019, 2020 and 2021 and June 30, 2021 and 2022, respectively. Procurements by regional dealers from us increased significantly from 2020 to 2021. As of December 31, 2019, 2020 and 2021, we contracted 12, 14 and 13 regional dealers, respectively. As of June 30, 2021 and 2022, we contracted 14 and 13 regional dealers. respectively.

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

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

Note:

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

We collect monthly royalty fee from each franchised store which is calculated as a certain percentage of the gross profit of the franchised store of that month subject to a pre-agreed progressive rate schedule. Since 2019, we have modified our franchise arrangements and considered both gross profit and rental expenses of the new franchised stores when determining the royalty fee rate. We believe this approach better balances the benefits of franchised stores located in different cities. For more details about the arrangements of franchise fee between us and our franchisees, see "Business — Fruit Specialty Retail Operator with OMO and Store-as-warehouse Features — Our Distribution Channels — Offline Retail Store Network — Franchised Stores." We also receive franchising income representing the one-off fixed upfront franchise fee for each newly opened franchised store, which is recognized over a period of five years. During the Track Record Period, our royalty and franchising income amounted to RMB171.5 million, RMB131.4 million and RMB160.3 million, respectively, in 2019, 2020 and 2021. Royalty and franchising income amounted to RMB92.4 million and RMB95.2 million, respectively, for the six months ended June 30, 2021 and 2022.

During the Track Record Period, aggregate royalty income amounted to RMB165.4 million, RMB122.0 million, RMB144.4 million, RMB85.0 million and RMB87.8 million, respectively, in 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022. Over the same periods, franchising income amounted to RMB6.2 million, RMB9.4 million, RMB15.9 million , RMB7.4 million and RMB7.4 million, respectively, in 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022. The decrease in royalty income from 2019 to 2020 was also partially due to our royalty reduction policy since early 2020 to motivate our franchisees to help promote our self-operated mobile APPs as part of our online strategy. Sales derived from online orders via our mobile APPs fulfilled by just-in-time delivery, and sales derived from online orders through third-party food delivery platforms are sales revenue of the relevant store which processes and performs the order. Based on the number of such online orders processed by the franchised stores, we offer a progressive deduction amount from the relevant store's monthly gross profit before calculating its monthly royalty fee. The increase in royalty income from 2020 to 2021 was mainly a result of the overall increase in gross profit of our franchised stores during the mild recovery from the COVID-19. The increases in franchising income, on the other hand, were mainly due to the continuous increase in the number of franchised stores. In addition, this was also partially a result of the deferred revenue recognition of franchising income over a five-year term. Since we do not collect additional franchising income from franchisees upon the renewal of their franchise agreements, the total number of franchised stores increased for the six months ended June 30, 2022 comparing with the corresponding period in 2021, while the aggregate franchising income for these periods remained stable.

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

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

Moreover, we initiated the Xinxiang ("心享") paid membership plan in 2018. Our existing members, despite their original membership level, may subscribe the paid membership for a 12-month period at a membership fee of RMB99 for a basic package or RMB199 for an upgraded package, respectively, and enjoy certain additional privileges. We commit that the paying members will save an amount no less than the membership fee they paid during their 12-month membership period. Otherwise, we will refund and make up for the shortfall. We had over 510 thousand, 390 thousand and 720 thousand paying members as of December 31, 2019, 2020 and 2021, respectively, and we recorded the membership income of RMB46.1 million, RMB54.5 million and RMB77.7 million in 2019, 2020 and 2021, respectively. The relatively smaller number of paying members as of December 31, 2020 was mainly due to a shift of our focus and reallocation of resources to the marketing and promotion of Panda.F brand which was launched in the fourth quarter of 2020 in response to the changing market conditions during the COVID-19 pandemic. It was also attributable to a decrease in consumer traffic visiting offline retail stores during the pandemic since the expansion of our paid membership program heavily relied on in-store services and promotion. The increase in paying members from 2020 to 2021 was mainly due to the launch of the RMB99 basic package since 2021 and the continued impact of COVID-19 in 2021. Mainly due to the relatively lower fee required and the wide variety of basic membership benefits offered by the basic package, it attracted a large number of new and existing paying members since its launch. As of June 30, 2022 and the Latest Practicable Date, among the total of approximately 815 thousand and 931 thousand paying members, 573 thousand and 771 thousand, respectively, were the RMB99 package subscribers. In addition, leveraging the growth of our Panda.F business in terms of the range of product and service offerings as well as the increasing maturity of online operations, we were able to offer more membership benefits in connection with our Panda.F business, which further increased the attractiveness of our membership plan. Membership income increased from RMB34.0 million for the six months ended June 30, 2021 to RMB42.8 million for the corresponding period in 2022. The number of paying members continued to increase over such period from 525.7 thousand as of June 30, 2021 to 815.1 thousand as of June 30, 2022, primarily resulting from the growth of our Panda.F business. Membership income fluctuated during the Track Record Period depending on various factors, including the number of paying members as well as consumption patterns of such paying members within their 12-month subscription period, which in turn affected the timing of our recognition of membership income.

Revenue from Sales of Products by Product Types

The following table sets forth the breakdown of our total revenue from sales of products by product types for the periods indicated.

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

During the Track Record Period, we derived the majority of our revenue from sales of product, including fruits, dried fruits, and other fresh groceries. Among these, revenue from sales of fruits accounted for a substantial portion of our total revenue derived from sales of products. In 2019, 2020 and 2021, revenue from sales of fruits amounted to RMB8,448.1 million, RMB8,329.5 million and RMB9,485.2 million, respectively, accounting for 96.5%, 96.4% and 95.0%, respectively, of total revenue from sales of products over the same periods. The relatively lower revenue from sales of fruits and dried fruits in 2020 was primarily due to a net impact of the decrease in sales of offline retail stores as an adverse result of the COVID-19 pandemic and a decline in our average sales to franchised stores supervised by us, partially offset by a net increase of 192 franchised stores supervised by us. Since the COVID-19 pandemic was gradually under control in 2021, revenue from sales of fruits and dried fruits increased driven by a net increase of 362 franchised stores supervised by us and a recovery in our average sales to franchised stores supervised by us. The increase was also in part due to our OMO strategy to further develop our online channels. For the six months ended June 30, 2021 and 2022, revenue from sales of fruits amounted to RMB5,164.2 million and RMB5,449.3 million, respectively, accounting for 96.2% and 95.1% of total revenue from sales of products over the same periods, respectively. The increase was primarily due to an increase in the number of retail stores.

We also distribute a variety of other fresh groceries including non-standard items, such as vegetables, fresh meat and seafood products, and pre-packaged standard items such as grains and oils, dairy products and others. During the Track Record Period, revenue from sales of other fresh groceries amounted to RMB32.9 million, RMB76.7 million and RMB203.4 million, respectively, in 2019, 2020 and 2021. The continuous increases were primarily attributable to the full launch of our Panda.F brand in the fourth quarter of 2020 under which sales of other fresh groceries experienced a rapid growth during and after the COVID-19 outbreak. Such business continued to increase since its launch in the fourth quarter of 2020 and the year ended December 31, 2021. Revenue from sales of other fresh groceries experienced a significant increase from RMB89.5 million for the six months ended June 30, 2021 to RMB154.3 million for the corresponding period in 2022, primarily resulting from the growth of our Panda.F business.

Revenue from Sales of Products by Distribution Channels

We mainly distribute our products through offline store network, comprising franchised stores operated by franchisees recruited by ourselves or referred by our regional dealers and self-operated stores. We also distribute through online channels. In addition, we engage in direct sales to certain major customers and on a small scale, we engage in the wholesale business.

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

	Year Ended December 31,						**Six Months Ended June 30,**			
	2019		**2020**		**2021**		**2021**		**2022**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(unaudited)			
Franchised stores										
Franchised stores supervised by us	7,686,867	87.9	7,302,861	84.5	8,125,229	81.3	4,356,213	81.2	4,601,710	80.3
Other[(1)]	13,307	0.1	6,238	0.1	1,832	0.0	509	0.0	1,068	0.0
Sub-total	7,700,174	88.0	7,309,099	84.6	8,127,061	81.3	4,356,722	81.2	4,602,778	80.3
Self-operated stores	36,587	0.4	39,210	0.5	48,296	0.5	23,783	0.4	31,693	0.6
Others										
Regional dealers[(2)]	455,887	5.2	493,562	5.7	968,022	9.7	496,341	9.2	563,694	9.8
Direct sales	524,289	6.0	515,526	6.0	522,750	5.3	336,678	6.3	406,982	7.1
Online channels	32,889	0.4	279,417	3.2	325,629	3.2	153,626	2.9	125,546	2.2
	1,013,065	11.6	1,288,505	14.9	1,816,401	18.2	986,645	18.4	1,096,222	19.1
Total	8,749,826	100.0	8,636,814	100.0	9,991,758	100.0	5,367,150	100.0	5,730,693	100.0

Notes:

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

(2) Represented revenue derived from sales of products to regional dealers.

We have established an extensive, well-managed nationwide retail network, comprising primarily franchised stores with a supplementary of self-operated stores. As of December 31, 2019, 2020 and 2021, there were a total of 4,307, 4,757 and 5,249 offline retail stores, respectively, comprising 5, 9 and 15 self-operated stores, 3,700, 3,892 and 4,254 franchised stores supervised by us and 602, 856 and 980 franchised stores supervised by regional dealers, respectively, as of the same dates. As of June 30, 2021 and 2022, there were a total of 4,937 and 5,451 offline retail stores, respectively, comprising 12 and 16 self-operated stores, 4,018 and 4,454 franchised stores supervised by us and 907 and 981 franchised stores supervised by regional dealers, respectively. The revenue contributed by the offline stores largely depends on the number of stores and their performance. Revenue decreased from RMB7,700.2 million in 2019 to RMB7,309.1 million in 2020, primarily due to a net impact of the decrease in sales of offline retail stores as an adverse result of the COVID-19 pandemic and a decline in our average sales to franchised stores supervised by us, partially offset by a net increase of 192 franchised stores supervised by us. Revenue contributed by franchised stores increased from RMB7,309.1 million in 2020 to RMB8,127.1 million in 2021, mainly as a result of the mild recovery from the pandemic which led to an increase in sales of products driven by a net increase of 362 franchised stores supervised by us and a recovery in our average sales to franchised stores supervised by us. Revenue contributed by franchised stores increased in the six months ended June 30, 2022 from the corresponding period in 2021 mainly as a result of a net increase of 436 franchised stores supervised by us over the same periods.

Annual average revenue from sales of products per franchised store supervised by us amounted to RMB2.3 million, RMB2.0 million and RMB2.0 million in 2019, 2020 and 2021, respectively. The decrease from 2019 to 2020 was primarily due to (i) a general decrease in sales due to the COVID-19 outbreak; (ii) increasingly competitive market environment arising from new retail models, such as community group buying, amid the COVID-19 pandemic; and (iii) the increase in proportion of franchised stores supervised by us located in second- and third- or lower tier cities as a result of our store network expansion; due to the stronger purchasing power in first-tier cities, daily average revenue from franchised stores supervised by us in first-tier cities would typically be higher than such stores located in second- and third- or lower tier cities. The increase in annual average revenue from 2020 to 2021 was primarily due to (i) the full launch of our Panda. F business since the fourth quarter of 2020, which drove more visits of consumers to our offline stores, and (ii) the mild recovery from the pandemic, partially offset by the increase in proportion of franchised stores supervised by us located in second- and third- or lower tier cities as a result of continuous store network expansion. Semi-annual average revenue from sales of products per franchised store supervised by us declined slightly in the six months ended June 30, 2022 comparing with the corresponding period in 2021, mainly due to the negative impact of COVID-19 quarantine policies in certain regional markets and partially offset by the growth of our Panda.F business which drove more customers into our offline stores. In 2019, the annual average revenue per franchised store supervised by us located in first-tier, second-tier, and third- and lower-tier cities amounted to RMB3.1 million, RMB1.7 million, RMB1.9 million, respectively. In 2020, the annual average revenue per franchised store supervised by us located in first-tier, second-tier, and third- and lower-tier cities amounted to RMB2.6 million, RMB1.5 million and RMB1.6 million, respectively. In 2021, the annual average revenue per franchised store supervised by us located in first-tier, second-tier, and third- and lower-tier cities amounted to RMB2.7 million, RMB1.7 million and RMB1.7 million, respectively. In the six months ended June 30, 2022, the average revenue per franchised store supervised by us located in first-tier, second-tier, and third- and lower-tier cities amounted to RMB1.5 million, RMB0.9 million and RMB0.9 million, respectively.

Currently, we generally do not engage in sales of fruits and other products to franchised stores supervised by our regional dealers, but we may sell certain goods, to those franchised stores supervised by regional dealers. The decreases in revenue derived from franchised stores supervised by regional dealers during the Track Record Period were primarily because we provided more assistance and support in sales of fruits and other products to such stores at an early stage when commencing the business with regional dealers, who needed less assistance and support of such kind along with their maturity. During the Track Record Period, based on our records of the total purchases by our regional dealers, which included the purchases from us and purchases from other third parties, annual average sales per store supervised by regional dealers was approximately RMB1.5 million, RMB1.3 million and RMB1.4 million in 2019, 2020 and 2021, respectively. The decrease from 2019 to 2020 was primarily due to (i) a general decrease in sales due to the COVID-19 outbreak, and (ii) increasingly competitive market environment arising from new retail models, such as community group buying, amid the COVID-19 pandemic. The increase from 2020 to 2021 was primarily due to the mild recovery from the pandemic. Semi-annual average sales per store supervised by regional dealers declined from approximately RMB782.6 thousand in the six months ended June 30, 2021 to RMB746.8 thousand in the corresponding period in 2022, mainly due to the negative impact of COVID-19 and partially offset by the growth of our Panda F. business which drove more customers into our offline stores. The average sales of products per franchised store supervised by regional dealers were generally lower than the average revenue from sales of products per franchised store supervised by us during the Track Record Period primarily because (i) none of the stores supervised by our regional dealers were located in first-tier cities, while approximately 36.7%, 36.1%, 34.7% and 33.2% of our retail stores, including our self-operated stores and all franchised stores supervised by us, were located in first-tier cities in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively, and (ii) the proportion of stores supervised by us that were located in China's major economic regions were generally higher than that of stores supervised by regional dealers.

The continuous increase in sales of products by self-operated stores from 2019 to 2021 was mainly due to the increase in number of self-operated stores. There were 5, 9 and 15 self-operated stores as of December 31, 2019, 2020 and 2021, respectively. In addition, annual average revenue from sales of products by self-operated stores amounted to RMB7.3 million, RMB4.4 million and RMB3.2 million, in 2019, 2020 and 2021, respectively. The decreases were primarily due to the change in overall store structure where the number of self-operated stores under Pagoda channel brand continued to increase while the number self-operated stores under Guoduomei channel brand remained unchanged. Given the different store positioning and operating strategies, average revenue of Guoduomei self-operated stores is typically higher than that of Pagoda self-operated stores. As of June 30, 2021 and 2022, there were 12 and 16 self-operated stores, respectively, and average revenue from sales of products by self-operated stores amounted to RMB2.3 million and RMB2.0 million for the six months ended June 30, 2021 and 2022, respectively.

We cooperated with regional dealers who facilitate us in identifying qualified franchisees and refer them to us. We also delegate to regional dealers certain managerial responsibilities over the franchised stores in designated areas and sell our products to regional dealers who subsequently re-sell to the franchised stores under their management. We allow our regional dealers to either procure from us or from our designated suppliers. We typically cooperate with regional dealers who have strong local resources, ample retailing experience and well-established operation teams. Pursuant to our arrangements, our regional dealers are also required to establish local preliminary processing and distribution centers following our quality standards and supply products to the franchised stores within their respective regions. This enables us to reduce our upfront investments when developing new regional markets. Other than the revenue from sales of products to regional dealers, we also receive royalty and franchising income from those franchised stores supervised by dealers. Revenue from sales of products to regional dealers was mainly affected by the purchase volume, which in turn, was attributable to the number of stores supervised by regional dealers and the procurement ratio they allocated between us and our designated suppliers. Total number of stores supervised by regional dealers were 602, 856, 980, 907 and 981 stores as of December 31, 2019, 2020 and 2021 and June 30, 2021 and 2022, respectively. Procurements by regional dealers from us increased significantly from 2020 to 2021.

In addition, we also engage direct sales to certain major customers, such as enterprises, restaurants and high-speed railway companies that have catering needs. On a limited scale, we also engage in fruit wholesale business through our subsidiaries, Haiyang Jinchengtai and Hainan Wangpin. Our wholesale customers are mainly large supermarkets and other fruit distributors. The increase in revenue from direct sales from 2020 to 2021 was primarily due to the development of direct sales business by taking advantage of community group buying and other new sales models we commenced in 2021. We accelerated the development of our direct sales business by establishing favorable pricing strategy in order to expand our corporate customer base. As a result, our revenue derived from direct sales increased by 20.9% for the six months ended June 30, 2022 from the corresponding period in 2021.

We have established online distribution channels comprising Pagoda mobile APPs, Pagoda WeChat mini-program, storefronts on mainstream e-commerce platforms such as Tmall and JD.com, as well as on popular social commerce platforms such as Douyin. In addition, we partner with third-party food delivery platforms, such as Meituan, Koubei and Ele.me, which provide instant delivery services. Sales derived from online orders via our mobile APPs and WeChat mini-program fulfilled by next-day delivery, and sales derived from online orders through third-party e-commerce and social commerce platforms are counted as our revenue since such orders are processed and performed by us. Sales derived from online orders via our mobile APPs and WeChat mini-program fulfilled by just-in-time delivery, and sales derived from online orders through third-party food delivery platforms are sales revenue of the relevant store which processes and performs the order, and hence are grouped into revenue contributed by franchised stores and revenue from sales of products to regional dealers. The significant increase in revenue derived from online channels from RMB32.9 million in 2019 to RMB279.4 million in 2020 was primarily due to our operation of new online channels, such as Tmall, and the full launch of Panda.F during 2020, which addressed a large amount of online demands since the COVID-19 pandemic. Revenue derived from online channels decreased from RMB153.6 million for the six months ended June 30, 2021 to RMB125.5 million for the corresponding period in 2022, primarily because of our strategy to reduce our reliance on sales on third-party e-commerce and social commerce platforms and shift to our own Pagoda mobile APPs and Pagoda WeChat mini-program for Panda.F business. As a result, online sales for which revenue was recognized as our revenue on third-party e-commerce and social commerce platforms decreased by 47.7% from RMB95.4 million for the six months ended June 30, 2021 to RMB49.9 million for the corresponding period in 2022, while online sales for which revenue was recognized as our revenue on Pagoda mobile APPs and Pagoda WeChat mini-program for Panda.F business increased by 29.9% from RMB58.2 million for the six months ended June 30, 2021 to RMB75.6 million for the corresponding period in 2022.

