

BUSINESS

OUR VISION

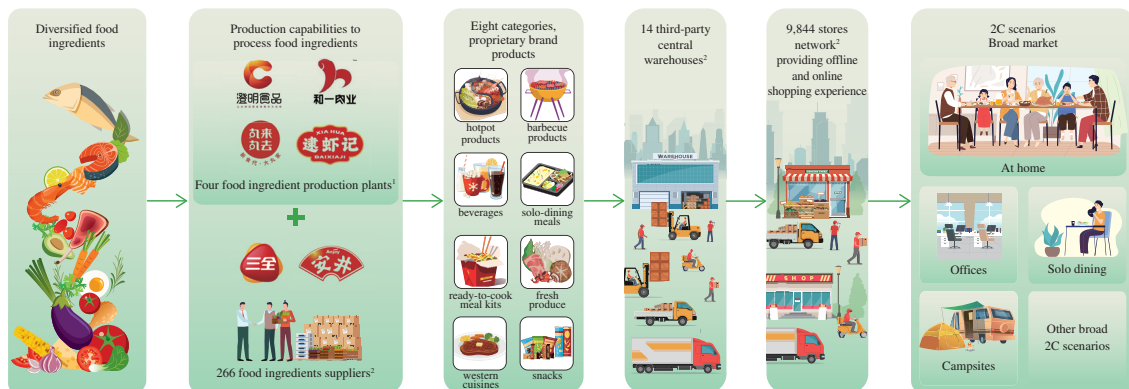
Our vision is to be the go-to brand for dining at home in China.

OUR MISSION

Our mission is to source quality food ingredients globally and offer diverse, convenient, high-quality and value-for-money home meal products in a one-stop shop manner to meet consumers’ diverse needs under different dining scenarios, from urban centers to the most remote areas of China.

OVERVIEW

We are the leading and a rapidly growing home meal products brand in China. We offer a variety of ready-to-eat, ready-to-heat, ready-to-cook and prepared ingredients, with a focus on at-home hotpot and barbecue products. With a carefully curated product portfolio and an extensive network of community-based stores, we enable consumers to enjoy meals at home with convenience, affordability and tastiness. Leveraging our robust supply chain and production capabilities, we offer a wide variety of home meal products under the Guoquan Shihui (鍋圈食匯) brand through a nationwide network of 9,844 retail stores in China as of April 30, 2023, serving diverse dining scenarios. Our business model is illustrated by the following diagram:



Notes:

1. As of April 30, 2023, we had three food ingredient production plants, Heyi Plant (和一工廠) for the production of our beef products, Wanlai Wanqu Plant (丸來丸去工廠) for the production of meatballs, Chengming Plant (澄明工廠) for production of our hotpot soup base products, and had made investments in one of our suppliers, Daixiaji (建蝦記) for the production of our shrimp paste products
2. As of April 30, 2023

We are the leading one-stop home meal products brand in China, ranking first among all retailers in China in 2022 in terms of retail sales value of home meal products, with a market share of 3.0% in China, according to Frost & Sullivan. As the fastest growing segment of China’s home dining market, home meal products market had a size of RMB367.3 billion in 2022, accounting for 6.5% of China’s home dining market in 2022. The home meal products market in China is highly fragmented, with both domestic and international players competing for market share, making it challenging for market players to differentiate products and establish unique value propositions. We strategically entered China’s home meal products market specializing in at-home hotpot and barbecue products, and were the largest at-home hotpot and barbecue product provider in China in 2022 in terms of retail sales value, according to Frost & Sullivan.

BUSINESS

We established the largest retail store network offering home meal products in a one-stop shop manner in China as of December 31, 2022 in terms of number of retail stores, according to Frost & Sullivan. Leveraging such store network, we offer both online and offline shopping experience and amassed over 100 million orders in 2022 alone. Our network of retail stores across China further increased from 9,221 as of December 31, 2022 to 9,844 as of April 30, 2023. We are also devoted to developing products under our proprietary brand name carrying the Guoquan Shihui logo. Our products are known for being tasty, convenient, value-for-money and of consistent quality.