Sales Volume and Revenue of Retail Stores and by Quality Classification Categories

The table below sets forth a breakdown of sales volume and revenue derived from sales of fruits and other food products at retail stores, including self-operated stores and all franchised stores, and by quality classification category for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	kg'000	*%*	*kg'000*	*%*	*kg'000*	*%*	*kg'000*	*%*	*kg'000*	*%*
Sales Volume										
Excellent	35,820	7.1	32,590	6.6	35,917	7.1	16,244	6.4	17,549	7.0
Grade A	249,874	49.3	248,719	50.1	262,634	51.8	138,490	54.5	119,373	47.3
Grade B	160,840	31.7	154,626	31.2	158,139	31.2	72,835	28.7	87,567	34.7
Grade C	292	0.1	253	0.1	156	0.0	31	0.0	80	0.0
Other(1)	N/A	N/A	N/A	N/A	N/A	N/A	0	0.0	0	0.0
Guoduomei(2)	60,057	11.8	59,925	12.1	50,348	9.9	26,576	10.4	27,817	11.0
Total	506,883	100.0	496,113	100.0	507,194	100.0	254,176	100.0	252,386	100.0

	Year Ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(unaudited)			
Revenue										
Excellent	711,522	9.2	725,258	9.9	884,704	10.8	482,834	11.0	528,545	11.4
Grade A	3,321,719	42.9	3,408,741	46.4	3,916,111	47.9	2,055,037	46.9	2,024,303	43.7
Grade B	2,493,582	32.2	2,090,679	28.5	2,130,082	26.1	1,175,913	26.8	1,381,498	29.8
Grade C	5,975	0.1	3,565	0.0	4,206	0.1	951	0.0	2,875	0.1
Other(1)	362,373	4.7	338,897	4.6	436,954	5.3	193,653	4.5	254,152	5.5
Guoduomei(2)	841,590	10.9	781,169	10.6	803,300	9.8	472,117	10.8	443,098	9.5
Total(3)	7,736,761	100.0	7,348,309	100.0	8,175,357	100.0	4,380,505	100.0	4,634,471	100.0

Notes:

(1) Products other than fresh fruits that were not classified under our quality classification categories.

(2) Products sold at the retail stores under Guoduomei brand are not classified under our quality classification categories.

(3) Revenue derived from sales of fruits and other food products contributed by all self-operated stores, franchised stores supervised by us and franchised stores supervised by regional dealers.

Revenue from Retail Stores by Geographic Regions

The table below sets forth a breakdown of the number of our retail stores, including self-operated stores and all franchised stores supervised by us, by city tiers for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	#[1]	%	#[1]	%	#[1]	%	#[1]	%	#[1]	%
First-tier cities	1,277	36.7	1,375	36.1	1,416	34.7	1,391	35.1	1,452	33.2
Second-tier cities	1,249	36.0	1,295	34.1	1,352	33.0	1,311	33.0	1,453	33.3
Third- and lower-tier cities	949	27.3	1,134	29.8	1,318	32.3	1,264	31.9	1,465	33.5
Total	3,475	100.0	3,804	100.0	4,086	100.0	3,966	100.0	4,370	100.0

Note:

(1) Calculated as the average of the number of stores at the beginning and ending of the year/period.

The table below sets forth a breakdown of revenue derived from retail stores by city tiers for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
							(unaudited)			
First-tier cities	3,902,050	43.5	3,599,872	40.7	3,819,087	37.1	2,100,320	38.0	2,139,142	36.2
Second-tier cities	2,184,861	24.3	2,002,123	22.6	2,261,218	22.0	1,197,491	21.7	1,305,014	22.1
Third- and lower-tier cities	1,814,796	20.2	1,866,495	21.1	2,241,594	21.8	1,168,969	21.2	1,278,807	21.6
Other sales channels[1]	1,074,426	12.0	1,385,203	15.6	1,967,476	19.1	1,058,644	19.1	1,191,758	20.1
Total	8,976,133	100.0	8,853,693	100.0	10,289,375	100.0	5,525,424	100.0	5,914,721	100.0

Note:

(1) Represented revenue derived from regional dealers, direct sales and online channels.

The table below sets forth a breakdown of annual average revenue per retail store, including those franchised stores supervised by us and self-operated stores, by city tiers for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000[1]	*RMB'000*[1]	*RMB'000*[1]	*RMB'000*[1]	*RMB'000*[1]
				(unaudited)	
First-tier cities	3,056	2,618	2,701	1,515	1,490
Second-tier cities	1,749	1,546	1,670	916	913
Third- and lower-tier cities	1,912	1,646	1,702	956	905
Average	2,274	1,963	2,037	1,141	1,104

Note:

(1) Calculated based on the aggregate revenue derived from retail stores divided by the average number of stores in the relevant year/period.

Annual average revenue per retail store across all tiers experienced a decrease in 2020 from 2019, which was primarily due to the impacts of the COVID-19 pandemic. Annual average revenue per retail store across all tiers generally increased in 2021 from 2020, which was mainly because (i) the COVID-19 pandemic was gradually under control, and (ii) fruit products we sold to franchisees were generally subject to a price increase in 2021. Semi-annual average revenue per retail store, including those franchised stores supervised by us and self-operated stores, across all tiers of cities remained stable for the six months ended June 30, 2021 and 2022.

Moreover, during the Track Record Period, average revenue per retail store located in second-tier cities was generally lower than average revenue per retail store located in third- and lower-tier cities. This was primarily because of the generally favorable store locations in the largely under-penetrated third- and lower-tier cities and competition in certain second-tier cities.

Revenue by Channel Brands

The table below sets forth a breakdown of revenue by channel brands for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(unaudited)			
Pagoda	8,136,255	90.6	8,043,495	90.8	9,462,094	92.0	5,036,567	91.2	5,455,504	92.2
Guoduomei	839,878	9.4	807,763	9.1	819,655	8.0	485,774	8.7	452,492	7.7
Other channel brands	–	–	2,435	0.1	7,626	0.0	3,083	0.1	6,725	0.1
Total	8,976,133	100.0	8,853,693	100.0	10,289,375	100.0	5,525,424	100.0	5,914,721	100.0

During the Track Record Period, the majority of our revenue was derived from retail stores under our Pagoda channel brand. The overall decrease in revenue derived from retail stores under both Pagoda and Guoduomei brands in 2020 from 2019 was primarily due to the impacts of the COVID-19 pandemic. The increase in revenue derived from retail stores under both Pagoda and Guoduomei brands in 2021 was mainly the result of the mild recovery from the COVID-19 pandemic. In addition, the increase in revenue derived from retail stores under Pagoda brand from 2020 to 2021 was also driven by an increase in the number of retail stores. The increase in revenue derived from retail stores under Pagoda brand in the six months ended June 30, 2022 from the corresponding period in 2021 was primarily due to a net increase in the number of stores.

Cost of Sales

Our cost of sales primarily consists of cost of inventories sold, delivery charges, employee benefit expenses, and other costs.

The following table sets forth the major components of our cost of sales in absolute amounts and as percentages of total cost of sales for the periods indicated.

	Year ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(unaudited)			
Cost of inventories sold	7,788,602	96.2	7,658,785	95.2	8,705,686	95.3	4,708,374	95.6	4,993,775	95.3
Delivery charge	131,769	1.6	189,979	2.4	198,641	2.2	98,934	2.0	107,972	2.1
Employee benefit expenses	86,549	1.1	90,522	1.1	94,527	1.0	41,766	0.8	37,975	0.7
Labor cost	12,639	0.2	28,507	0.4	43,301	0.5	22,316	0.4	35,963	0.7
Depreciation of right-of-use asset	19,728	0.2	16,250	0.2	31,115	0.3	13,910	0.3	17,072	0.3
Depreciation	14,772	0.2	21,352	0.3	19,662	0.2	8,652	0.2	10,107	0.2
Rental	14,391	0.2	15,641	0.2	13,590	0.2	7,390	0.2	8,288	0.1
Others(1)	31,327	0.3	25,227	0.2	26,417	0.3	22,835	0.5	26,176	0.5
Total cost of sales	8,099,777	100.0	8,046,263	100.0	9,132,939	100.0	4,924,177	100.0	5,237,328	100.0

Note:

(1) Includes office supplies, travelling expenses, utility expenses, vehicle expenses, tax and surcharges and others.

Our cost of sales fluctuated during the Track Record Period, which was in line with the fluctuation in revenue from sales of products in the relevant periods. Cost of inventories sold represented the purchase cost of the products we sold, which had constituted the majority portion of our total cost of sales. The proportion of cost of inventories of total cost of sales was relatively stable.

Delivery charges mainly represented the costs relating to the transportation from our preliminary processing and distribution centers to the stores and to the designated warehouses of the regional dealers, as well as the costs incurred by us in connection with delivery services to end consumers. Delivery charges increased significantly from 2019 to 2020 mainly due to our operation on new online channels, including Tmall, the launch of Panda.F in 2020, and our continuous penetration into low-tier cities. It increased from 2020 to 2021 because of our business growth and increase in sales of goods. As our business continued to grow, especially in lower-tier cities where logistics are less developed, delivery charges increased in the six months ended June 30, 2022 comparing with the corresponding period in 2021.

Employee benefit expenses included wages, salaries and benefits for personnel directly involved in our operating activities, mainly the employees working at our preliminary processing and distribution centers.

Comparing with fruit distribution business, our distribution of other fresh groceries requires more workers and working time for processing and packaging in the preparation for the orders under Panda.F. We delegate certain non-core work to outsourced labor force and as such, labor costs increased by 51.9% from RMB28.5 million in 2020 to RMB43.3 million in 2021, mainly attributed to the continuous growth of Panda.F business since its launch in the fourth quarter of 2020. Due to the same reasons, labor costs increased by 61.2% from RMB22.3 million for the six months ended June 30, 2021 to RMB36.0 million for the six months ended June 30, 2022.

Under HKFRS 16 "*Leases*", for all leases with a term of more than 12 months, unless the underlying asset is of low value, a lessee is required to recognize a right-of-use asset representing its rights to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. All of our preliminary processing and distribution centers and self-operated stores were located on leased properties. The depreciation of right-of-use assets was relatively stable from 2019 to 2020, primarily because there was no newly contracted long term lease. A significant increase from RMB16.3 million in 2020 to RMB31.1 million in 2021 was mainly due to the long-term lease contract in connection with our new processing and distribution center in Dongguan. We started to pay the monthly rental at RMB2.3 million since the second quarter of 2021. Due to the same reasons, the depreciation of right-of-use assets increased from RMB13.9 million for the six months ended June 30, 2021 to RMB17.1 million for the six months ended June 30, 2022.

Depreciation mainly represented the depreciation of property, plant and equipment mainly in connection with our preliminary processing and distribution centers. The depreciation expenses of RMB14.8 million, RMB21.4 million and RMB19.7 million for the years ended December 31, 2019, 2020 and 2021, respectively, included depreciation expenses of RMB7.7 million, RMB5.6 million and RMB1.4 million, respectively, derived from property, plant and equipment acquired upon acquisition of a subsidiary, namely Jinchengtai. The depreciation expenses increased from RMB8.7 million for the six months ended June 30, 2021 to RMB10.1 million for the six months ended June 30, 2022, primarily due to the depreciation in connection with the new processing and distribution center in Dongguan incurred since the second quarter of 2021.

Rental cost mainly represented short-term leases for our preliminary processing and distribution centers; increased in line with leased areas.

A sensitivity analysis on the fluctuation in cost of inventories sold during the Track Record Period is set forth below, which illustrates the hypothetical effects on our net profit with 1%, 2% and 3% increase or decrease in our cost of inventories sold. Because a number of assumptions have been applied, this sensitivity analysis is for illustration only, and actual results may differ from those illustrated below.

	Change in Net Profit for the Year due to the Change in Cost of Inventories Sold		
	+/-1%	**+/-2%**	**+/-3%**
	RMB'000	*RMB'000*	*RMB'000*
2019	77,886	155,772	233,658
2020	76,588	153,176	229,764
2021	87,057	174,114	261,171
Six months ended June 30, 2022	49,938	99,876	149,813

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased by 7.9% from RMB876.4 million in 2019 to RMB807.4 million in 2020, and gross profit margin decreased from 9.8% in 2019 to 9.1% in 2020. Gross profit increased by 43.2% from RMB807.4 million in 2020 to RMB1,156.4 million in 2021, and gross profit margin increased from 9.1% in 2020 to 11.2% in 2021. Gross profit increased by 12.7% from RMB601.2 million for the six months ended June 30, 2021 to RMB677.4 million in the corresponding period in 2022. Gross profit margin was 10.9% and 11.5% in the six months ended June 30, 2021 and 2022, respectively.

Gross Profit and Gross Profit Margin by Sales Channels

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

	Year Ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
							(unaudited)			
Sales of fruits and other food products										
Franchised stores	523,747	6.8	516,230	7.1	746,843	9.2	376,885	8.7	419,978	9.1
Self-operated stores	9,955	27.2	10,837	27.6	13,170	27.3	6,263	26.3	8,860	28.0
Regional dealers	4,213	0.9	4,658	0.9	9,403	1.0	4,917	1.0	5,641	1.0
Direct sales	111,215	21.2	72,461	14.1	90,457	17.3	55,618	16.5	59,006	14.5
Online channel	919	2.8	(13,635)	(4.9)	(1,054)	(0.3)	(710)	(0.5)	(120)	(0.1)
Sub-total	650,049	7.4	590,551	6.8	858,819	8.6	442,973	8.3	493,365	8.6

	Year Ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000*	*%*
Royalty and franchising income(1)	171,549	100.0	131,364	100.0	160,288	100.0	92,405	100.0	95,211	100.0
Membership income(1) . .	46,062	100.0	54,454	100.0	77,670	100.0	33,961	100.0	42,820	100.0
Others(1)	8,696	100.0	31,061	100.0	59,659	100.0	31,908	100.0	45,997	100.0
Total	876,356	9.8	807,430	9.1	1,156,436	11.2	601,247	10.9	677,393	11.5

Note:

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

Gross profit derived from sales of fruits and other food products to franchised stores fluctuated during the Track Record Period, which was largely in line with the fluctuation in revenue from sales of fruits and other food products contributed by franchised stores. Gross profit margin on sales of fruits and other food products to franchised stores was stable at 6.8% in 2019 and 7.1% in 2020, respectively. The significant increase from 7.1% in 2020 to 9.2% in 2021 was primarily because we raised selling prices towards franchisees, after considering the purchase costs, the maturity of our overall franchise network and stabilizing market environment in 2021 as the COVID-19 pandemic was gradually under control. Fruit products we sold to franchisees were generally subject to a price increase in 2021 which occurred throughout the year, which was also in part a result of the rising demand for our high-quality fruit products. For instance, from 2020 to 2021, the increase of selling prices per kilogram of our top five fruit products under Excellent category ranged from 4.1% to 11.2% and the increase of selling prices per kilogram of our top five fruit products under Grade A category ranged from 5.6% to 14.9%, respectively. Due to the price increase throughout 2021, as well as our increasing brand recognition and economies of scale, gross profit margin on sales of fruits and other food products to franchised stores increased from 8.7% for the six months ended June 30, 2021 to 9.1% for the six months ended June 30, 2022.

Gross profit margin on sales of fruits and other food products to self-operated stores remained relatively stable throughout the Track Record Period. Despite the fact that the annual average revenue derived from sales of products by self-operated stores declined during the Track Record Period, gross profit margin on sales of fruits and other food products to self-operated stores remained relatively stable, mainly because we adopt the cost-plus method to price the products sold to self-operated stores. The difference between the procurement costs of the products and the selling prices we marked up on such products at the self-operated stores was consistent during the Track Record Period. Through our self-operated stores, we sell our products to consumers at retail prices while bearing the costs and expenses in connection with store operation, whereas for franchised stores, we sell our products at a price discounted from retail prices, without bearing the operating expense of these stores. As a result, our self-operated stores generally have a higher gross profit margin than that of franchised stores supervised by us.

Gross profit margin on regional dealers was stable at 0.9%, 0.9%, 1.0%, 1.0% and 1.0% for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, respectively. We typically set a relatively lower gross profit margin target for sales to regional dealers and adopt the cost-plus method to price the products sold to regional dealers, mainly in order to motivate them.

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

Gross profit margin on online channels decreased from 2.8% in 2019 to a negative 4.9% in 2020, mainly due to a change in our online strategy from selling high-end fresh groceries mostly to paying members in 2019 to selling more mass market fresh groceries and other products to all consumers in response to intensified competition along with the launch of Panda.F and our operation of self-operated online stores on Tmall and JD.com under the B2C model. Due to relatively lower gross profit margin on mass market fresh groceries and other products and an increase in delivery charges and packaging costs associated with increased online sales, we recorded a negative gross profit margin in 2020. The gross profit margin slightly improved to a negative 0.3% in 2021, primarily because we optimized product strategy and improved product mix with respect to our continuous operations of Panda.F and the B2C online channels. Gross profit margin on online channels was negative 0.1% for the six months ended June 30, 2022.

Gross Profit and Gross Profit Margin of Retail Stores by Quality Classification Categories

The table below sets forth a breakdown of gross profit and gross profit margin on sales of fruits and other food products at retail stores, including self-operated stores and all franchised stores, by quality classification category for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
							(unaudited)			
Excellent	64,724	9.1	72,194	10.0	98,071	11.1	48,328	10.0	62,519	11.8
Grade A	240,956	7.3	283,461	8.3	405,697	10.4	198,537	9.7	207,864	10.3
Grade B	148,944	6.0	120,843	5.8	191,885	9.0	106,243	9.0	117,109	8.5
Grade C	(639)	(10.7)	(82)	(2.3)	(10)	(0.2)	14	1.5	(177)	(6.2)
Other[1].	33,230	9.2	24,844	7.3	29,567	6.8	10,473	5.4	19,536	7.7
Guoduomei[2]	46,487	5.5	25,807	3.3	34,803	4.3	19,553	4.1	21,987	5.0
	533,702	6.9	527,067	7.2	760,013	9.3	383,148	8.7	428,838	9.3

Notes:

(1) Products other than fresh fruits that were not classified under our quality classification categories.

(2) Products sold at the retail stores under Guoduomei brand are not classified under our quality classification categories.

Gross profit margin of our products under different categories fluctuated due to the different product mix in the relevant period. Generally speaking, products under higher quality classification carry a higher gross profit margin, representing strong market recognition on premium quality that the consumers are willing to pay.

Fruit products classified under Grade C are slightly damaged or overripe fruits which were previously under Grade A or B and are still edible. We reduce selling prices and sell these products at cost to prevent waste. Therefore, gross profit of our Grade C fruit products fluctuated during the Track Record Period, which generally derived a negative gross profit margin. Aggregate sales of Grade C fruit products however, accounted for a relatively small portion of our total sales. We do not expect sales of Grade C fruit products would have a material adverse impact on our business or financial performance in the future.

Gross Profit and Gross Profit Margin of Retail Stores by Geographic Regions

The table below sets forth a breakdown of our gross profit and gross profit margin of retail stores, including self-operated stores and all franchised stores, by city tiers for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(unaudited)			
First-tier cities	374,383	9.6	337,519	9.4	405,003	10.6	220,776	10.5	237,110	11.1
Second-tier cities	161,154	7.4	132,929	6.6	233,995	10.3	117,305	9.8	132,376	10.1
Third- and lower-tier cities	163,111	9.0	176,818	9.5	267,557	11.9	131,341	11.2	147,844	11.6
Other sales channels[1]	177,708	16.5	160,164	11.6	249,881	12.7	131,825	12.5	160,063	13.4
	876,356	9.8	807,430	9.1	1,156,436	11.2	601,247	10.9	677,393	11.5

Note:

(1) Represented revenue derived from regional dealers, direct sales and online channels.

During the Track Record Period, gross profit margin of franchised stores supervised by us and self-operated stores located in first-tier cities was generally lower than that of franchised stores supervised by us and self-operated stores located in third- and lower-tier cities in the relevant period. This was primarily due to the fact that (i) a majority of franchised stores under Guoduomei brand were located in Beijing and generally recorded a relatively lower gross profit margin than Pagoda stores due to different store positioning and product mix; and (ii) we strategically offered relatively higher rebates to franchised stores during the Track Record Period in Beijing due to the competitive market environment in the region. In addition, gross profit margin of franchised stores supervised by us located in second-tier cities was also lower than that of franchised stores supervised by us located in third- and lower-tier cities in the relevant period. This was primarily because among those second-tier cities, some were facing intense competition, and we therefore adopted a competitive pricing strategy in those cities.

Gross Profit by Channel Brands

The table below sets forth a breakdown of our gross profit by channel brands for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(unaudited)			
Pagoda	800,066	9.8	738,902	9.2	1,089,971	11.5	558,929	11.1	644,363	11.8
Guoduomei	76,290	9.1	68,002	8.4	64,399	7.9	41,647	8.6	31,492	7.0
Other channel brands	–	–	526	21.6	2,066	27.1	671	21.8	1,538	22.9
	876,356	9.8	807,430	9.1	1,156,436	11.2	601,247	10.9	677,393	11.5

Other Income

The following table sets forth the components of other income in absolute amounts and as percentages of total other income for the periods indicated.

	Year ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(unaudited)			
Interest income arising from loans	20,739	34.9	31,535	64.1	21,120	61.1	11,211	61.3	11,107	37.6
Government grant	17,335	29.1	14,761	30.0	7,225	20.9	4,417	24.1	16,347	55.4
Penalty income from franchisees	722	1.2	467	1.0	4,041	11.7	1,428	7.8	1,047	3.5
Compensation income from warehouse relocation	19,655	33.1	–	–	–	–	–	–	–	–
Others[(1)]	1,033	1.7	2,432	4.9	2,173	6.3	1,239	6.8	1,025	3.5
	59,484	100.0	49,195	100.0	34,559	100.0	18,295	100.0	29,526	100.0

Note:

(1) Mainly represents sales of scrap raw materials, such as paper boxes and others.

During the Track Record Period, we from time to time granted interest-bearing loans to third parties to ease their temporary capital needs. Pursuant to our current franchise arrangements, we provide interest-bearing loans to franchisees as financial support. For more details about our financial support provided to franchisees, see "Business — Fruit Specialty Retail Operator with OMO and Store-as-warehouse Features — Our Distribution Channels — Offline Retail Store Network — Franchised Stores — Financial Support Provided to Franchisees." We also provide factoring arrangements to regional dealers in need of capital. In addition, we also provide financial support to suppliers under factoring arrangements. We expect that our support of the business development of our partners by offering financing will in turn ensure the stable growth of our entire ecosystem. Interest income derived from the above-mentioned arrangements is counted in other income. During the Track Record Period, we offered financial support to suppliers at an interest rate which is typically higher than that to regional dealers. Interest-bearing financial support balances to suppliers continued to decrease from RMB153.3 million as of December 31, 2019 to RMB102.4 million as of December 31, 2020, and further to RMB29.2 million as of December 31, 2021, resulting in the decreases in interest income during the Track Record Period. As of June 30, 2022, interest-bearing financial support balances to suppliers amounted to RMB18.1 million.

Government grants mainly represented local government subsidies after meeting certain requirements imposed by various policies or for engaging in certain specific industries, such as agriculture, which were recognized as other income when the incurred operating expenses fulfilled the conditions attached. The government grants received are usually not subject to fulfillment of further conditions.

Penalty income from franchisees represented various occasional penalty payments we collected from our franchisees pursuant to our franchise arrangements due to their non-compliance with our store operational procedures, such as the failure to follow our quality control guidance and remove expired products from the shelf, or tampering the product quality tags without our permission. It also included compensation to us of damaging or losing materials or equipment belonging to us. Due to the expansion and improvement of our fresh groceries offerings under Panda.F, we delivered our fresh groceries and other products in customized containers to ensure the product quality to retail stores, waiting for customer pickup. The significant increase in penalty income from franchisees from 2020 to 2021 was mainly attributable to an increase in compensation for the damage or loss of such containers by the franchisees.

Compensation income from warehouse relocation represented a one-time compensation payment we received in 2019 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 relocated the preliminary processing and distribution center to another leased property in Shanghai in 2019 and we did not experience any interruption to our business operations due to such relocation.

Other Gains, Net

The following table sets forth the components of other gains, net in absolute amounts and as percentages of total other gains, net for the periods indicated.

	Year ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(unaudited)			
Fair value gains on financial assets at FVTPL, net	46,430	136.4	10,553	37.4	9,248	114.8	8,250	108.1	7,476	97.4
(Loss)/gain on disposal of associates and joint venture	–	–	(243)	(0.8)	1,248	15.5	–	–	–	–
Fair value (losses)/gain on biological assets	(241)	(0.7)	151	0.5	(494)	(6.1)	212	2.8	(714)	(9.3)
Losses on disposals of property, plant and equipment	(14,769)	(43.4)	(406)	(1.4)	(224)	(2.8)	(223)	(2.9)	(918)	(12.0)
Loss on dissolution of a subsidiary	(394)	(1.2)	–	–	–	–	–	–	–	–
Re-measurement gain on interest in associates	–	–	16,097	57.1	–	–	–	–	–	–
Gains/(losses) on lease termination	2,203	6.5	13	0.0	(213)	(2.6)	(203)	(2.7)	116	1.5
Exchange gains/(losses), net	817	2.4	2,038	7.2	(1,510)	(18.8)	(401)	(5.3)	1,716	22.4
Total	34,046	100.0	28,203	100.0	8,055	100.0	7,635	100.0	7,676	100.0

Fair value gains on financial assets at fair value through profit or loss (or "**FVTPL**") mainly represented interests income from the short-term structured deposits we purchased from domestic reputable commercial banks. Return on such structured deposits depended on the performance of the underlying investments, primarily including large-denomination certificates of deposit, structural deposits and bilateral deposits. By virtue of these underlying investments, we believe the structured deposits we purchased were flexible, low-risk and non-speculative in nature. These investments generally do not have a fixed term or coupon rate and may be redeemed any time at our discretion. For more details about our cash and investment management policies, see "— Net Current Assets/Liabilities, Net — Financial Assets." Fair value gains on financial assets at FVTPL also included changes in fair value in connection with loans which were convertible to equity interests in the borrowers pursuant to the relevant agreements. The decrease from RMB46.4 million in 2019 to RMB10.6 million in 2020 was mainly due to a decrease in average short-term structured deposits. It further decreased from RMB10.6 million in 2020 to RMB9.2 million in 2021 was mainly due to fair value loss at RMB22.4 million in connection with a loan which may be converted to equity interest in the borrower, a regional fruit retailer, i.e. Guizhou Guohui Guojia Agriculture Development Co., Ltd. (or "**Guizhou Guohui**"). We initially invested in Guizhou Guohui and owned 1% equity interest in it as of the Latest Practicable Date. In 2019, in anticipation of penetration in local markets by collaborating with local fruit retailers and distributors as well as the growth potential of Guizhou as promising tourism city, we entered into a loan agreement, as supplemented subsequently, with Guizhou Guohui and its then four shareholders who in aggregate held 99% equity interest in Guizhou Guohui. Pursuant to the agreements, we agreed to provide a loan in an aggregate amount of RMB20.0 million to support the business operation and development of Guizhou Guohui, and we were entitled the right to either demand Guizhou Guohui and its shareholders to settle the outstanding loan by cash or the equity interest in Guizhou Guohui. In 2021, due to the COVID-19 which adversely affected the tourism business and local economy of Guizhou city and also caused the continuous unsatisfying business performance of Guizhou Guohui, we decided not to pursue the acquisition of additional equity interest in Guizhou Guohui based on our assessment. As part of our risk management, we constantly monitored the performance of Guizhou Guohui after we entered into the loan agreement. It incurred a net loss for the year of 2020 although it maintained net assets by the end of the year. In the first half of 2021, Guizhou Guohui's total assets continued to decrease and we commenced to re-assess the potential risks. Guizhou Guohui failed to settle the repayment for outstanding loans in 2021 and it also incurred a net loss for the year of 2021. As such, we assessed our risks and a fair value loss of RMB22.4 million was recorded in 2021. Despite the fair value loss recorded, we continued to act in our best interest to communicate with the management of Guizhou Guohui and had reached an agreement of a four-year repayment schedule in April 2022, pursuant to which Guizhou Guohui undertook to repay to us, in four installments in each year from 2022 to 2025, the aggregate RMB20 million by October 2025. Other than the above-mentioned transaction, Guizhou Guohui does not have any past or present relationship, including, without limitation, business, employment, family, financing, trust or otherwise, with us or our subsidiaries, shareholders, directors or senior management, or any of their respective associates.

We from time to time identified industry players with growth potentials and made strategic investments, please refer to "Business – Our Products and Brands – Responsible Supply Chain Management Empowering Sustainable Development – Strategic Investment and Partnership" for more details. During the Track Record Period and up to the Latest Practicable Date, we made loans to six companies, five of which were regional fruit retailers and distributors including Guizhou Guohui, with the remaining one a dairy product manufacturer and distributor. Such loans may be converted to equity interest in the borrowers subject to the terms and conditions provided in respective investment agreements. Aggregate principal amounts of these loans amounted RMB103.5 million, among which approximately RMB22.4 million and RMB4.0 million were recorded as fair value loss in 2020 and 2021, respectively, in connection with the loans to two borrowers due to their unsatisfactory performance. Other than these, based on the latest financial information provided by the relevant third parties, we believe the operations of the remaining four borrowers are stable and there is no sign of any material credit risk at current stage. Two of these borrowers were our fruit suppliers and the dairy product manufacturer was also one of our dairy product supplier. Procurement amounts from these suppliers were insignificant. Other than these, to the best of our knowledge, these borrowers do not have any past or present relationship, including, without limitation, business, employment, family, financing, trust or otherwise, with us or our subsidiaries, shareholders, directors, supervisors or senior management, or any of their respective associates.

Under the relevant loan agreements, we typically provided the terms of the loan with detailed repayment schedules as to principal amount and interest. We usually required the shareholders of the relevant borrowers to provide guarantees or pledges. The loans shall only be used in the way agreed in the loan agreements, which was typically and solely for the development of their business. Moreover, we were typically entitled to access certain financial information of the borrowers. We endeavor to minimize our risk exposure by closely monitoring their business and financial performance and assessing our risk management accordingly. We currently do not have any intention to covert the loans into the equity interests in the borrowers. But we will continue to monitor the market as well as the operations of these borrowers, and may consider such conversion and initiate the negotiation when we consider appropriate. Similar to our practice in connection with Guizhou Guohui, we are also committed to actively collecting outstanding amounts by negotiating with management of the borrowers.

Fair value gains on financial assets at FVTPL decreased from RMB8.3 million for the six months ended June 30, 2021 to RMB7.5 million for the six months ended June 30, 2022, primarily because we reduced our investments in short-term structured deposits in 2022.

Loss on disposal of associates in 2020 represented the disposal of 30% equity interest in Dongguan Baiguo Biotechnology Company Limited (東莞百果生物技術有限公司) with a net loss of RMB243.0 thousand. Gain on disposal of associates in 2021 represented the disposal of Shenzhen Aisien Pagoda Industry Co., Ltd. (深圳愛寺恩百果實業有限公司) and Changsha Lvye Agricultural Technology Co., Ltd. (長沙縣綠葉農業科技有限公司), in which we held 35% and 35% equity interest, respectively, with a net gain of RMB410.0 thousand and RMB838.0 thousand, respectively.

Our biological assets mainly comprise of the fresh fruits before harvested in the two plantation bases operated by us. Changes in fair value of biological assets consist of the unrealized gains or losses that are attributable to the revaluation of our biological assets. We account for our biological assets based on the fair value of the biological assets less estimated cost to sell, and at each balance sheet date, our biological assets are remeasured. The change in the fair value of the biological asset, is recognized in our consolidated statements of profit or loss.

Losses on disposal of property, plant and equipment during the Track Record Period mainly related to the relocation of three of our preliminary processing and distribution centers in 2019.

Loss on dissolution of a subsidiary was mainly relating to the losses we incurred in connection with the dissolution of Shenzhen Pagoda Management Consulting Co., Ltd. (深圳百果園管理諮詢服務有限公司).

Re-measurement gain on interest in associates in 2020 was in connection with our step acquisition of Youguolian and Younongdao, whereby we have obtained control over these two entities following a capital injection. Upon such step acquisition, our previously held interest in Youguolian and Younongdao was re-measured to fair value, and the resulting re-measurement gain was included in other gains, net.

Losses/gains on lease termination was primarily due to our early termination of the lease agreements in connection with certain preliminary processing and distribution centers and offices. In accordance with HKFRS 16, losses/gains on lease termination arose from the differences between the carrying values of the right-of-use assets and lease liabilities when we terminated the lease agreements.

Selling Expenses

The following table sets forth the key components of our selling expenses in absolute amounts and as percentages of total selling expenses for the periods indicated.

	Year ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(unaudited)			
Salaries and staff welfare	221,469	64.2	220,292	55.8	266,172	58.9	128,022	58.0	145,937	59.3
Marketing and promotion expenses	43,247	12.5	79,561	20.2	65,101	14.4	36,395	16.5	33,279	13.5
Service fees	14,347	4.2	26,491	6.7	40,076	8.9	18,598	8.4	26,149	10.6
Depreciation of right-of-use asset	12,512	3.6	17,052	4.3	21,054	4.7	10,723	4.9	10,796	4.4
Depreciation and amortization	9,032	2.6	12,304	3.1	15,882	3.5	6,874	3.1	7,793	3.2
Rental and property management fees	4,294	1.3	9,367	2.4	9,664	2.1	5,452	2.5	5,195	2.1
Transportation	10,093	2.9	6,840	1.7	7,401	1.6	3,345	1.5	2,777	1.1
Office supplies	4,992	1.5	3,061	0.8	4,809	1.1	1,720	0.8	1,338	0.5
Others[1]	24,877	7.2	19,625	5.0	21,571	4.8	9,432	4.3	12,920	5.2
	344,863	100.0	394,593	100.0	451,730	100.0	220,561	100.0	246,184	100.0

Note:

(1) Includes entertainment fees, utility fees and other miscellaneous selling expenses.

Our selling expenses increased by 14.4% from RMB344.9 million in 2019 to RMB394.6 million in 2020, primarily due to an increase in marketing and promotion expenses from RMB43.2 million in 2019 to RMB79.6 million in 2020 as we enhanced promotion activities for our online business and our enhanced branding efforts in general. Selling expenses increased by 14.5% from RMB394.6 million in 2020 to RMB451.7 million in 2021, primarily due to an increase in salaries and welfare from RMB220.3 million in 2020 to RMB266.2 million in 2021 for our selling staff. Such increase in salaries and welfare was to motivate our selling and marketing staff for sales growth during the mild recovery period from the COVID-19 pandemic. Selling expenses increased by 11.6% from RMB220.6 million for the six months ended June 30, 2021 to RMB246.2 million for the six months ended June 30, 2022, also primarily due to an increase of RMB17.9 million in salaries and welfare resulting from increases both in headcount and average salaries as our business continued to grow during such period. Increase in selling expenses during the Track Record Period was also attributable to an increase in service fees from RMB14.3 million in 2019 to RMB26.5 million in 2020 and further to RMB40.1 million in 2021, mainly in connection with one of our development strategies to focus on enhancing services and quality control of franchised stores. Service fees increased from RMB18.6 million for the six months ended June 30, 2021 to RMB26.1 million for the six months ended June 30, 2022. To this end, we engaged more relevant service providers, such as mystery customer service, consumer surveys, and franchised store opening service.

Headcounts of our selling and marketing staff decreased by 10.8% from 1,580 in 2019 to 1,409 in 2020, and further by 0.2% to 1,406 in 2021. In contrast, average salaries and staff welfare, remained relatively stable in 2019 and 2020 and increased by 21.0% from 2020 to 2021, representing our intention to offer a more competitive annual salary package to talented selling and marketing staff. We enhanced our basic monthly salary package and introduced a more attractive year-end bonus scheme which led to increase bonus from RMB4.5 million in 2020 to RMB19.1 million in 2021. Headcounts of our selling and marketing staff increased by 6.1% from 1,388 for the six months ended June 30, 2021 to 1,472 for the corresponding period in 2022.

Marketing and promotion expenses increased from 2019 to 2020, mainly due to our enhanced promotion activities for our online business. Marketing and promotion expenses also included third-party platform processing fee in connection with online orders that are recognized as our revenue. Marketing and promotion expenses decreased from 2020 to 2021 primarily because we focused more on enhancing services and quality control of the retail stores and thus, allocating more resource from marketing to professional services by engaging various consulting and survey service providers. Similarly, marketing and promotion expenses slightly decreased for the six months ended June 30, 2022 comparing with the corresponding period in 2021.

Service fees mainly represented the service fees in connection with the market studies, investment consulting service, consumer surveys and marketing and consulting services provided by third party professional firms from time to time. Since 2019, one of our development strategies was to focus on enhancing services and quality control of franchised stores. To this end, we engaged more relevant service providers, such as mystery customer service, consumer surveys, and franchised store supporting services such as store opening service, service fees increased from 2019 to 2021 from RMB14.3 million to RMB26.5 million and further to RMB40.1 million in result. Service fees increased from RMB18.6 million for the six months ended June 30, 2021 to RMB26.1 million for the six months ended June 30, 2022.

Rental and property management fees mainly represented the rental expenses in connection with short-term leases for selling and marketing purpose. Our rental and property management fees increased from 2019 to 2021 primarily due to the increase in leased areas as our business continued to grow. The slight decrease in the six months ended June 30, 2022 comparing with the corresponding period in 2021 was mainly due to renewal of short-term leases upon expiry.

Transportation expenses was mainly relating to the travels of our employees in connection with our marketing activities.

Administrative Expenses

The following table sets forth the key components of our administrative expenses in absolute amounts and as percentages of total administrative expenses for the periods indicated.

	Year ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(unaudited)			
Salaries and staff welfare	156,475	66.1	135,698	62.9	185,903	60.5	89,840	57.5	92,404	58.8
Service fees	32,458	13.7	34,589	16.0	33,573	10.9	25,443	16.3	10,127	6.4
Depreciation and amortization	9,487	4.0	11,166	5.2	16,571	5.5	7,585	4.9	8,344	5.3
Depreciation of right-of-use asset	9,230	3.9	11,242	5.2	11,146	3.6	4,671	3.0	6,369	4.1
[REDACTED] expenses	–	–	–	–	16,350	5.3	5,941	3.8	19,096	12.1
Rental and property management fees	1,101	0.5	3,184	1.5	7,046	2.3	3,427	2.2	5,220	3.3
Transportation	5,942	2.5	3,296	1.5	4,672	1.5	2,039	1.3	1,656	1.1
Office supplies	4,197	1.8	2,277	1.1	2,913	0.9	1,340	0.9	936	0.6
Others[1]	17,981	7.5	14,139	6.6	28,891	9.5	16,061	10.1	13,053	8.3
	236,871	100.0	215,591	100.0	307,065	100.0	156,347	100.0	157,205	100.0

Note:

(1) Includes entertainment fees, utility fees, tax surcharges, bank charges and other miscellaneous administrative expenses.