The dining tables of Chinese people are traditionally an important place for families to dine and for people to have close exchanges with one another. At present, people principally dine in four ways, namely (i) buying groceries to cook at home, (ii) dining at restaurants, (iii) having food delivered from restaurants, and (iv) enjoying home meal products. China's dining market grew at a CAGR of 7.8% since 2018, reaching a market size of RMB9,315.1 billion in 2022. With the development of China's economy as well as changes in people's lifestyles and consumption patterns, although the first three dining options remain to be the predominant dining options among Chinese people, home meal products are gaining traction as an emerging option, growing at a CAGR of 25.5% from 2018 to RMB367.3 billion in 2022.

Home meal products as the fourth dining option aim to strike the balance between nutrition, taste, hygiene and efficiency. Home meal products include ready-to-eat, ready-to-heat, ready-to-cook foods and prepared ingredients. Consumers can see and tailor what ingredients and flavors go into what they eat and can easily prepare a meal with minimal cooking skills. As different dining scenarios can be satisfied and a wide variety of foods and cuisines can be offered, meeting a wide range of dining demand, this option has become more prominent and is expected to be the fastest growing segment of China's dining industry from 2022 to 2027, although its market size is expected to remain smaller than those of the other three dining options, according to Frost & Sullivan.

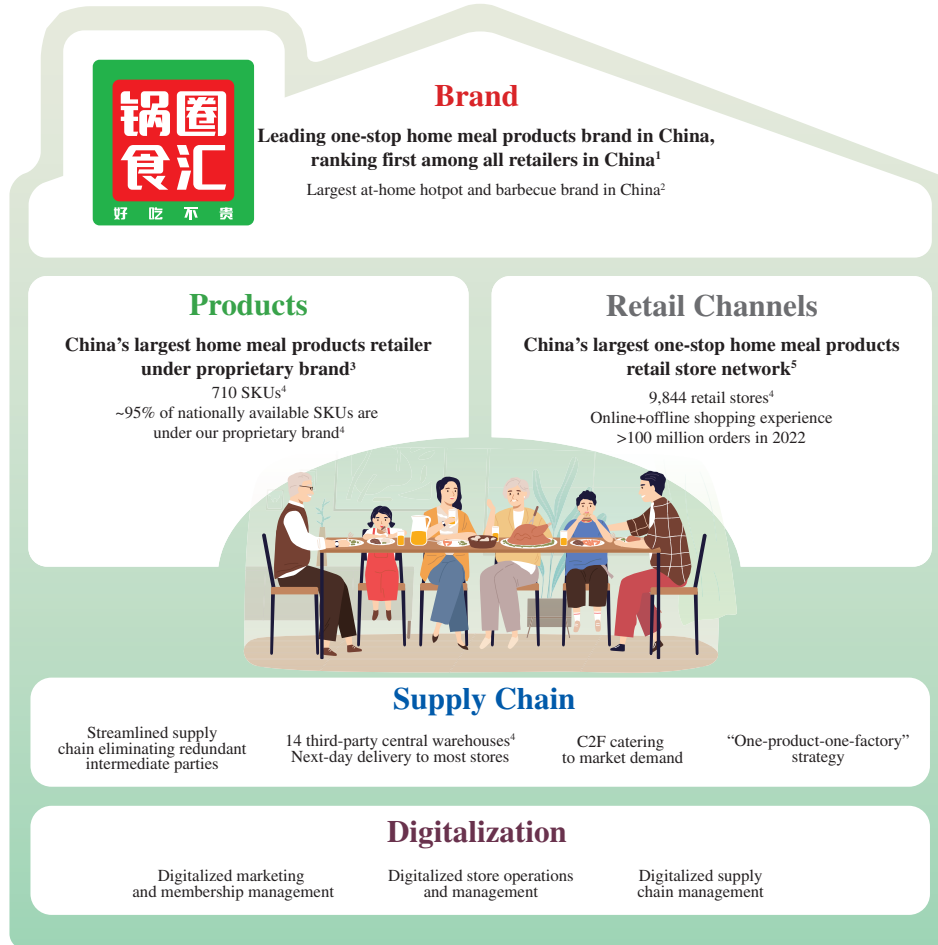
BUSINESS

As the leading one-stop home meal products brand in China, we are well positioned to capture the significant growth potential in China's home meal products market. We offer tasty, convenient and value-for-money home meal products underpinned by high quality food ingredients that have an immense potential for creating new and diverse products, to satisfy different dining scenarios. Under our franchise business model, we derive substantially all of our revenue from the sale of our products to franchisees, who open and operate franchised stores under our brand and sell our products to consumers. As of April 30, 2023, we established a network of 9,844 stores under our Guoquan Shihui brand in China, covering 29 provinces, autonomous regions and municipalities in China. We have also been developing online sales channels including our Guoquan APP, WeChat mini-program as well as on popular social commerce platforms such as Douyin. In addition, we partner with third-party food delivery platforms, such as Meituan and Ele.me to deliver our products to consumers. Leveraging the highly efficient management and operation of our supply chain and our digitalized management system, we are able to ensure product quality and safety, as well as achieve high operational efficiency from food production to retail sales.

We experienced significant growth during the Track Record Period. Our total revenue increased by 33.5% from RMB2,964.7 million in 2020 to RMB3,957.8 million in 2021 and further by 81.2% to RMB7,173.5 million in 2022. For the four months ended April 30, 2023, we achieved a total revenue of RMB2,078.2 million. Our gross profit increased by 7.9% from RMB329.3 million in 2020 to RMB355.3 million in 2021, and further by 251.5% to RMB1,249.0 million in 2022, and increased by 47.7% from RMB297.5 million for the four months ended April 30, 2022 to RMB439.3 million for the same period in 2023. Our gross profit margin generally showed an upward trend during the Track Record Period, being 11.1%, 9.0%, 17.4%, 13.8% and 21.1% in 2020, 2021, 2022 and the four months ended April 30, 2022 and 2023, respectively. Our significant growth has enabled us to capitalize on the advantages of economies of scale. This has been accomplished through our rapid expansion, our focus on cost optimization, elevated brand recognition, and our efforts to further advance our digitalization initiatives. As a result of these efforts, we broke even in 2022 with a net profit of RMB241.0 million and RMB119.6 million in 2022 and the four months ended April 30, 2023, respectively.