Our administrative expenses decreased by 9.0% from RMB236.9 million in 2019 to RMB216.0 million in 2020, primarily due to a decrease in salaries and welfare for our administrative staff from RMB156.5 million in 2019 to RMB135.7 million in 2020. Administrative expenses increased by 42.2% from RMB216.0 million in 2020 to RMB307.1

million in 2021, primarily due to an increase in salaries and welfare for our administrative staff from RMB135.7 million in 2020 to RMB185.9 million in 2021. Administrative expenses slightly increased from RMB156.3 million for the six months ended June 30, 2021 to RMB157.2 million for the six months ended June 30, 2022, primarily due to an increased [**REDACTED**] expenses and salaries and staff welfare for our administrative staff.

Salaries and staff welfare for our administrative staff decreased by approximately 13.3% from RMB156.5 million in 2019 to RMB135.7 million in 2020, mainly due to a reduction in monthly salary and annual bonus for management level staff ranging from 5% to 20% due to the COVID-19 pandemic. It increased by approximately 37.0% from RMB135.7 million in 2020 to RMB185.9 million in 2021, which was a combined result of restoration of monthly salary and annual bonus together with a general increase in monthly salary for administrative staff. Bonuses for administrative staff increased from RMB7.5 million in 2020 to RMB31.5 million in 2021 in order to reward and motivate management level staff in 2021. The decline in 2021 was primarily due to our combination of certain positions across different administrative departments. We continued such strategy and consolidated more resources to streamline administrative staff in 2022. As such, salaries and staff welfare for our administrative staff increased from RMB89.8 million for the six months ended June 30, 2021 to RMB92.4 million for the six months ended June 30, 2022. The number of our administrative staff was 643, 643, 604, 640 and 575 for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, respectively.

Service fees mainly represented the service fees in connection with various researches and studies, due diligence and other services provided by third party professional firms for our strategic investments and for our [**REDACTED**] investments. The relatively higher service fees for the six months ended June 30, 2021 comparing with the corresponding period in 2022 was primarily due to various professional service fees incurred in connection with our previous [**REDACTED**] preparation which we had discontinued in 2021, while professional service fees in connection with this [**REDACTED**] were recognized as [**REDACTED**] expenses.

Rental and property management fees mainly represented the rental expenses in connection with short-term leases for our office and other spaces for administrative purposes. During the Track Record Period, rental and property management fees increased primarily due to the increase in leased administrative areas as our business continued to grow.

Transportation expenses were mainly relating to the travels of our employees in connection with our administrative activities.

Others primarily included entertainment fees, utility fees, tax surcharges, bank charges and other miscellaneous administrative expenses. The significant increase from RMB14.1 million in 2020 to RMB28.9 million in 2021 was primarily due to the expenses in connection with certain upgrades and replacements made to our IT infrastructure for administrative purposes as well as the write-off of fixed assets.

[**REDACTED**] expenses represented the legal and other professional fees in connection with this [**REDACTED**].

Research and Development Expenses

The following table sets forth the key components of our research and development expenses in absolute amounts and as percentages of revenue for the periods indicated.

	Year ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(unaudited)			
Salaries and staff welfare	53,992	91.1	99,006	93.4	129,429	92.6	61,160	93.8	80,945	93.8
Rental and property management fees	1,676	2.8	3,328	3.1	4,080	2.9	2,009	3.1	2,184	2.5
Depreciation and amortization	1,075	1.8	2,488	2.3	2,389	1.7	1,214	1.9	938	1.1
Others(1)	2,509	4.3	1,231	1.2	3,844	2.8	839	1.3	2,213	2.6
	59,252	100.0	106,053	100.0	139,742	100.0	65,222	100.0	86,280	100.0

Note:

(1) Includes recruitment expenses, office expenses, travelling expenses, network and server related expenses and other miscellaneous research and development expenses.

During the Track Record Period, our research and development expenses continued to increase, primarily due to the increase in salaries and staff welfare for our research and development staff. We had 512, 587, 601, 591 and 593 research and development staff as of December 31, 2019, 2020 and 2021 and June 30, 2021 and 2022, respectively. During the Track Record Period, our major research and development projects mainly included a number of upgrades and replacements of other IT infrastructure and software systems, such as certain major systematic updates including mid-end platforms, systems for online business, as well as our warehouse management system and assets management system.

Net (Provision)/Net Reversal of Impairment Loss on Financial Assets

Net impairment losses on financial assets during the Track Record Period mainly represented a specified impairment loss on trade receivables from a customer in the amount of approximately RMB20.0 million in 2020 and a general expected credit loss throughout the Track Record Period. In 2020, a third-party customer failed to fully settle its outstanding purchase amounts which was partially due to the adverse market condition during the COVID-19 pandemic 2020 and we determined the specified impairment loss after evaluating the collectability of such outstanding purchase amounts given such customer's business and financial performance.

In the six months ended June 30, 2022, based on the collection progress of historical receivables, we reviewed and adjusted the assessment on impairment loss on financial assets in 2022 and recognized a general net reversal of impairment loss on financial asset of RMB11.8 million for the six months ended June 30, 2022.

Finance Costs, Net

Finance income during the Track Record Period mainly included interest income arising from bank deposits in the amount of RMB3.0 million, RMB12.2 million and RMB24.1 million, respectively, in 2019, 2020 and 2021. Finance income amounted to RMB5.1 million and RMB15.4 million for the six months ended June 30, 2021 and 2022, respectively. Our bank deposits primarily consisted of proceeds from our operation.

Finance costs during the Track Record Period represented the interest expenses on our borrowings and on lease liabilities. Interest expenses on borrowings amounted to RMB29.1 million, RMB36.0 million and RMB47.9 million in 2019, 2020 and 2021, respectively, which were generally in line with our increasing financing needs arising from our business growth. Interest expenses on lease liabilities amounted to RMB15.6 million, RMB16.0 million, RMB30.2 million, RMB13.1 million and RMB16.4 million, respectively, in 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022.

Share of (Losses)/Profit of Associates and Joint Ventures, Net

We from time to time make minority investments in companies, such as start-ups in our industry specializing in agricultural technique and equipment development or delivering cultivation management consulting solutions. We make the minority investments to leverage their academic or technical expertise to supplement our in-house research capabilities, which in turn, are expected to improve our long-term business prosperity and further empower our entire ecosystem.

Since these associates and joint ventures are still at their early stage of development and some were operating at a loss during the Track Record Period, we recorded share of losses of investments in associates and joint ventures in the amount of RMB7.5 million and RMB9.8 million in 2019 and 2020, respectively, and share of profit of RMB16.5 million in 2021. Share of profit of investments in associates and joint ventures amounted to RMB9.5 million and RMB9.4 million for the six months ended June 30, 2021 and 2022, respectively. As of December 31, 2019, 2020 and 2021, we had a total of 9, 19 and 20 associates and a total of 1, 2 and 1 joint venture, respectively. As of June 30, 2021 and 2022, we had a total of 19 and 20 associates and 1 and 1 joint venture, respectively.

Income Tax Expenses

Income tax expenses primarily represented income tax payable by us under relevant PRC income tax rules and regulations. Income tax expenses consisted of current income tax and deferred income tax.

Entities located in the PRC are subject to a statutory income tax rate of 25.0%. During the Track Record Period, some of our subsidiaries were entitled to preferential income tax rates pursuant to the relevant tax regulations. For example, during the Track Record Period, Pagoda Preliminary Processing, Hainan Wangpin and Haiyang Jinchengtai were subject to the preferential tax treatment for preliminary processing business for agricultural products and their respective income arising from the preliminary processing business operations were exempted from income tax. Jiangxi Wangpin and Yuanmou Yuanshengyuan were classified under agriculture industry, therefore, were also exempted from income tax. Moreover, certain other subsidiaries were recognized as high and new technology companies and enjoyed a preferential income tax rate of 15%. Some were granted tax reductions by virtue of high and new technology company or otherwise meeting the requirements of the relevant tax regulations and were subject to the half-reduced income tax rate. Our income tax expenses were also affected by adjustments relating to deferred tax expenses or credits arising from the timing differences between accounting and taxable profits during the Track Record Period.

Our income tax expense increased from RMB20.4 million in 2019 to RMB26.1 million in 2020, and further to RMB36.2 million in 2021. Since most of the profit-contributing operating entities in our Group enjoyed preferential tax treatments mentioned above, in 2019, 2020 and 2021, our effective tax rate was 7.6%, 36.3% and 13.8%, respectively. The fluctuation in effective tax rates was mainly due to the change in proportion of profit contribution by those entities enjoyed preferential tax treatments, especially the ones with the income tax exemption. The significant increase in effective tax rate in 2020 from 2019 was mainly due to the significant decrease in profit of one of our subsidiaries which is subject to preferential tax treatment by virtue of its preliminary processing business for agricultural products and its respective income arising from such business operations were exempted from income tax. Income tax expense slightly increased from RMB20.4 million for the six months ended June 30, 2021 to RMB21.5 million for the six months ended June 30, 2022. Effective tax rate was 13.0% and 10.2% for the six months ended June 30, 2021 and 2022, respectively. The relatively lower effective tax rate for the six months ended June 30, 2022 was primarily due to an increase in profit of our subsidiaries which was subject to preferential tax treatment.

As of the Latest Practicable Date and during the Track Record Period, we had fulfilled all our tax obligations and did not have any unresolved tax disputes.

Profit for the Year/Period

Our net profit decreased from RMB248.3 million in 2019 to RMB45.7 million in 2020. Net profit increased from RMB45.7 million in 2020 to RMB221.4 million in 2021. Net profit increased from RMB133.8 million for the six months ended June 30, 2021 to RMB185.6 million for the six months ended June 30, 2022. Net profit margin was 2.8%, 0.5% and 2.2%, respectively, in 2019, 2020 and 2021. Net profit margin was 2.4% and 3.1% for the six months ended June 30, 2021 and 2022, respectively.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months Ended June 30, 2022 Compared with Six Months Ended June 30, 2021

Revenue

Our revenue increased by 7.0% from RMB5,525.4 million for the six months ended June 30, 2021 to RMB5,914.7 million for the six months ended June 30, 2022. The increase was primarily attributable to a net increase of 436 franchised stores supervised by us during the same periods.

Cost of Sales

Cost of sales increased by 6.4% from RMB4,924.2 million for the six months ended June 30, 2021 to RMB5,237.3 million for the six months ended June 30, 2022. The increase was primarily attributable to an increase in cost of inventories sold, which was in line with the increase of our revenue over the same periods.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased from RMB601.2 million for the six months ended June 30, 2021 to RMB677.4 million for the six months ended June 30, 2022. Gross profit margin was 10.9% and 11.5% for the six months ended June 30, 2021 and 2022, respectively. It was primarily due to the improvement in gross profit margin on sales of fruits and other food products to franchised stores, which in turn, was mainly because we raised selling prices towards franchisees and regional dealers since 2021, after considering maturity of our overall store structure as well as our increasing brand recognition and economies of scale.

Other Income

Other income increased from RMB18.3 million for the six months ended June 30, 2021 to RMB29.5 million for the six months ended June 30, 2022. The increase was primarily due to an increase in government grant. We received certain government grants, including subsidies granted by virtue of leading agricultural company, in 2022, applications of some of which were suspended in 2021 due to the COVID-19 outbreak.

Other Gains, Net

Other gains, net remained relatively stable at RMB7.6 million and RMB7.7 million for the six months ended June 30, 2021 and 2022, respectively.

Selling Expenses

Our selling expenses increased by 11.6% from RMB220.6 million for the six months ended June 30, 2021 to RMB246.2 million for the six months ended June 30, 2022, which was primarily due to an increase of RMB17.9 million in salaries and welfare resulting from increases both in headcount and average salaries as our business continued to grow during such period. The increase was also attributable to an increase of RMB7.6 million in service fees in connection with one of our development strategies to focus on enhancing services and quality control of franchised stores. To this end, we engaged more relevant service providers, such as mystery customer service, consumer surveys, and franchised store supporting services such as store opening services.

Administrative Expenses

Our administrative expenses slightly increased from RMB156.3 million for the six months ended June 30, 2021 to RMB157.2 million for the six months ended June 30, 2022, primarily due to an increases in [**REDACTED**] expenses and salaries and staff welfare for our administrative staff. The relatively higher service fees for the six months ended June 30, 2021 comparing with the corresponding period in 2022 was primarily due to various professional service fees incurred in connection with our previous [**REDACTED**] preparation which we had discontinued in 2022, while professional service fees in connection with this [**REDACTED**] were recognized as [**REDACTED**] expenses.

Research and Development Expenses

Our research and development expenses increased by 32.3% from RMB65.2 million for the six months ended June 30, 2021 to RMB86.3 million for the six months ended June 30, 2022, which was primarily due to an increase in average salaries for research and development staff as we concentrated more resources for IT system development and upgrade.

Net (Provision)/Net Reversal of Impairment Loss on Financial Assets

In the six months ended June 30, 2022, based on the collection progress of historical receivables which resulted in lower trade receivable balance and outstanding factoring amounts, we reviewed and adjusted the assessment on impairment loss on financial assets in 2022 and recognized a general net reversal of impairment loss on financial asset of RMB0.8 million for the six months ended June 30, 2022.

Net impairment loss on financial assets amounted RMB11.8 million for the six months ended June 30, 2021, primarily due to the increase in trade receivable balance, and also the effect of a specific impairment loss on trade receivables from a customer in the amount of approximately RMB6.7 million upon our consideration of the recoverability of such amount.

Finance Costs, Net

Finance income increased from RMB5.1 million for the six months ended June 30, 2021 to RMB15.4 million for the six months ended June 30, 2022, mainly due to an increase in interest arising from bank deposits.

Finance costs increased from RMB33.8 million for the six months ended June 30, 2021 to RMB43.5 million for the six months ended June 30, 2022. Interest expenses on borrowings increased from RMB20.7 million to RMB27.1 million over the same periods due to an increase in borrowing, and interest expenses on lease liabilities increased from RMB13.1 million to RMB16.4 million over the same periods.

Share of Profit of Associates and Joint Ventures, Net

We had strategically invested in 19 and 20 associates and 1 and 1 joint venture for the six months ended June 30, 2021 and 2022, respectively, and realized share of investments in associates and joint ventures, net in the amount of RMB9.5 million and RMB9.4 million for the six months ended June 30, 2021 and 2022, respectively.

Income Tax Expenses

Our income tax expense increased from RMB20.4 million for the six months ended June 30, 2021 to RMB21.5 million for the six months ended June 30, 2022, primarily due to a decrease in the proportion of profit before tax contributed by non-tax-exempt subsidiaries. Effective tax rate was 13.0% and 10.2% for the six months ended June 30, 2021 and 2022, respectively. The relatively lower effective tax rate for the six months ended June 30, 2022 was primarily due to an increase in profit of our subsidiaries which was subject to preferential tax treatment.

Profit for the Period

As a result of the foregoing, our net profit increased from RMB133.8 million for the six months ended June 30, 2021 to RMB185.6 million for the six months ended June 30, 2022. Net profit margin was 2.4% and 3.1% for the six months ended June 30, 2021 and 2022, respectively.

Year Ended December 31, 2021 Compared with Year Ended December 31, 2020

Revenue

Our revenue increased by 16.2% from RMB8,853.7 million in 2020 to RMB10,289.4 million in 2021. The increase was primarily attributable to the increase in revenue from sales of fruits and other food products resulting from a net increase of 362 franchised stores supervised by us, and a recovery in sales of offline retail stores in general, since the COVID-19 pandemic was gradually under control in 2021. Aggregate revenue from sales of fruits and other products and royalty and franchising income increased from RMB7,440.5 million in 2020 to RMB8,287.3 million in 2021, while the number of retail stores in our store network was 4,757 and 5,249 in 2020 and 2021, respectively.

Cost of Sales

Cost of sales increased by 13.5% from RMB8,046.3 million in 2020 to RMB9,132.9 million in 2021. The increase was primarily attributable to an increase in cost of inventories sold, which was in line with the increase of our revenue over the same periods.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased from RMB807.4 million in 2020 to RMB1,156.4 million in 2021. Gross profit margin increased from 9.1% in 2020 to 11.2% in 2021, primarily due to the improvement in gross profit margin on sales of fruits and other food products to franchised stores, which in turn, was primarily because we raised selling prices towards franchisees and regional dealers, after considering the maturity of our overall store structure and challenging market environment in 2020.

Other Income

Other income decreased from RMB49.2 million in 2020 to RMB34.6 million in 2021. The decrease was primarily due to a decrease in interest income and a decrease in government grant.

Other Gains, Net

Other gains, net decreased from RMB28.2 million in 2020 to RMB8.1 million in 2021, which was primarily due to the re-measurement gain on interest in associates of RMB16.1 million upon the step acquisition of Youguolian and Younongdao.

Selling Expenses

Our selling expenses increased by 14.5% from RMB394.6 million in 2020 to RMB451.7 million in 2021, which was primarily due to an increase in salaries and welfare from RMB220.3 million in 2020 to RMB266.2 million in 2021 for our selling staff. Such increase in salaries and welfare was to motivate our selling and marketing staff for sales growth during the mild recovery period from the COVID-19 pandemic. The increase was also attributable to an increase in service fees from RMB26.5 million in 2020 to RMB40.1 million in 2021 in connection with one of our development strategies to focus on enhancing services and quality control of franchised stores. To this end, we engaged more relevant service providers, such as mystery customer service, consumer surveys, and franchised store supporting services such as store opening service.

Administrative Expenses

Our administrative expenses increased by 42.4% from RMB215.6 million in 2020 to RMB307.1 million in 2021, which was primarily due to an increase in salaries and welfare for our administrative staff from RMB135.7 million in 2020 to RMB185.9 million in 2021, which was a combined result of restoration of monthly salary and annual bonus together with general increase in monthly salary for administrative staff. Bonuses for administrative staff increased from RMB5.0 million in 2020 to RMB13.9 million in 2021 in order to reward and motivate management level staff in 2021.

Research and Development Expenses

Our research and development expenses increased by 31.8% from RMB106.1 million in 2020 to RMB139.7 million in 2021, which was primarily due to an increase in headcounts of our research and development staff from 587 in 2020 to 601 in 2021.

Net Impairment Loss on Financial Assets

Net impairment loss on financial assets decreased from RMB20.9 million in 2020 to RMB5.4 million in 2021, primarily due to the specified impairment loss on trade receivables from a customer in the amount of approximately RMB20.0 million in 2020.

Finance Costs, Net

Finance income increased from RMB12.2 million in 2020 to RMB24.1 million in 2021, mainly due to an increase in interest arising from bank deposits.