BUSINESS

OUR STRENGTHS



Notes:

- 1: In terms of retail sales value of home meal products in 2022, with a market share of 3.0% in China
- 2: In terms of retail sales value of at-home hotpot and barbecue products in 2022
- 3: In terms of retail sales value of proprietary branded home meal products in 2022
- 4: As of April 30, 2023
- 5: In terms of number of retail stores as of December 31, 2022

Sources: Frost & Sullivan and Company's information

As illustrated by the above diagram, we believe the following competitive strengths have contributed to our success and distinguished us from our competitors:

BUSINESS

China's leading and rapidly growing home meal products brand, catering to the people's dining needs at home

We are the leading and a rapidly growing home meal products brand in China, with market leading positions in terms of brand, products and retail channels:

- **Brand:** We are the leading one-stop home meal products brand in China, ranking first among all retailers in China in 2022 in terms of retail sales value of home meal products, with a market share of 3.0% in China, according to Frost & Sullivan. We strategically entered into China's home meal products market specializing in at-home hotpot and barbecue products, capitalizing on the popularity of the hotpot and barbecue in China while offering a convenient and efficient product portfolio for consumers to enjoy the experience in the comfort of their own homes. We were the largest at-home hotpot and barbecue brand in China in 2022 in terms of retail sales value, according to Frost & Sullivan. Our market leading brand and scale enable us to amass significant and frequent demand from consumers. Capitalizing on benefits of our economies of scale, we are able to optimize our operations, reduce costs, and improve overall efficiency, enabling us to compete in the market and achieve sustainable growth.
- **Products:** We remain committed to developing our proprietary branded products. We were China's largest home meal products retailer under proprietary brands in terms of retail sales value in 2022, according to Frost & Sullivan. As of April 30, 2023, approximately 95% of our nationally available SKUs are sold under our proprietary brand name. Proprietary branded products play a crucial role in promoting a unified brand image and maintaining control over product quality. By focusing on the development of our proprietary brand, we are able to create a consistent image of quality and reliability in the minds of consumers. This approach also allows us to have greater control over the supply chain and production process, ensuring that our products meet our high standards of quality and safety. Moreover, our emphasis on proprietary brand products strengthens our ability to manage our sales network in a cohesive and organized manner.
- **Retail Channels:** We established the largest one-stop home meal products retail store network in China as of December 31, 2022, according to Frost & Sullivan. Leveraging such store network, we offer consumers both online and offline retail channels, we amassed over 100 million orders in 2022 alone. Our store network further increased from 9,221 stores as of December 31, 2022 to 9,844 stores as of April 30, 2023. This extensive network allows us to penetrate deeply into local markets across the country, reaching a diverse range of consumers with our products. Additionally, our pervasive sales channel provides us with a platform to promote a consistent brand image across all retail stores in our network, promoting trust among consumers.