Finance costs increased from RMB52.1 million in 2020 to RMB78.2 million in 2021. Interest expenses on borrowings increased from RMB36.0 million in 2020 to RMB47.9 million in 2021 due to an increase in borrowing, and interest expenses on lease liabilities increased from RMB16.0 million in 2020 to RMB30.2 million in 2021.

Share of (Losses)/Profit of Associates and Joint Ventures, Net

We had strategically invested in 19 and 20 associates in 2020 and 2021, respectively. Since some associates and joint ventures are at their early stage of development and were operating at a loss, we recorded share of losses of investments in associates and joint ventures, net in the amount of RMB9.8 million in 2020, while we recorded share of profit of investment in associates of RMB16.5 million in 2021.

Income Tax Expenses

Our income tax expense increased from RMB26.1 million in 2020 to RMB36.2 million in 2021, primarily due to an increase in the proportion of profit before tax contributed by non-tax-exempt subsidiaries. Effective tax rate was 36.3% and 13.8%, respectively, in 2020 and 2021. The effective tax rate in 2021 was lower than the PRC statutory income tax rate of 25.0% because certain of our subsidiaries enjoyed tax exemptions and tax reductions pursuant to the applicable tax regulations.

Profit for the Year

As a result of the foregoing, our net profit increased from RMB45.7 million in 2020 to RMB221.4 million in 2021 and net profit margin was 0.5% and 2.2%, respectively, in 2020 and 2021, respectively.

Year Ended December 31, 2020 Compared with Year Ended December 31, 2019

Revenue

Our revenue decreased by 1.4% from RMB8,976.1 million in 2019 to RMB8,853.7 million in 2020, primarily due to a decrease in revenue from sales of fruits and other products, which in turn, was a net impact of the decrease in daily average revenue of sales of product per franchised store supervised by us as an adverse result of the COVID-19 pandemic, partially offset by a net increase of 192 franchised stores supervised by us.

Cost of Sales

Cost of sales decreased by 0.7% from RMB8,099.8 million in 2019 to RMB8,046.3 million in 2020, primarily due to a decrease in cost of inventories sold which was in line with the decrease in sales over the same periods. The decrease was partially offset by an increase in delivery charges primarily due to our operation on new online channels, such as Tmall, the launch of Panda.F in the fourth quarter of 2020, and our continuous penetration into low-tier cities.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased by 7.9% from RMB876.4 million in 2019 to RMB807.4 million 2020, and gross profit margin decreased from 9.8% in 2019 to 9.1% in 2020.

Other Income

Other income decrease by 17.3% from RMB59.5 million in 2019 to RMB49.2 million in 2020, which was primarily due to (i) the one-time compensation income in connection with the warehouse relocation in the amount of RMB19.7 million in 2019, and (ii) a decrease in government grants from RMB17.3 million in 2019 to RMB14.8 million in 2020.

Other Gains, Net

We recorded other gains, net of RMB34.0 million and RMB28.2 million in 2019 and 2020, respectively. The decrease was mainly due to decreased investments in structured deposits in 2020.

Selling Expenses

Our selling expenses increased by 14.4% from RMB344.9 million in 2019 to RMB394.6 million in 2020, primarily due to an increase in marketing and promotion expenses from RMB43.2 million in 2019 to RMB79.6 million in 2020 as we enhanced promotion activities for our online business and our enhanced branding efforts in general.

Administrative Expenses

Our administrative expenses decreased by 9.0% from RMB236.9 million in 2019 to RMB215.6 million in 2020, primarily due to a decrease in salaries and welfare of our administrative staff from RMB156.5 million in 2019 to RMB135.7 million in 2020, mainly resulting from the reduction in monthly salary and annual bonus for management level staff ranging from 3% to 20% due to the COVID-19 pandemic.

Research and Development Expenses

Our research and development expenses increased by 79.0% from RMB59.3 million in 2019 to RMB106.1 million in 2020. The increase was primarily due to an increase in salaries and welfare from RMB54.0 million in 2019 to RMB99.0 million in 2020 as we hired more research and development personnel.

Net Impairment Loss on Financial Assets

Net impairment loss on financial assets increased from RMB11.0 million in 2019 to RMB20.9 million in 2020, primarily due to the specified impairment loss on trade receivables from a customer in the amount of approximately RMB20.0 million in 2020.

Finance Costs, Net

Finance income increased from RMB3.0 million in 2019 to RMB12.2 million in 2020, primarily due an increase in interest income on bank deposits.

Finance cost increased from RMB44.7 million in 2019 to RMB52.1 million in 2020, primarily due to an increase in interest expenses on borrowings from RMB29.1 million in 2019 to RMB36.0 million in 2020, which was generally in line with our increasing financial needs arising from our business development.

Share of (Losses)/Profit of Associates and Joint Ventures, Net

We had strategically invested in 9 and 19 associates in 2019 and 2020, respectively. Since some of these associates and joint ventures are at their early stage of development and were operating at a loss, we recorded share of losses of investments in associates and joint ventures, net in the amount of RMB7.5 million and RMB9.8 million in 2019 and 2020, respectively.

Income Tax Expenses

Our income tax expense increased from RMB20.4 million in 2019 to RMB26.1 million in 2020. Effective tax rate was 7.6% and 36.3%, respectively, in 2019 and 2020. The significant increase in effective tax rate in 2020 from 2019 was mainly due to the significant decrease in profit of one of our subsidiaries which is subject to preferential tax treatment by virtue of its preliminary processing business for agricultural products and its respective income arising from such business operations were exempted from income tax.

Profit for the Year

As a result of the foregoing, our net profit decreased by 81.6% from RMB248.3 million in 2019 to RMB45.7 million in 2020 and net the proportion of profit margin was 2.8% and 0.5%, respectively, in 2019 and 2020.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

We have financed our operations primarily through cash generated from our operating activities, capital contributions by shareholders and bank borrowings. As of December 31, 2019, 2020 and 2021 and June 30, 2022, we had cash and cash equivalents, plus short-term bank deposits, in the amount of RMB317.2 million, RMB654.7 million, RMB814.7 million and RMB1,977.5 million, respectively.

We also had restricted bank deposits in the amount of RMB177.0 million, RMB224.3 million, RMB273.7 million and RMB267.3 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively, which primarily represented the restricted deposits in the designated bank accounts in connection with our prepaid gift cards. Pursuant to the relevant laws and regulations, we are required to deposit a certain percentage of the proceeds from sales of prepaid gift cards to designated bank accounts. Also refer to "— Net Current Assets/Liabilities — Restricted Bank Deposits" below for more details.

Substantially all of our cash and cash equivalents and restricted bank deposits are denominated in Renminbi.

Working Capital Sufficiency

Taking into account the financial resources presently available to us, including cash and cash equivalents, cash generated from operating activities, bank borrowings available to us, the estimated [**REDACTED**] we expect to receive from this [**REDACTED**] and the available banking facilities, our Directors are of the view that we will have sufficient working capital to meet our present requirements and for at least the next 12 months from the date of this document.

Cash Flows Analysis

The following table sets forth our cash flows for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net cash generated from operating activities	495,343	292,896	283,882	512,942
Net cash (used in)/generated from investing activities	(231,825)	(372,660)	(577,898)	1,034,924
Net cash (used in)/generated from financing activities	(64,952)	217,152	404,046	(215,028)
Net increase in cash and cash equivalents	198,566	137,388	110,030	1,332,838
Cash and cash equivalents at the beginning of the year/period	118,682	317,248	454,636	564,666
Cash and cash equivalents at the end of the year/period	317,248	454,636	564,666	1,897,504

Operating Activities

Net cash generated from operating activities for the six months ended June 30, 2022 was RMB512.9 million, which primarily consisted of profit before income tax of RMB207.0 million, adjusted for certain non-cash items such as depreciation and amortization in the aggregate amount of RMB61.4 million and finance cost, net of RMB28.1 million. Additional factors that affected our cash generated from operating activities included an increase in trade payables of RMB155.4 million, a decrease in trade receivables of RMB72.8 million, and a decrease in deposits, prepayments and other receivables of RMB55.6 million primarily as a result of our proactive payment collection.

Net cash generated from operating activities in 2021 was RMB283.9 million, which primarily consisted of profit before income tax of RMB257.5 million, adjusted for certain non-cash items such as depreciation and amortization in the aggregate amount of RMB117.8 million and finance cost, net of RMB54.1 million. Additional factors that affected our cash generated from operating activities included a decrease in trade receivables of RMB129.5 million, and an increase in accruals and other payables of RMB159.2 million in connection with membership fee received and receipt of sales proceeds on behalf of franchisees, offset by an increase in deposits, prepayments and other receivables of RMB401.2 million primarily due to prepayments for purchases.

Net cash generated from operating activities in 2020 was RMB292.9 million, which primarily consisted of profit before income tax of RMB71.7 million, adjusted for certain non-cash items such as depreciation and amortization in the aggregate amount of RMB91.9 million and finance cost, net of RMB39.9 million. Additional factors that affected our cash generated from operating activities included a decrease in trade receivables of RMB128.9 million, and an increase in accruals and other payables of RMB185.3 million in connection with membership fee received and receipt of sales proceeds on behalf of franchisees, offset by a decrease in trade payables of RMB75.7 million.

Net cash generated from operating activities in 2019 was RMB495.3 million, which primarily consisted of profit before income tax of RMB268.7 million, adjusted for certain non-cash items such as depreciation and amortization in the aggregate amount of RMB79.8 million and finance cost, net of RMB41.6 million. Additional factors that affected our cash generated from operating activities included an increase in trade receivables of approximately RMB29.4 million, and an increase in accruals and other payables of RMB133.6 million in connection with membership fee received and receipt of sales proceeds on behalf of franchisees.

Investing Activities

Net cash generated from investing activities for the six months ended June 30, 2022 was RMB1,034.9 million, which primarily consisted of net proceeds from redemption of financial assets in the amount of approximately RMB818.5 million, mainly in connection with our investment in structured deposits.

Net cash used in investing activities in 2021 was RMB577.9 million, which primarily consisted of net payments for financial assets in the amount of approximately RMB623.1 million, mainly in connection with our investment in structured deposits.

Net cash used in investing activities in 2020 was RMB372.7 million, which was primarily due to an increase in time deposits of RMB500.1 million, offset by net proceeds from financial assets of RMB366.2 million in connection with our investment in structured deposits, offset by payments for property, plant and equipment of RMB89.1 million, payments for right-of-use assets of RMB51.6 million and payments for acquisition of associates of RMB70.4 million.

Net cash used in investing activities in 2019 was RMB231.8 million, which primarily consisted of net proceeds from financial assets of RMB439.9 million mainly in connection with our investment in structured deposits, offset by payments for acquisition of subsidiary, net of cash acquired of RMB240.7 million.

Financing Activities

Net cash used in financing activities for the six months ended June 30, 2022 was RMB215.0 million, which primarily consisted of net repayments of bank borrowing of RMB147.0 million.

Net cash generated from financing activities in 2021 was RMB404.0 million, which primarily consisted of net proceeds from bank borrowing of RMB523.0 million, offset by lease payments of RMB76.1 million and interests paid of RMB47.5 million.

Net cash generated from financing activities in 2020 was RMB217.2 million, which primarily consisted of net proceeds from bank borrowing of RMB307.5 million, offset by lease payments of RMB52.0 million and interests paid of RMB35.2 million.

Net cash used in financing activities in 2019 was RMB65.0 million, which primarily consisted of lease payments of RMB42.0 million and an increase in restricted bank deposits of RMB35.9 million, and offset by net proceeds from bank borrowing of RMB42.0 million.

CAPITAL EXPENDITURES

Our capital expenditures amounted to RMB113.4 million, RMB157.6 million and RMB44.0 million in 2019, 2020 and 2021, respectively. Our capital expenditures were primarily for the purchases of fixed assets, mainly in connection with our processing and distribution centers. We expect the capital expenditure for the year ending December 31, 2022 will be approximately RMB57.4 million.

During the Track Record Period, we financed our capital expenditures primarily with cash generated from operations and bank borrowings.

CONTRACTUAL OBLIGATIONS

Capital commitments

The table below sets forth the total amount of our capital commitments contracted for but not yet incurred as of the dates indicated.

	Year Ended December 31,			Six Months Ended June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	9,643	29,659	22,420	73,265
Equity investments	7,705	337,216	295,794	278,532
Total	17,348	366,875	318,214	351,797

Our capital commitments in equity investments as of June 30, 2022 were mainly related to the capital investments we agreed to contribute in certain targeted companies, primarily in fruit suppliers or agricultural technology and cultivation management companies.

Short-term lease commitments

We lease various office spaces and warehouses under non-cancellable short-term leases expiring within one year. The following table sets forth our future aggregate minimum lease payments under non-cancellable short-term leases falling due as of the dates indicated.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	795	866	1,000	967

SELECTED ITEMS OF COMPONENTS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Net Current Assets/Liabilities

The following table sets forth the breakdown of our current assets and liabilities as of the dates indicated.

	As at December 31,			As of June 30,	As of October 31,
	2019	2020	2021	2022	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Current assets					
Inventories	234,806	259,255	246,760	263,351	318,208
Biological assets	3,006	2,131	4,525	4,445	4,880
Trade receivables	1,443,731	1,290,874	1,156,227	1,083,098	1,091,818
Deposits, prepayments and other receivables	577,466	619,107	857,536	759,298	892,658
Financial assets at FVTPL	765,822	414,744	1,039,995	229,954	320,000
Loans to associates	39,032	29,867	12,608	18,136	18,726
Amounts due from associates	13,756	–	15	988	948
Restricted bank deposits	176,979	224,386	272,690	267,314	270,588
Short-term bank deposits	–	200,100	250,000	80,000	80,000
Cash and cash equivalents	317,248	454,636	564,666	1,897,504	1,594,634
Total current assets	3,571,846	3,495,100	4,405,022	4,604,088	4,592,460
Current liabilities					
Trade payables	378,835	304,932	345,196	500,553	423,864
Accruals and other payables	877,344	1,028,085	1,178,246	1,181,856	1,214,091
Contract liabilities	11,845	14,124	18,249	16,807	18,272
Income tax payables	14,187	14,517	11,674	14,770	8,931
Amounts due to associates	18,495	17,890	15,882	4,194	9,493
Bank borrowings	594,785	911,069	1,435,427	1,289,918	1,267,947
Lease liabilities	30,986	30,710	52,051	51,371	33,232
Total current liabilities	1,926,477	2,321,327	3,056,725	3,059,469	2,975,830
Net current assets	1,645,369	1,173,773	1,348,297	1,544,619	1,616,630

Our net current assets decreased from RMB1,645.4 million as of December 31, 2019 to RMB1,173.8 million as of December 31, 2020, mainly due to the negative impact by COVID-19 on our business, and increasing cash outflow resulting from one-off long-term deposits of RMB250 million as of December 31, 2020 and an increase in interests in associates and joint ventures during the year ended December 31, 2020.

Our net current assets increased gradually and amounted to RMB1,173.8 million, RMB1,348.3 million and RMB1,544.6 million as of December 31, 2020, 2021 and June 30, 2022, respectively, mainly due to the cash inflow from decrease in long-term bank deposits and our business development during such periods.

Inventories

Our inventories primarily consist of fruits and other food products, as well as consumables, such as packaging materials.

The following table sets forth a breakdown of our inventory balances as of the dates indicated.

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Fruits and other food products	223,411	247,251	236,819	249,333
Consumables	11,395	12,004	9,941	14,018
Total	234,806	259,255	246,760	263,351

The following table sets forth a breakdown of our inventory balances of fruits and other food products as of the dates indicated.

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
Beginning of the year/period	108,820	234,806	259,255	246,760
Aggregate purchases	7,909,517	7,673,614	8,687,805	5,005,769
Harvested fresh fruits transferred from biological assets	5,071	9,620	5,386	4,597
Aggregate consumption	(7,788,602)	(7,658,785)	(8,705,686)	(4,993,775)
End of the year/period	234,806	259,255	246,760	263,351

Due to the perishable nature of fresh fruits, inventory control is critical to our operations and financial results. We leverage our information technology systems to closely monitor the daily sales activities in the stores and timely adjust our procurement plans so as to maintain appropriate levels of inventories of fruits. We adopt a physical "first-in-first-out" policy to ensure the freshness of our products. We conduct stock check and reconciliation with respect to fruits and vegetables on a daily basis for accurate inventory count. We also monitor the quality and freshness of our fruit inventories regularly and will destroy products that begin to perish or otherwise no longer meet our quality standards. With respect to perishable fruit products, the average inventory turnover under our inventory policies is generally around 2.5 days. We also have implemented in-store inventory control policies that each of the retail stores are required to follow. With respect to certain highly perishable fruits, fresh-cut fruit bowls and juice products, we require the retails stores to discard on a daily basis to ensure the food quality and safety. We encourage our franchisees to manage their inventory at an appropriate level so as to maintain sufficient fresh fruits on the shelf on one hand, and minimize the loss rate on the other. Given that the distribution of our other fresh groceries is subject to the online pre-order model, we are able to assess the demands and make procurement and logistic arrangements subject to the orders received. With respect to other fresh groceries that are better for short storage time to keep best quality, such as vegetables and fresh meat, we generally delivery such products to relevant stores within 24 hours from their arrival at our distribution centers. The average inventory turnover for other pre-packaged fresh groceries generally ranges from several days up to 60 days from our distribution centers to the retail stores. Other fresh groceries at the retail stores will be subsequently picked up in store or delivered to the consumers within the next day.

Furthermore, due to the nature of fresh fruits, inventory loss may arise due to rotten, out-of-season or damaged stock, which is accounted for as cost of sales. During the Track Record Period, inventory loss accounted for approximately 0.010%, 0.003%, 0.034% and 0.045% of total cost of inventories sold in the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

We assess impairment to inventories at each period end during the Track Record Period, and may make provision to write down our inventories to the net realizable value if the inventories become out-of-season or are damaged or their prices went down and their net realizable value is lower than the costs of the inventories. During the Track Record Period, we did not record any material inventory write-offs.

Our fruit and other products inventories increased from 2019 to 2020, which was in line with our expanding operation scale. Fruit and other products inventories decreased from 2020 to 2021, primarily because the procurements for our wholesale business extended from the end of 2021 to early 2022 while usually it was completed by the end of each year. Unsatisfactory weather condition in 2020 adversely affected the yield of apples meeting our quality requirements and our procurement activities continued in the first quarter of 2021 so as to fulfill the demand of our wholesale customers. Although our business mainly focuses on the retailing of fruits and other vegetarian fresh foods, on a limited scale, we also engage in wholesale business. Our wholesale business currently mainly distributes fruits that have a relatively longer storage life, such as apples. Our wholesale customers are mainly large supermarkets and other fruit distributors. Our fruit and other products inventories increased from the end of 2021 to June 30, 2022 as our business grew steadily. It was also partially due to an increase in seasonal inventory for the upcoming summer.

The following table sets forth average inventory turnover days for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,
	2019	2020	2021	2022
Overall inventory turnover[(1)]	7.7	11.2	10.1	8.8

Note:

(1) Calculated based on the average balance of inventory divided by cost of sales for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period. The number of days for the year ended December 31 and the six months ended June 30 is 365 days and 180 days, respectively.

Due to the nature of fruits, our inventory turnover days remained stable during the Track Record Period. Given that certain of our subsidiaries also engage in wholesale business which mainly involves apples and other fruits that typically have a relatively long storage time, our overall inventory turnover days are generally longer than the turnover days for fruits under our inventory policies.

Moreover, if fresh fruits and dried fruits were excluded, the inventory turnover days of our other fresh groceries were approximately 34.0, 37.9, 16.5, and 11.7 days in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. The significant decrease in 2021 was primarily due to the change in product mix where the proportion of vegetables increased, which typically had a relatively short turnover days less than one week.

As of November 30, 2022, RMB263.1 million, or 99.9% of our inventory balance amount as of June 30, 2022, had been subsequently sold or utilized.

Biological Assets

Our biological assets comprise fresh fruits growing on the trees until the point of harvest in our self-operated plantation bases. Biological assets are classified as current assets due to short harvesting period. Harvested fruits will be transferred to inventory. The fair value of fresh fruits is determined by adopting the discounted cash flow method by referring to the anticipated growing yields of the plantation bases, market prices less cost at the point of harvest, the contribution of land and fruit trees as well as other costs for growing such fruit to maturity. Changes in fair value of fresh fruits on trees are recognized in the consolidated statements of profit or loss.

We currently operate two plantation bases, namely a grape plantation base in Yunnan Province and a plantation base in Jiangxi Province, respectively. There is no specific license or approval required to operate plantation bases in China. Harvested fruits that meet our quality standards will be provided to us and fruits with a lower quality level will be sold to third parties in the market. It generally takes two to three years for the grape trees in the Yunnan plantation base to reach stable yields and the anticipated productive life is at around ten years. Grapes are typically matured and harvested one to two seasons every year. It generally takes three to four years for the citrus trees in the Jiangxi plantation base to reach stable yields and anticipated productive life is at around 15 to 20 years. Citrus fruits are typically matured and harvested once every year. Our biological assets decreased from RMB3.0 million as of December 31, 2019 to RMB2.1 million as of December 31, 2020, primarily because the fruits matured and were harvested close to the year end of 2020. It increased to RMB4.5 million as of December 31, 2021. The increase was mainly due to changes in fair value resulting from the diversified biological asset portfolio, an increase in yields in 2021 as well as higher estimated selling prices per unit in 2022. Our biological assets were immaterial as compared to the total current assets as of the same balance sheet date.

Our biological assets were independently valued by Vocation (Beijing) International Assets Appraisal Co., Ltd. (or "**Vocation**"), which is an independent professional qualified valuer not connected with us. See "— Valuation of Biological Assets" below.

Valuation of Biological Assets

Information about the independent valuer

We have engaged Vocation, an independent professional qualified valuer, to determine the fair value of our biological assets as of December 31, 2019, 2020 and 2021, respectively. The key valuers of Vocation team included Mr. Lu Jiang, Mr. Deng Chunhui and Ms. Shi Suhua.

Mr. Deng Chunhui is a director of Shenzhen Appraisal Society and a certified asset appraiser and certified public accountant in China. Mr. Deng has over 20 years of accounting, auditing and valuation experiences. Mr. Deng provided a wide range of valuation services to a number of companies of different industries in China, including COFCO Corporation, China Merchants Group, China Resources (Holdings) Company Limited, China Resources Sanjiu Medical & Pharmaceutical Co., Ltd. (SZ.000999), China Merchants Securities Co.,Ltd. (SH.600999), PCI Technology Group Co., Ltd. (SH.600728), etc. He also provided valuation services of biological assets for financial reporting purpose to a number of listed and private companies, including Shenzhen Nongke Group Co., Ltd. and Jiangxi Origin of Species Ecological. Agriculture Co., Ltd.

Mr. Lu Jiang is a partner of Vocation and the head of Vocation Shenzhen Branch. Mr. Lu is a certified asset appraiser, certified real estate appraiser and land appraiser in China. Mr. Lu has 16 years of valuation experience and provided services to numerous listed and private companies. He oversaw the asset valuation for reorganization of China Resources Microelectronics Limited, reorganization and initial public offering of Yihai Kerry Investment Co., Ltd., and liquidation of China Worldbest Group Co., Ltd. Other companies to which Mr. Lu has provided asset valuation services included PhiChem's Materials Technology Co., Ltd. (SH.300398), Shanghai Beite Technology Co., Ltd. (SH.603009) and Tianjin Rianlon Corporation (SZ.300596) and more.

Ms. Shi Suhua is a project manager of Vocation Shenzhen Branch and a certified asset appraiser in China. Ms. Shi acted as a lead member in providing valuation services to a number of listed and private companies for merger and acquisition, equity transfer, initial public offering and financial reporting purposes.

Based on market reputation and relevant background research on the valuer as well as on major team members in respect of the valuation of our biological assets, our Directors and the Sole Sponsor are satisfied that Vocation is independent from us and is competent in conducting a valuation on our biological assets.

Valuation methodology

In arriving at the assessed value, three generally accepted approaches have been considered, namely, the market approach, cost approach and income approach.

Due to the fact that the future economic benefits of our biological assets are predictable and may be measured by cash value, and that the risks relating to the future economic benefits are measurable, we adopted the income approach in determining the valuation of our biological assets.

Our biological assets are expendable in nature. In practice, the number of transactions of comparable fruits within the growing season and similar yields are limited. Therefore, it is difficult to obtain the market prices or value of the underlying assets under current conditions. As such, the market approach is not appropriate. On the other hand, the cost approach is adopted when there is no existing active market for the same or similar assets with the underlying assets or when it is impossible to adopt the income approach to reliably assess the valuation. Since we are able to adopt the income approach to reliably determine the valuation, the cost approach is not appropriate.

Key assumptions and inputs

During the valuation, Vocation made certain assumptions, including but not limited to, that (i) there is no material change to the political, legal, social and other macro-conditions and there is no material change to the laws and regulations applicable to our business, (ii) our biological assets will continue to be in operation and in use during the anticipated period of benefit, (iii) the accounting policies we have adopted are substantially identical to those on the valuation date and are with continuity and comparability, and (iv) the information provided by us is authentic, complete and reliable.

The key inputs for valuing our biological assets are the fruit growing yields, market prices and discounted rate.

The Reporting Accountant's opinion on the historical financial information of our Group during the Track Record Period is set out in Appendix I to this document. The Sole Sponsor has reviewed and considered the qualification and relevant valuation experience of Vocation and held an interview therewith to understand, among others, the bases, assumptions and underlying methodology adopted. The Sole Sponsor has also conducted site visits to the plantation bases concerned for the purpose of performing an independent verification of the biological assets without experiencing material limitations. In addition, the Sole Sponsor has discussed with the Reporting Accountant to understand the work they performed in relation to the valuation of biological assets for the purpose of reporting on the historical financial information of the Group for the Track Record Period as a whole. Given the above, the Sole Sponsor is satisfied that the valuation methodology and major inputs used in the valuation of the biological assets of our Group are appropriate and reasonable.

Our Directors confirmed, and the Sole Sponsor concurred, that the components used by Vocation in the valuation process are consistent with market factors and assumptions used in the measurement.

Stock-take and internal control

We have established standard procedures to ensure accuracy of our biological assets and other relevant information. We have designated personnel at our plantation bases to monitor and record the status of the fruit trees. We carry out the stock-take procedure every six months and a full stock-take is required at each year end. Our responsive finance personnel shall conduct accounting check on the stock taking results and shall investigate the reasons for the count loss, if any. Records for stock-taking procedures shall be submitted to the finance department at the headquarters in a timely manner for further accounting purpose.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, we had biological assets of RMB3.0 million, RMB2.1 million, RMB4.5 million and RMB4.4 million, respectively. The following table sets forth the movement of our biological assets during the Track Record Period.

	Year Ended December 31,			Six Months Ended June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As the beginning of the year/period	1,977	3,006	2,131	4,525
Increase due to purchases and cultivation	6,341	8,594	8,274	5,231
Transfer to inventories	(5,071)	(9,620)	(5,386)	(4,597)
Changes in fair value due to biological transformation	(241)	151	(494)	(714)
At the end of the year/period	3,006	2,131	4,525	4,445

Trade Receivables

Our trade receivables primarily consist of receivables due from our franchisees and other customers of our direct sales and wholesale business in connection with their purchases of our products. We generally grant our customers a credit term of up to three months. The major customers of our direct sales include certain enterprises, restaurants and high-speed railway companies that have catering needs. Our wholesale customers are mainly large supermarkets and other fruit distributors.

The following table sets forth our trade receivables as of the dates indicated.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables, gross	1,448,544	1,320,785	1,191,298	1,118,503
Less: loss allowance	(4,813)	(29,911)	(35,071)	(35,405)
Trade receivables, net	1,443,731	1,290,874	1,156,227	1,083,098

Trade receivables slightly decreased from 2019 to 2020, which was generally in line with the decrease in sales contributed by franchised stores resulting from the COVID-19 pandemic in 2020. Trade receivables further decreased from 2020 to 2021, primarily due to payments settled by franchisees and other customers during the year. Trade receivables further decreased to RMB1,083.1 million as of June 30, 2022 due to payments settled by franchisees and other customers.

We have designated finance personnel to closely review our trade receivables, aging analysis and the collectability of the trade receivables who are reporting to our finance director. These personnel shall also actively follow up with relevant franchisees or other customers who delay in payments. We will make expected credit loss allowance against the trade receivables when there is evidence of impairment. In 2019, 2020 and 2021 and the six months ended June 30, 2022, we made allowance for trade receivables in the amount of RMB4.8 million, RMB29.9 million, RMB35.1 million and RMB35.4 million, respectively.

The following table sets forth an aging analysis of our trade receivables as of the dates indicated, based on the invoice date.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
1-90 days	1,034,783	832,824	784,079	741,392
91-180 days	369,964	343,154	332,889	306,355
181-360 days	41,315	128,104	47,500	42,577
Over 1 year	2,482	16,703	26,830	28,179
	1,448,544	1,320,785	1,191,298	1,118,503

Due to the nature of our business and our trade receivables collection policies during the Track Record Period, a majority portion of our trade receivables had ages of less than three months.

The following table sets forth our trade receivables turnover days for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,
	2019	**2020**	**2021**	**2022**
Average trade receivables turnover days(1)	58.6	56.4	43.4	34.1

Note:

(1) Average trade receivables turnover days are based on the average balance of trade receivables divided by total revenue for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period. The number of days for the years ended December 31 and the six months ended June 30 is 365 days and 180 days, respectively.

Our outstanding sales amounts with customers are generally recovered through monthly settlement of sales proceeds. We have policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and our management performs ongoing credit evaluations of the counterparties. The credit quality of our customers is assessed, which takes into account their historical transactions, past experience and historical settlement pattern and adjustment for forward looking. In view of the sound collection history of trade receivables, our management believes that the credit risk inherent in our outstanding trade receivable balances due from the customers is not significant and the general provision made is sufficient.

Our average trade receivable turnover days continued to decrease during the Track Record Period, mainly a result of our continuous efforts to review our payment collection and enhance the practice. We expect our trade receivables turnover days will continue to be within 90 days. We have adopted various measures in order to reduce our trade receivables turnover days. We periodically review the repayment schedules of our franchisees and customers of direct sales, and review the aging analysis on a monthly basis. We will assign designated personnel to follow up and chase the outstanding payments in the event of any trade receivables past due over three months. We believe our current credit control policies are appropriate. In addition, average trade receivables turnover days decreased from 2020 to 2021, primarily due to the more timely settlement of trade receivables as sales of our franchisees and other customers improved in 2021 due to a mild recovery from the COVID-19 pandemic. Average trade receivables turnover days decreased from 43.4 days for the year ended December 31, 2021 to 34.1 days for the six months ended June 30, 2022, primarily due to our proactive payment collection.

We do not have any pledges for our trade receivables.

As of November 30, 2022, RMB866.6 million, or 80.0%, of our trade receivables as of June 30, 2022, had been subsequently collected.

Deposits, Prepayments and Other Receivables

Deposits, prepayments and other receivables mainly include prepayment to suppliers, borrowings extended to our franchisees under our financial support arrangements and factoring amounts to regional dealers and suppliers. The following table sets forth our deposits, prepayments and other receivables for the periods indicated.

	As at December 31,			As of June 30,
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current				
Prepayment for property, plant and equipment	5,750	25,128	32,009	38,834
Prepayment for right-of-use assets	–	51,600	–	–
Rental deposits	5,906	5,620	12,297	12,612
Interest-bearing loans to franchisees	50,226	131,617	178,990	190,767
Other prepayments	23,240	36,431	101,588	112,370
	85,122	250,396	324,884	354,583
Less: loss allowance	(1,255)	(2,488)	(3,483)	(3,700)
	83,867	247,908	321,401	350,883
Current				
Rental deposits	2,178	1,211	1,355	1,473
Other deposits	5,677	7,665	6,407	6,534
Prepayment for purchases of fruits and other food products	213,942	217,217	452,288	424,171
Prepayment of [**REDACTED**] expenses	–	–	1,228	3,697
Other prepayments	15,741	41,944	62,773	49,958
Other receivables from prepaid cards sold	14,790	16,078	14,214	18,505
Interest-free loans to franchisees	13,990	–	–	–
Factoring amounts to regional dealers	148,035	179,835	221,478	169,537
Factoring amounts to suppliers	114,224	72,520	16,557	–
Interest-bearing borrowings to third parties	16,117	7,672	6,386	–
Other tax recoverable	25,938	52,623	55,483	59,666
Other receivables	17,359	27,427	23,667	28,752
	587,991	624,192	861,836	762,293
Less: loss allowance	(10,525)	(5,085)	(4,300)	(2,995)
	577,466	619,107	857,536	759,298

As of November 30, 2022, RMB15.9 million, or 85.9% of other receivables from prepaid cards sold as of June 30, 2022, was subsequently collected. As of November 30, 2022, RMB18.7 million, or 65.1% of other receivables as of June 30, 2022, was subsequently collected. As of November 30, 2022, RMB16.6 million, or 8.7% of interest-bearing loans to franchisees outstanding as of June 30, 2022, was subsequently collected. As of November 30, 2022, all of the factoring amounts to regional dealers outstanding as of June 30, 2022 had been fully settled. Please also refer to "Business – Financial Support Arrangements" for more details about subsequent settlements of our interest-bearing loans to franchisees and factoring amounts to regional dealers.

Prepayment for property, plant and equipment increased significantly from RMB5.8 million as of December 31, 2019 to RMB25.1 million as of December 31, 2020, which further increased to RMB32.0 million as of December 31, 2021. As of June 30, 2022, prepayment for property, plant and equipment amounted to RMB38.8 million. The increases were primarily in connection with our new office building under construction in Yantian, Shenzhen city which is expected to be completed in 2024.

Prepayment for right-of-use assets of RMB51.6 million as of December 31, 2020 represented prepayment for land parcel in Yantian, Shenzhen city. We are in the process of constructing a new office building which is expected to complete in 2024. The prepayment for right-of-use assets was transferred to right-of-use assets during the year ended December 31, 2021.

During the Track Record Period, we provided financial supports to our franchisees, which included interest-free loans to support franchised stores opened on or before December 31, 2018 and interest-bearing loans to support franchised stores opened on or after January 1, 2019.

With respect to interest-free loans to franchisees, no application was available after December 31, 2018 and the respective balances were fully settled by franchisees during the year ended December 31, 2020. As of December 31, 2019, 2020 and 2021 and June 30, 2022, the outstanding interest-free loans were due from 65, nil, nil and nil franchisees, respectively, amounting to RMB14.0 million, nil, nil and nil, respectively. The successful collection of such loans reflected the stable cash flow of those franchised stores as their business operations continued.

With respect to interest-bearing loans to franchisees, we extended such loans to 196, 200, 309 and 421 franchisees with outstanding balances of RMB50.2 million, RMB131.6 million, RMB179.0 million and RMB190.8 million, respectively, as of December 31, 2019, 2020 and 2021 and June 30, 2022. Pursuant to the relevant arrangements, such loans had an interest rate at approximately 4.75% per annum and should be repaid in full prior to the expiry of the relevant franchised arrangements. For more details about our financial support arrangements with our franchisees, refer to "Business — Fruit Specialty Retail Operator with OMO and Store-as-warehouse Features — Our Distribution Channels — Offline Retail Store Network — Franchised Stores — Financial Support Provided to Franchisees."

As advised by our PRC Legal Advisor, the financial support arrangements extended to our franchised stores, suppliers, certain associates and selected third parties, is in compliance with the relevant laws and regulations in all material aspects. For more details about our financial support arrangements and their compliance status, please refer to "Business — Financial Support Arrangements."

Prepayment for purchases of fruits and other food products represented the prepayments we paid to third-party suppliers for fruits and other food products. The balance of such prepayments by the end of each year was affected by the delivery time of the products we purchased. The balances remained stable as of December 31, 2019 and 2020. It increased significantly from RMB217.2 million as of December 31, 2020 to RMB452.3 million as of December 31, 2021, primarily due to the timing difference of products delivery, our business growth and commercial reasons for securing sufficient supply of our products. As of June 30, 2022, prepayment for purchases of fruits and other food products amounted to RMB424.2 million. The table below sets forth subsequent settlement of the prepayment for purchase of fruits and other food products as of the dates indicated.

	Period-end balance	**Subsequent settlement up to November 30, 2022**	**% of total balance**
	RMB'000		
2019	213,942	213,878	100.0%
2020	217,217	217,047	99.9%
2021	452,288	429,496	95.0%
June 30, 2022	424,171	352,371	83.1%

We facilitate regional dealers in need of capital in obtaining financing by entering into factoring arrangements with a factoring company which is wholly owned by us. In 2019, we provided such factoring arrangements to ten regional dealers. Pursuant to the arrangements, we typically required associates of the regional dealers to provide personal guarantee. In addition, pursuant to the arrangements, the factoring arrangements had an interest rate ranging from 4.75% to 12.0% per annum and were typically repayable within one year. As of December 31, 2019, 2020 and 2021 and June 30, 2022, total outstanding factoring amounts provided to regional dealers amounted to RMB148.0 million, RMB179.8 million, RMB221.5 million and RMB169.5 million, respectively.

Factoring amounts to suppliers represented the financing we provided under factoring arrangements to support their daily operations. We typically required the controlling shareholders or the legal representatives of the suppliers to provide personal guarantee. These borrowings bore an interest rate ranging from 6.0% to 18.0% per annum and were typically repayable within one year. As of December 31, 2019, 2020 and 2021 and June 30, 2022, total outstanding factoring amounts provided to suppliers amounted to RMB153.3 million, RMB102.4 million, RMB29.2 million and RMB18.1 million, respectively.