BUSINESS

As people begin to pursue healthier lifestyles against the backdrop of an increasingly fast-paced modern lifestyle, people are demanding food that is nutritious, flavorful, hygienic, and efficient. Thus, the market for home meal products is rapidly growing with enormous market potential, growing at a CAGR of 25.5% from 2018 to RMB367.3 billion in 2022; it is expected to be the fastest growing segment of China's dining market from 2022 to 2027, according to Frost & Sullivan. Our strong brand recognition, proprietary branded products known for tasty, convenient, value-for-money, and consistent high quality, as well as broad and diverse sales channels, have enabled us to capitalize on the significant growth potential in China's home meal products market. We experienced strong revenue growth during the Track Record Period, growing by 142.0% from RMB2,964.7 million in 2020 to RMB7,173.5 million in 2022. For the four months ended April 30, 2023, we achieved a total revenue of RMB2,078.2 million. Our gross profit increased by 279.3% from RMB329.3 million in 2020 to RMB1,249.0 million in 2022, and increased by 47.7% from RMB297.5 million for the four months ended April 30, 2022 to RMB439.3 million for the same period in 2023. We successfully broke even in 2022 with a net profit of RMB241.0 million and RMB119.6 million in 2022 and the four months ended April 30, 2023, respectively.

Home meal products with value-for-money and variety, improving the efficiency of at-home meal preparation

Our business philosophy is centered on providing convenient, high quality home meal products with the best value-for-money to consumers. This caters to consumers' heightened cost-consciousness and demand for taste and quality when choosing home meal products, as dining at home become an increasingly frequent consumption scenario.

We are committed to enhancing the efficiency of at-home food preparation. Our home meal products that are mainly ready-to-eat, ready-to-heat, ready-to-cook products or prepared ingredients provide consumers with an efficient and easy way to prepare a meal at home, regardless of their levels of cooking skills. Home dining products aim to strike the balance of nutrition, taste, hygiene and efficiency. Our product offerings conveniently meet consumers' diverse dining demands in a one-stop shop manner, encompassing hotpot soup base, condiments, meatballs and paste, meat, vegetables, beverages, pots and grills.

We have created a diversified product portfolio in terms of both product categories as well as the consumption scenarios it serves. We have expanded our product categories from hotpot and barbecue products to various other categories, including beverages, solo-dining meals, ready-to-cook meal kits, fresh produce, western cuisines and snacks, totaling 710 SKUs as of April 30, 2023. Consumers can create different combinations of our products to serve their taste preferences and eating habits. The wide variety of food ingredients that we offer can be mixed and matched to form home meal products with significant combination potential. For example, our tomato hotpot soup base, beef, pickled vegetable broth, and fish filet are not only excellent hotpot mixes but can also be used to prepare a tomato beef dish or boiled fish with pickled vegetables dish on their own. In addition, our diversified product portfolio can serve a wealth of dining scenarios. This enables us to advocate for new kinds of dining scenarios and keep up with evolving trends and lifestyles, such as extending from dining at home to outdoor barbecue, campsite dining, office hotpot and solo dining.