Current portion of other prepayments primarily represented prepaid leases for our preliminary processing and distribution centers, and various prepaid service fees in connection with cloud service for online business and logistic service and others. Prepaid leases for our preliminary processing and distribution centers amounted to RMB3.4 million, RMB19.2 million, RMB19.2 million and RMB15.2 million, respectively, as of December 31, 2019, 2020 and 2021 and June 30, 2022. Prepaid cloud, logistic and other service fees amounted to

RMB12.3 million, RMB22.7 million, RMB43.6 million and RMB34.8 million, respectively, as of December 31, 2019, 2020 and 2021 and June 30, 2022. The increases were mainly attributable to the increasing cloud services we used for the expansion of our online operations. In addition, there were prepaid engineering service fee of RMB5.0 million as of December 31, 2021, which was in connection with our new office building under construction in Yantian, Shenzhen city. Non-current portion of other prepayments primarily represented prepayments we assumed in connection with equipment and decoration for franchised stores under our modified arrangements. The increases during the Track Record Period were mainly due to the increase in the number of franchised stores adopting the modified arrangements from 134 stores in 2019 to 264 stores in 2020, and further to 719 stores in 2021. As of June 30, 2022, there were 930 franchised stores adopting the modified arrangements.

Financial Assets

The following table sets forth a breakdown of our investments for the periods indicated.

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current portion				
Financial assets at FVOCI	76,349	65,362	10,864	20,434
– Listed equity securities	11,172	9,953	4,989	2,908
– Unlisted equity securities	65,177	55,409	5,875	17,526
Financial assets at FVTPL	79,716	75,166	82,286	81,313
– Unlisted compound financial instrument	79,716	75,166	82,286	81,313
Current portion				
Financial assets at FVTPL	765,822	414,744	1,039,995	229,954
– Unlisted structured deposit	765,822	414,744	1,039,995	229,954
	921,887	555,272	1,133,145	331,701

During the Track Record Period, financial assets at FVTPL mainly represented investments in structured deposits. To a lesser extent, fair value gains on financial assets at FVTPL also included changes in fair value connection with loans which were convertible to equity interests in the borrowers pursuant to the relevant agreements. For the purpose of better cash management, we from time to time purchased short-term low-risk structured deposits from reputable commercial banks. We have implemented capital and investment policies to monitor and control the risks in connection with such investments. In principle, we may only make investments in structured deposits when we have surplus cash.

We only invest in structured deposits with low risk and high liquidity, such as structural deposits. We also consider the estimated economic returns, as well as the creditability and our historical relationships with the relevant financial institutions, so as to achieve our best interest. Our finance department is responsible for preparing the investment allocation schemes based on our surplus cash and the comparison of the safety, liquidity and estimated returns of the structured deposits of various financial institutions. An investment allocation scheme shall only be implemented after it is approved by the head of the finance department, our general manager and our finance director and the relevant contracts are reviewed and confirmed by our legal department. Investments in principal guaranteed and low-risk wealth management products with a term shorter than six months shall be reviewed and approved by the general manager in charge of finance business and the head of finance department. Investments in principal guaranteed and low-risk wealth management products with a term longer than six months shall be reviewed and approved jointly by the general manager in charge of finance business, the head of finance department and the Group finance center. In principle, we do not allow investment in non-principal guaranteed wealth management products. Any investment of such kind should be subject to a case-by-case review and approval by the general manager in charge of finance business, the head of finance department and the Group finance center and securities department. If an agreement could not be achieved by these department, the proposal may be further submitted to our chairman and Board of Directors for approval. All investments shall be properly documented and submitted through our ERP system and the relevant contracts may only be signed after being reviewed by our legal department. There are designated personnel from the finance department to closely monitor and analyze the structured deposits we have purchased, and shall take risk control measures immediately once any circumstance that may adversely affect the safety of the investment is identified. In addition, the relevant personnel shall also redeem the investments in a timely manner when the investment term expires, so as to ensure a safe collection of our investments. We intend to continue to invest in short-term and low-risk structured deposits and we will ensure all such investments to comply with the applicable laws and regulations, including the relevant requirements under Chapter 14 of the Listing Rules after the [**REDACTED**].

Our financial assets at FVOCI comprise (i) unlisted equity securities and (ii) listed equity securities whereby we invested in companies that we consider have development potentials. Our financial assets at FVTPL are mainly unlisted structured deposits and unlisted compound financial instruments, including convertible debts and redeemable shares, whereby we have the option to either convert our debt investments into shares of some of our investee, or redeem funds from equity investment of other of our investees.

During the Track Record Period, most of our financial assets at FVOCI and financial assets at FVTPL were classified as level 3 for recurring fair value measurement. There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the Track Record Period.

We have engaged an independent and qualified valuer to determine the fair value of material unlisted equity securities. Our finance department also includes a team that performs the valuations of non-property items required for financial reporting purposes, which is directly reporting to our finance director and Directors. Discussions of valuation processes and results are held between the finance director, the Directors and the valuation team at least once every year.

Specific valuation techniques used to value financial instruments classified in level 3 include:

- Listed equity securities — Quoted market prices;
- Unlisted equity securities — Market approach with price-to-earnings ratio for similar instruments, adjusted by discount for lack of marketability;
- Unlisted structured deposits — Discounted cash flow model with unobservable inputs including assumptions of expected future cash flows; and
- Compound financial instruments — Binominal tree model with unobservable inputs including assumptions of expected future cash flows and probability to meet conversion conditions, such conditions include meeting revenue growth target and gross profit target.

For more details about the fair value measurement of our financial assets, refer to Note 3.3 to the Accountant's Report included in Appendix I to this document.

We have implemented internal procedures to ensure the reasonableness of fair value measurement on our financial assets. In relation to the valuation of the financial assets, our Directors and management adopted the following procedures: (i) carefully reviewed the conditions and terms of the agreements in connection with such financial assets, (ii) considered the key basis and assumptions for the valuation which require management assessments and estimates, and (iii) performed a sensitivity analysis of the fair value measurement. Based on these procedures, our Directors are of the view that they have had exercised due and reasonable care, skill and diligence in discharge of their duties. In addition, in terms of the preparation of the historical financial information of our Group for the Track Record Period as a whole set out in the Accountant's Report in Appendix I to this document, our Directors are of the view that the valuation analysis on the financial assets that were classified in level 3 is fair and reasonable.

Details of the fair value measurement of financial assets, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value are disclosed in Note 3.3 to the Accountant's Report in Appendix I to this document which was issued by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

The Reporting Accountant's opinion on historical financial information of our Group for the Track Record Period as a whole is set out in the Accountant's Report in Appendix I to this document.

In relation to the valuation of the Group's level 3 financial assets at FVTPL, the Sole Sponsor has conducted, among others, the following due diligence work:

(i) discussed with the management of the Company to understand the Group's internal policies and procedures regarding valuation assessment of level 3 financial assets and the key basis, methodologies and assumptions adopted by the Group for such valuation assessment;

(ii) reviewed relevant notes to the Accountant's Report and the unqualified opinion of the Reporting Accountant on the historical financial information of the Group as contained in Appendix I to this document;

(iii) discussed with the Reporting Accountant to understand the work they have performed in relation to the valuation of level 3 financial assets for the purpose of reporting on the historical financial information of the Group as a whole;

(iv) reviewed the relevant underlying agreements concerning the corresponding level 3 financial assets during the Track Record Period;

(v) obtained and reviewed the relevant valuation reports prepared by external independent qualified valuer; and

(vi) interviewed the relevant external independent qualified valuer about the key basis, methodologies and assumptions adopted for their valuation of level 3 financial assets.

Based on the due diligence work conducted as described above, and having taken into account the work performed by the Company's management and the unqualified opinion on the historical financial information of the Group as a whole issued by the Reporting Accountant included in Appendix I to this Document, nothing has come to the attention of the Sole Sponsor that would reasonably cause the Sole Sponsor to question in any material respect the valuation of the level 3 financial assets as reflected in the historical financial information of the Group as a whole as set out in Appendix I to this Document.

Restricted Bank Deposits

Restricted bank deposits primarily represented the restricted deposits in the designated bank accounts in connection with our prepaid gift cards and guaranteed deposits that are restricted in use for certain banking arrangements of our Group. Pursuant to the relevant laws and regulations, we are required to deposit a certain percentage of the proceeds from sales of prepaid gift cards to designated bank accounts. We had restricted bank deposits in the amount of RMB177.0 million, RMB275.4 million and RMB273.7 million as of December 31, 2019, 2020 and 2021, respectively. The gradual increases in restricted bank deposits were mainly due to our business growth and both the number of our consumers and the sales of prepaid gift cards continued to increase.

Cash and Cash Equivalents

As of December 31, 2019, 2020 and 2021 and June 30, 2022, we had cash and cash equivalents plus short-term bank deposits, of RMB317.2 million, RMB654.7 million, RMB814.7 million and RMB1,977.5 million, respectively, all of which were denominated in Renminbi. Cash and cash equivalents increased from 2019 to 2020 primarily due to the addition of bank borrowings.

Trade Payables

Our trade payables amounted to RMB378.8 million, RMB304.9 million, RMB345.2 million and RMB500.6 million, respectively, as of December 31, 2019, 2020 and 2021 and June 30, 2022. Our trade payables primarily consist of payables due to our suppliers. Our suppliers generally grant us a credit term of up to one month.

The following table sets forth an aging analysis of our trade payables as of the dates indicated based on the invoice date.

	As of December 31,			As of June 30, 2022
	2019	**2020**	**2021**	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
1-30 days	361,555	282,426	317,811	466,048
31-60 days	6,552	18,022	20,757	20,948
61-90 days	1,856	3,272	2,224	2,836
Over 90 days	8,872	1,212	4,404	10,721
Total	378,835	304,932	345,196	500,553

The following table sets forth our trade payables turnover days for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30. 2022
	2019	**2020**	**2021**	
Average trade payables turnover days(1)	16.0	15.5	13.0	14.5

Note:

(1) Average trade payables turnover days are based on the average balance of trade payables divided by total cost of sales for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period. The number of days for the years ended December 31 and the six months ended June 30 is 365 days and 180 days, respectively.

Average trade payables turnover days remained stable in 2019 and 2020 and decreased from 2020 to 2021, primarily because the procurements for our wholesale business extended from the end of 2021 to early 2022 while usually it was completed by the end of each year.

As of November 30, 2022, RMB485.8 million, or 97.0% of our trade payables as of June 30, 2022, had been subsequently settled.

Accruals and Other Payables

We record accruals and other payables in connection with various aspects of our operations, including staff payroll payables, sales proceeds collected on behalf of our franchisees, prepayments from certain customers, and other tax payables. Total accruals and other payables amounted to RMB907.6 million, RMB1,091.3 million, RMB1,250.3 million and RMB1,257.1 million, respectively, as of December 31, 2019, 2020 and 2021 and June 30, 2022. The continuous increase was in line with our business growth and expansion.

The following table sets forth our accruals and other payables as of the dates indicated.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accrued expenses	23,042	31,095	42,313	49,240
Accrued [**REDACTED**] expenses	–	–	9,045	12,452
Net proceeds of franchised stores	91,070	150,567	194,231	131,689
Receipt on behalf for prepaid cards	155,321	200,040	251,405	276,515
Stored value in member's accounts	344,980	392,022	335,660	405,850
Membership fee received	30,531	32,042	41,953	37,008
Salaries and welfare payables	187,021	178,959	257,477	223,381
Other tax payables	4,039	4,097	8,670	3,071
Deposits received	48,747	89,813	96,922	103,983
Other payables	22,828	12,669	12,836	15,606
	907,579	1,091,304	1,250,512	1,258,795

Accrued expenses mainly represented the payable logistic expenses which continued to increase during the Track Record Period as our business grew.

Net proceeds of franchised stores represented the amount after applicable deductions agreed from the daily sales proceeds of the franchised stores that were temporarily collected by us prior to the settlement at each month end. To exert our management over the franchised stores, we adopt an integrated store-level POS system which is linked to our Pagoda ERP system, through which we are able to monitor the sales activities at the stores on a real-time basis. All sales proceeds generated from the franchised stores shall be deposited to the designated accounts of us on a daily basis. We settle with the franchised stores on a monthly basis by remitting back such amount after deducting (i) the monthly royalty fee, (ii) repayment of interest-free borrowings under our financial support arrangements (if applicable, which had been fully settled by 2019), and (iii) the outstanding procurement agreed by us, then remit the remaining amount, if any, back to the bank account provided by the relevant franchisee. For more details, refer to "Business — Settlement and Cash Management." Receipt of sale proceeds increased significantly during the Track Record Period, which was in line with the franchised store network expansion and the increased sales.

Receipt on behalf for prepaid cards represented the amounts prepaid but not yet consumed in our bearer prepaid gift cards. Card holders may shop in any of the stores by using such cards. Most of our prepaid cards are sold to corporate customers.

Stored value in member's accounts represented the prepaid but not yet consumed amounts in the virtual membership accounts. During the Track Record Period, our stored value in member's accounts fluctuated in line with the changes in the number of members.

Salaries and welfare payables recorded at each year end were primarily in connection with our year-end additional salaries and bonuses. Salaries and welfare payables were relatively lower by the end of 2020, primarily due to the negative impact from the COVID-19 pandemic.

Deposits received mainly represented the contract performance bond and operation bond paid by our franchisees for each franchised store during the term of the franchise arrangements, as well as the operation bond paid by our regional dealers. Such deposits are refundable upon the termination of the respective arrangements after settling any deductible payables by the franchisees or regional dealers as provided under the arrangements. Accumulated deposits received increased during the Track Record Period, primarily due to the continuous net increase in the number of the franchised stores.

Contract Liabilities

Our contract liabilities mainly related to the deferred royalty and franchising income received from franchisees but not yet recognized which amounted to RMB40.5 million, RMB48.5 million and RMB49.1 million as of December 31, 2019, 2020 and 2021, respectively. As of June 30, 2022, contract liabilities amounted to RMB45.1 million. As of November 30, 2022, RMB7.5 million, or 16.6% of contract liabilities as of June 30, 2022, was subsequently recognized.

Lease Liabilities

We have adopted the HKFRS 16 "*Leases*," pursuant to which, for all leases with a term of more than 12 months, unless the underlying asset is of low value, a lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. All of our preliminary processing and distribution centers, self-operated stores and offices are located on leased properties. As of December 31, 2019, 2020 and 2021 and June 30, 2022, our lease liabilities, including current and non-current portion, amounted to RMB280.1 million, RMB291.7 million, RMB571.0 million and RMB544.1 million, respectively. The continuous increases were mainly relating to the increase in our added leased areas every year.

Certain Non-current Items

Interests in associates and joint ventures

As of December 31, 2019, 2020 and 2021 and June 30, 2022, we had investments in associates in the amount of RMB104.2 million, RMB208.4 million, RMB278.9 million and RMB286.3 million, respectively. As of the same dates, we had investments in joint ventures in the amount of RMB7.9 million, RMB50.6 million, RMB45.6 million and RMB50.6 million, respectively. Our associates and joint ventures mainly comprised of fruit product suppliers and agricultural technology companies.

Historically, similar investees of us usually operated at a loss for the initial few years after our investment, and eventually became profitable after several years since our investment. As such, the initial share of loss is within our expectation and therefore, no impairment against our investments in associates and joint ventures was made during the Track Record Period.

Our interests in associates and joint ventures increased from RMB112.1 million as of December 31, 2019 to RMB259.0 million as of December 31, 2020, and further increased to RMB324.5 million as of December 31, 2021. As of June 30, 2022, interests in associates and joint ventures amounted to RMB336.9 million. Such increases were primarily due to our continuous investment activities during the Track Record Period. For details, see Note 20 to the Accountant's Report in Appendix I to this Document.

Intangible assets

Our intangible assets mainly represented trademark, software and customer relationship.

Our intangible assets increased from RMB246.3 million as of December 31, 2019 to RMB252.0 million as of December 31, 2020, primarily due to the acquisition and upgrades of software. Our intangible assets decreased from RMB252.0 million as of December 31, 2020 to RMB247.7 million as of December 31, 2021, primarily due to amortization over estimated useful lives. Our intangible assets further slightly decreased to RMB241.4 million as of June 30, 2022, primarily due to amortization over estimated useful lives.

INDEBTEDNESS

General

The following table sets forth the our indebtedness as of the dates indicated.

	As of December 31,			As of June 30,	As of October 31,
	2019	2020	2021	2022	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Current					
Short-term bank borrowings	586,730	904,417	1,424,800	1,280,000	1,257,800
Portion of long-term bank borrowings due for repayment within one year	8,055	6,652	10,627	9,918	10,147
Lease liabilities	30,986	30,710	52,051	51,371	33,232
	625,771	941,779	1,487,478	1,341,289	1,301,179
Non-current					
Long-term bank borrowings	26,000	18,000	17,084	15,676	68,440
Lease liabilities	249,112	260,991	518,937	492,764	441,719
	275,112	278,991	536,021	508,440	510,159
Total	900,883	1,220,770	2,023,499	1,849,729	1,811,338

Our total outstanding borrowings increased during the Track Record Period, which was in line with our increasing capital needs for the business development. The weighted average interest rates on our outstanding borrowings were 4.67%, 4.11%, 3.86% and 3.75% as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. Our borrowings are all denominated in Renminbi.

We used these bank loans primarily for our working capital needs. Our bank borrowings were generally secured by our equity in certain subsidiaries and/or some were guaranteed by our subsidiaries and our Controlling Shareholders. Our Controlling Shareholders had guaranteed certain of our borrowings up to RMB604.0 million, RMB880.0 million, RMB1,424.8 million and RMB1,280.0 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively, which will be released prior to the [**REDACTED**].

Our loan agreements contained standard terms and conditions that are customary for commercial bank loans in the PRC. Our loan agreements contain material covenants that, among others, restrict us from conducting mergers, acquisitions, divisions or other reorganizations, disposing of material assets, making material investments, or incurring material indebtedness, without obtaining the prior consent from the relevant banks. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any breach of these covenants that could have a material adverse effect on our business operations, nor did we experience any default in repayment of our bank loans or have any difficulties in obtaining additional bank facilities with terms that are commercially acceptable to us. We do not expect such covenants provided in our loan agreements would materially restrict our overall ability to undertake additional debts or equity financing necessary to carry out our business plans in the future.

As of June 30 and October 31, 2022, we had unutilized banking facilities of approximately RMB1,410.0 million and RMB1,579.0 million, respectively, which are not committed nor restricted. Our Directors confirmed that we do not currently have any concrete and material external financing plans outside our ordinary course of business. We do not anticipate any material changes to the availability of bank financing to finance our operations in the future, although there is no assurance that we will be always able to access bank financing on favorable terms or at all.

Save as disclosed in this section headed "Financial Information", and apart from intra-group liabilities, as of the Latest Practicable Date, we did not have any other outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances (other than normal trade bills) or acceptance credits, guarantees or any material contingent liabilities.

Contingent Liabilities

As of December 31, 2019, 2020 and 2021, June 30, 2022 and the Latest Practicable Date, we did not have any significant contingent liabilities.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into procurement agreements with certain related parties. The total procurement amounts from our related parties amounted to RMB342.6 million, RMB418.4 million, RMB543.3 million and RMB315.9 million, respectively, in 2019, 2020 and 2021 and the six months ended June 30, 2022. As of December 31, 2019, 2020 and 2021 and June 30, 2022, total trade payables to our related parties under such procurement agreements were RMB18.5 million, RMB17.9 million, RMB15.9 million and RMB4.2 million, respectively. We purchased from 7, 12, 9 and 8 related suppliers in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. The purchase amounts from related suppliers accounted for approximately 4.4%, 5.5%, 6.2% and 6.6% of total cost of goods sold from third party suppliers in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. The procurement agreements we entered into with related parties were on normal commercial terms substantially identical to those with other independent third parties.

In addition, we also entered into fruit sales agreements with certain related parties who were mainly fruit wholesale companies. The total sales amounts to our related parties amounted to RMB27.0 million, RMB36.6 million, RMB41.5 million and RMB22.1 million, respectively, in 2019, 2020 and 2021 and the six months ended June 30, 2022. As of December 31, 2019, 2020 and 2021 and June 30, 2022, total trade receivables from our related parties under such sales agreements were nil, nil, nil and nil, respectively. The sales agreements we entered into with related parties were on normal commercial terms substantially identical to those with other independent third parties.

During the Track Record Period, we provided interest-bearing loans to related parties to support their capital needs during daily operations. In 2019, 2020 and 2021 and the six months ended June 30, 2022, we received interest income from the relevant related parties amounted to RMB4.6 million, RMB4.9 million, RMB2.7 million and RMB0.6 million, respectively. As of December 31, 2019, 2020 and 2021 and June 30, 2022, the outstanding balances of such borrowings were RMB39.0 million, RMB29.9 million, RMB12.6 million and RMB18.1 million, respectively. None of the relevant related parties is a connected person as defined in the Listing Rules.

Moreover, our Controlling Shareholders, namely Mr. Yu and Ms. Xu Yanlin, provided guarantees for our bank borrowings in the aggregate amount of RMB604.0 million, RMB880.0 million, RMB1,424.8 million and RMB1,436.0 million, respectively, as of December 31, 2019, 2020 and 2021 and June 30, 2022. All of these guarantees will be released prior to the [**REDACTED**].

All of the non-trade receivables from and payables to related parties will be settled prior to the [**REDACTED**], except for outstanding factoring amounts classified under loans to associates. Such factoring amounts will be settled pursuant to the terms of relevant factoring agreements.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We have not entered into, nor do we expect to enter into, any off-balance sheet arrangements. Moreover, we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties or any derivative contracts that are indexed to our equity interests and classified as owners' equity. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or research and development services with us.

SUBSEQUENT EVENT

While we have considered the potential financial impacts of COVID-19 in the preparation of the financial statements for the Track Record Period, the full extent of the probable impacts of the COVID-19 disruptions to our operating and financial performance for the financial year ending December 31, 2022 and onwards remains uncertain. Accordingly, there is a possibility that factors not currently anticipated by our management could occur in the future and our assets may be subject to impairment loss in the subsequent financial periods.

We have been closely and constantly monitoring the impacts from the COVID-19 on our businesses to ensure the safety of employees and stable operations. Based on the information currently available, our Directors confirmed that there was no material adverse change in the financial or trading position of our Group up to the date of the Accountant's Report in Appendix I to this document. However, the actual impacts may differ from these estimates as the situation continues evolving and an assessment thereof is subject to further information available in the future.

Save as disclosed above under the subsection headed "— Subsequent Event", there have been no other material events subsequent to the Track Record Period, which require adjustment or disclosure in accordance with HKFRS.

KEY FINANCIAL RATIOS

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

	As of/Year Ended December 31,			As of/Six Months Ended June 30,
	2019	**2020**	**2021**	**2022**
Gross profit margin *(%)*(1)	9.8	9.1	11.2	11.5
Net profit margin *(%)*(2)	2.8	0.5	2.2	3.1
Adjusted net profit margin (non-HKFRS measure) (%)(3)	2.8	0.7	2.4	3.5
Current ratio *(time)*(4)	1.9	1.5	1.4	1.5
Quick ratio *(time)*(5)	1.7	1.4	1.4	1.4
Gearing ratio *(%)*(6)	25.8	36.7	53.5	45.0
Average inventory turnover days *(day)*(7)	7.7	11.2	10.1	8.8

Notes:

(1) Calculated using gross profit for the year/period divided by total revenue for the year/period, see "— Description of Major Components of Our Results of Operations — Gross Profit and Gross Profit Margin."

(2) Calculated using net profit for the year/period divided by total revenue for the year/period, see "— Description of Major Components of Our Results of Operations — Profit for the Year/Period."

(3) A non-HKFRS measure, calculated as adjusted net profit for the year/period divided by total revenue for the year/period; adjusted net profit represents profit for the year/period before [**REDACTED**] expenses.

(4) Calculated using current assets divided by current liabilities at the end of year/period.

(5) Calculated using current assets minus inventory, divided by current liabilities at the end of year/period.

(6) Total borrowings divided by total equity at the end of year/period and multiplied by 100%.

(7) Calculated based on the average balance of inventory divided by cost of sales for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period. The number of days for the years ended December 31 and the six months ended June 30 is 365 days and 180 days, respectively.

Current Ratio

Current ratio decreased from 1.9 times in 2019 to 1.5 times in 2020, primarily due to an increase in accruals and other payables mainly in connection with sale proceeds received on behalf of franchisee, receipt on behalf for prepaid cards and stored value in member's accounts, and an increase in short-term borrowings. Current ratio further decreased from 1.5 times in 2020 to 1.4 times in 2021, primarily due to an increase in short-term borrowings. Current ratio increased to 1.5 times for the six months ended June 30, 2022, primarily due to the cash inflow from decrease in long-term bank deposits and our business development during such periods.

Quick Ratio

Quick ratio remained relatively stable at 1.7 times, 1.4 times, 1.4 times and 1.4 times in 2019, 2020 and 2021, and the six months ended June 30, 2022, respectively.

Gearing Ratio

Gearing ratio increased from 25.8% in 2019 to 36.7% in 2020, and further increased to 53.5% in 2021, primarily due to an increase in short-term borrowings. Gearing ratio decreased to 45.0% for the six months ended June 30, 2022, primarily due to a decrease in short-term borrowings.

Average Inventory Turnover Days

See "— Selected Items of Components of Consolidated Statements of Financial Position — Net Current Assets/Liabilities — Inventories."

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the ordinary course of our business, we are exposed to various market risks, including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk, as well as credit risk and liquidity risk. Our risk management strategy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. We have control policies in place and the exposure to these risks are monitored on an on-going basis by the Board.

Market risk

Foreign exchange risk

We operate in China and most of our transactions are denominated in Renminbi. We are exposed to foreign exchange risk primarily through certain sales and purchases transactions that are denominated in U.S. dollar. We manage our exposures to foreign currency transactions by monitoring the level of foreign currency receipts and payments. We ensure that the net exposure to foreign exchange risk is kept to an acceptable level from time to time.

If U.S. dollar had strengthened/weakened by 5% against Renminbi, with all other variables held constant, the profit before income tax for the year ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022 would have been RMB889,000, RMB955,000, RMB3,234,000, RMB1,968,000 and RMB936,000 higher/(lower) respectively, mainly as a result of foreign exchange gains/losses on translation of U.S. dollar denominated financial assets.

Cash flow and fair value interest rate risk

Our interest rate risk mainly arises from cash and cash equivalents and restricted bank deposits at variable interest rate which are subject to cash flow interest rate risk. If the interest rate risk of cash and cash equivalents and restricted bank deposits had been 50 basis points higher/lower, the profit before income tax for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022 would have been approximately RMB2,471,000, RMB3,650,000, RMB2,992,000, RMB1,776,000 and RMB4,529,000 higher/lower, respectively.

Our interest rate risk also arises from bank borrowing at variable interest rate. If the interest rate of bank borrowing had been 50 basis points higher/lower, the profit before income tax for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022 would have been approximately RMB3,104,000, RMB4,645,000, RMB7,263,000, RMB6,268,000 and RMB6,528,000 lower/higher, respectively.

As at December 31, 2019, 2020 and 2021 and June 30, 2022, we are exposed to fair value interest rate risk in relation to financial assets at FVTPL and fixed rate loan receivables. Management considers the fair value interest rate risk exposure is insignificant to us during the Track Record Period.

Price risk

Our exposure to price risk arises from biological assets, investments in wealth management products, compound financial instruments and equity securities held by us and classified in the consolidated statements of financial position as at FVTPL and FVOCI.

To manage our price risk arising from biological assets and investments, we diversify our portfolio. Each biological asset and investment is managed by management on a case by case basis. Management considers the price risk exposure for biological assets is insignificant to us. For the investments, the sensitivity analysis is performed by management, see Note 3.3 for details.

Credit risk

Credit risk is managed at group basis. Credit risk primarily arises from trade receivables, deposits and other receivables, amounts due from associates, loans to associates, and cash and bank balances included in the consolidated statements of financial position which represent our maximum exposure to credit risk in relation to our financial assets.

Risk management

To manage risk arising from cash and cash equivalents and restricted bank deposits, we only transact with state-owned or reputable financial institutions in China. There has been no recent history of default in relation to these financial institutions.

To manage risk arising from trade receivables, we have policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit period granted to the customers is usually no more than 90 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors. In view of the sound collection history of receivables due from them, management believes that the credit risk inherent in our outstanding trade receivable balances due from them is not significant.

For deposits and other receivables, and amounts due from associates and loans to associates, management makes periodic assessment on the recoverability based on historical settlement records and past experiences. In view of the history of cooperation with debtors and the sound collection history of receivables due from them, management believes that the credit risk inherent in our outstanding balances due from us is not significant.

Impairment of financial assets

Trade receivables

We apply the simplified approach to provide for expected credit losses (or "**ECL**") prescribed by HKFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables.

We consider the credit risk characteristics and the invoice date ageing of the trade receivables to measure the expected credit loss. We have assessed the expected credit loss by considering historical default rates, existing market conditions and forward-looking information. Based on our assessment, the credit risk for these trade receivables was not significant.

There is no significant concentrations of credit risk which arise from trade receivables from our customers. Apart from certain specific written off during the Track Record Period due to unforeseen circumstances, management does not expect significant losses from non-performance by these counterparties based on historical settlement pattern. We maintain frequent communications with these customers to ensure relevant transactions are running effectively and smoothly and balances are reconciled. Settlements from these customers are closely monitored on an ongoing basis by our management to ensure any overdue debts are identified. Follow-up action is taken to recover the overdue debts.

Trade receivables are written off when there is no reasonable expectation of recovery. Impairment losses on trade receivables are presented as net impairment losses within operating profit. We categorize a receivable for write-off when a debtor fails to make contractual payments more than one year past due. Subsequent recoveries of amounts previously written off are credited against the same line item.

Deposits and other receivables and amounts due from associates

Deposits and other receivables include of interest-bearing loans and interest-free loans to franchisees, factoring amounts to regional dealers, factoring amounts to suppliers and interest-bearing loans to third parties, rental and other deposits, proceeds receivables from prepaid cards sold, and other receivables.

We consider the probability of default upon initial recognition of an asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, we compare the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. We consider available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

– actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;

– significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and

– significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrow and changes in the operating results of the borrower.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the company. We categorise a loan or receivable for write-off when a debtor fails to make contractual payments more than 180 days past due. Where loans or receivables have been written off, the company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

We use below categories for deposits and other receivables, amounts due from associates and loans to associate, which reflect their credit risk and how the loss provision is determined for each of those categories. A summary of the assumptions underpinning our expected credit loss model is as follows:

Category	Company definition of category	Basis for recognition of expected credit loss provision
Performing	Loans whose credit risk is in line with original expectations.	12-month expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime (stage 1).
Underperforming	Loans for which a significant increase has occurred compared to original expectations; a significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due (see above in more detail).	Lifetime expected losses (stage 2).
Non-performing (credit impaired)	Interest and/or principal repayments are 90 days past due or it becomes probable a customer will enter bankruptcy.	Lifetime expected losses (stage 3).
Write-off	Interest and/or principal repayments are 180 days past due and there is no reasonable expectation of recovery.	Asset is written off

Over the term of the receivables, we account for our credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, we consider historical loss rates for each category of associates, franchisees, regional dealers and suppliers, and adjusts for forward-looking macroeconomic data.

No significant changes to estimation techniques or assumptions were made during the Track Record Period.

The loss allowances for trade receivables, deposits and other receivables as at December 31, 2019, 2020 and 2021 and June 30, 2022 reconcile with the opening loss allowances as follows:

	Trade receivables		Deposits and other receivables	
	Individual basis	Collective basis	Individual basis	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2019	–	1,663	7,892	9,555
Impairment losses for the year	–	3,150	7,898	11,048
Receivables written off as uncollectible	–	–	(4,010)	(4,010)
At 31 December 2019	–	4,813	11,780	16,593
Impairment losses/(reversal) for the year	20,481	4,617	(4,207)	20,891
At 31 December 2020	20,481	9,430	7,573	37,484
Impairment losses for the year	6,726	(1,566)	210	5,370
At 31 December 2021	27,207	7,864	7,783	42,854
Impairment losses/(reversal) for the period	–	334	(1,088)	(754)
At 30 June 2022	27,207	8,198	6,695	42,100

Liquidity risk

With prudent liquidity risk management, we aim to maintain sufficient cash and cash equivalents and ensure the availability of funding through an adequate amount of available financing, including short-term borrowings. For a detailed analysis on non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the date of the consolidated statements of financial position to the contractual maturity date, please refer to Note 3.1(c) to the Accountant's Report included in Appendix I to this document.

Capital risk management

Our objectives when managing capital are to safeguard our ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

We monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt/cash divided by total capital (the sum of total equity and net debt/cash), as shown in the consolidated statements of financial position. Net debt/cash is calculated as total borrowings and lease liabilities less cash and cash equivalents, bank deposits and restricted bank deposits.

Our strategy was to maintain a solid capital base to support the operations and development of its business in the long term. The gearing ratio (defined as net debt divided by total capital) as at December 31, 2019, 2020 and 2021 and June 30, 2022 were as follows:

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowings	620,785	929,069	1,452,511	1,305,594
Lease liabilities	280,098	291,701	570,988	544,135
Less:				
Cash and cash equivalents	(317,248)	(454,636)	(564,666)	(1,897,504)
Bank deposits	–	(450,100)	(350,000)	(110,000)
Restricted bank deposits	(176,979)	(275,395)	(273,699)	(268,323)
Net debt/cash	406,656	40,639	835,134	(426,098)
Total equity	2,403,273	2,528,922	2,712,961	2,898,631
Total capital	2,809,929	2,569,561	3,548,095	2,472,533
Gearing ratio	14%	2%	24%	N/A

Substantial decrease in gearing ratio for the year ended December 31, 2020 resulted primarily from increase in cash and cash equivalents, bank deposits and restricted bank deposits.

Substantial increase in gearing ratio for the year ended December 31, 2021 resulted primarily from increase in bank borrowings and lease liabilities.

Substantial decrease in gearing ratio for the six months ended June 30, 2022 resulted primarily from increase in cash and cash equivalents.

DIVIDEND

We may distribute dividends by way of cash or by other means that we consider appropriate, based on various factors such as our results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, our capital requirements, future business plans and prospects and other factors that we may consider relevant.

A decision to declare and pay any dividend would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval.

We did not declare any dividends during the Track Record Period. Any past dividend distribution records may not be used as a reference or basis in determining the level of dividends that may be declared or paid by us in the future.

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

[REDACTED] EXPENSES

During the Track Record Period, we incurred [**REDACTED**] expenses of approximately RMB[**REDACTED**] million, of which RMB[**REDACTED**] million was recognized as administrative expenses in our consolidated statement of profit or loss for the year ended December 31, 2021 and for the six months ended June 30, 2022, and RMB[**REDACTED**] million was directly attributable to the issuance of [**REDACTED**] and will be deducted from equity. We expect to incur additional [**REDACTED**] expenses of approximately RMB[**REDACTED**] million, of which RMB[**REDACTED**] million is expected to be recognized as administrative expenses for the years ending December 31, 2022 and 2023 and RMB[**REDACTED**] million is expected to be directly attributable to the issuance of [**REDACTED**] and will be deducted from equity directly. Our Directors estimate that the total amount of expenses in relation to the [**REDACTED**] and [**REDACTED**] is approximately RMB[**REDACTED**] million, accounting for approximately of [**REDACTED**]% of the [**REDACTED**] (assuming an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**], being the mid-point of the [**REDACTED**] stated in this document, and the [**REDACTED**] is not exercised). The [**REDACTED**] expenses include (a) [**REDACTED**] expenses of RMB[**REDACTED**] million, representing [**REDACTED**]% of the [**REDACTED**]; and (b) [**REDACTED**] expenses, comprising professional fees of legal counsels and reporting accountant of RMB[**REDACTED**] million, representing [**REDACTED**]% of the [**REDACTED**], and other fees and expenses of RMB[**REDACTED**] million, representing [**REDACTED**]% of the [**REDACTED**].

DISTRIBUTABLE RESERVES

As of June 30, 2022, our retained earnings amounted to approximately RMB430.8 million. It represented our distributable reserves as of June 30, 2022 according to our articles of association and the applicable laws and regulations in China.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The unaudited pro forma data relating to our net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the [**REDACTED**] on our net tangible assets as of June 30, 2022 as if the [**REDACTED**] had taken place on that date.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group attributable to the owners of the Company as of June 30, 2022 or any subsequent dates, including following the [**REDACTED**].

	Audited consolidated net tangible assets of our Group attributable to the owners of the Company as at June 30, 2022	**Estimated [REDACTED] from the [REDACTED]**	**Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the owners of the Company as at June 30, 2022**	**Unaudited pro forma adjusted net tangible assets per Share**	
	RMB'000 (1)	*RMB'000* (2)	*RMB'000*	*RMB*(3)	*HK$ equivalent*(4)
Based on an [**REDACTED**] of HK$[**REDACTED**] per H Share . .	2,587,589	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Based on an [**REDACTED**] of HK$[**REDACTED**] per H Share .	2,587,589	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]

Notes:

(1) The consolidated net tangible assets of our Group attributable to owners of the Company as of December 31, 2021 is extracted from "Appendix I — Accountant's Report" to this document, which is based on the audited consolidated equity attributable to owners of the Company as of June 30, 2022 of approximately RMB2,829.0 million with an adjustment for the goodwill and intangible assets as at June 30, 2022 of approximately RMB170.5 million and RMB70.9 million.

(2) The estimated [**REDACTED**] from the [**REDACTED**] are based on [**REDACTED**] and the indicative [**REDACTED**] of HK$[**REDACTED**] per H Share and HK$[**REDACTED**] per H Share, being the low and high end of the indicative [**REDACTED**], after deduction of the [**REDACTED**] fees and other related expenses (excluding [**REDACTED**] expenses of approximately RMB[**REDACTED**] million which have been recognised in the consolidated statement of profit or loss prior to June 30, 2022 and takes no account of any Shares which may be issued upon exercise of the [**REDACTED**]).

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that [**REDACTED**] were in issue assuming that the [**REDACTED**] has been completed on June 30, 2022 but takes no account of any Shares which may be issued upon exercise of the [**REDACTED**].

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK$1.00 to RMB[0.893].

(5) No adjustment has been made to reflect any trading results, dividends declared or other transactions of our Group entered into subsequent to June 30, 2022.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, up to the date of this document, there had been no material adverse change in our financial or trading position or prospects since June 30, 2022, being the date on which our latest audited consolidated financial statements were prepared, and there is no event since June 30, 2022 which would materially affect the information as set out in the Accountant's Report in Appendix I to this document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.