BUSINESS

We constantly enrich the diversity of our product portfolio catering to the evolving consumer demands and preference through close collaboration with our suppliers and our R&D centers. We are customer-driven and adopt a C2F approach with respect to our product development. Based on our regular consumer surveys, consumer feedback and market trend analysis, we would launch new products and upgrade existing products from time to time. We launched 66, 185, 173 and 45 new SKUs in 2020, 2021, 2022 and the four months ended April 30, 2023, respectively. We also regularly launch products for local markets catering to diverse consumer preferences in different geographical areas. Leveraging our profound consumer insights and R&D efforts, we have gained product curation capabilities enabling us to optimize our product offerings to franchisees accurately catering to individual and regional preferences while keeping up with the constantly changing tastes of the masses.

Leveraging the above, we distinguish ourselves from competitors by offering a wide range of fresh, high-quality ingredients that cater to different dining scenarios, allowing customers to personalize their dining experiences conveniently. Our commitment to understanding customer preferences, and leveraging our strong brand reputation ensures that we stay ahead of market trends and consistently deliver tasty and value-for-money home meal products.

Largest home meal products retail store network in China fostering a lively community that brings convenience to people's lives

According to Frost & Sullivan, we established the largest one-stop home meal products store network in China in terms of number of retail stores as of December 31, 2022, with a total of 9,221 retail stores in 29 provinces, autonomous regions and municipalities across China. The total number of stores in our network increased from 1,441 at the start of 2020 to 9,844 as of April 30, 2023, and further to 9,978 as of the Latest Practicable Date. As of April 30, 2023, our store network comprised 2,853 stores in provincial capitals and municipalities and 6,991 stores in lower-level cities. We not only aim to expand our network to increase coverage of lower-level cities but also strategically build our presence and seize market share in most provincial capitals and municipalities.

Convenience is crucial in frequent consumption scenarios such as dining at home against the backdrop of an increasingly fast-paced modern lifestyle. Our community-based stores are generally conveniently located in close proximity to residential neighborhoods, providing easy access to daily home meal needs. In addition, we take pride in bringing warmth to and building strong connections to the local community. During the COVID-19 pandemic, despite Shaanxi, Hebei, and other provinces affected by the pandemic, some stores continued to operate and provide essential home meal products for surrounding residents without raising prices in these regions after obtaining special permits from the government to safeguard key supplies.

BUSINESS

As we grow our store network, we endeavor to promote the growth and success of our franchisees, who are a part of the communities we serve. As of April 30, 2023, our 9,838 franchised stores were operated by 6,045 franchisees and approximately 29% of our franchisees operated more than one franchised store. Despite the rapid expansion of our store network across China, our strong continued support for our franchisees has resulted in a franchised store closure rate as low as 3.0% for 2022. Our all-round support for franchisees and their franchised stores fosters the franchisees' entrepreneurship rooted in their communities, with many of them starting from operating a single franchised store to operating multiple franchised stores.

Our extensive nationwide store network with wide geographic coverage contributes to enhancing our brand awareness and is also conducive to generating consumer insights and thereby improving our responses to the rapidly changing market trends across different regions. The density of store network improves the efficiency of logistics and transportation. Moreover, the stores in our network provide consumers with both online and offline shopping options as our products are available for in-store purchase and through home delivery, achieving highly extensive consumer reach.

Streamlined supply chain management and operation enabling cost optimization and ensuring product quality and safety

We operate under a streamlined and highly efficient supply chain from production facilities to third-party central warehouses and further to retail stores, eliminating redundant intermediate parties in the supply chain, thereby optimizing cost to offer value-for-money products to franchisees and consumers. Our highly efficient supply chain management significantly contributes to the efficiency of our operations, achieving next day delivery from third-party warehouses to stores for most orders. Partnering with third-party providers with integrated warehousing and logistics services, we achieved wide geographic coverage across China to deliver our goods efficiently. Moreover, our supply chain system has been providing solid support for our stores across China, enabling rapid expansion and continued deepening of our store network in the future. Our nation-wide retail network generates a large demand from consumers across China, giving rise to large scale procurement needs which has given us the ability to negotiate with suppliers from a position of strength, allowing us to secure high quality, consistent products at competitive costs.

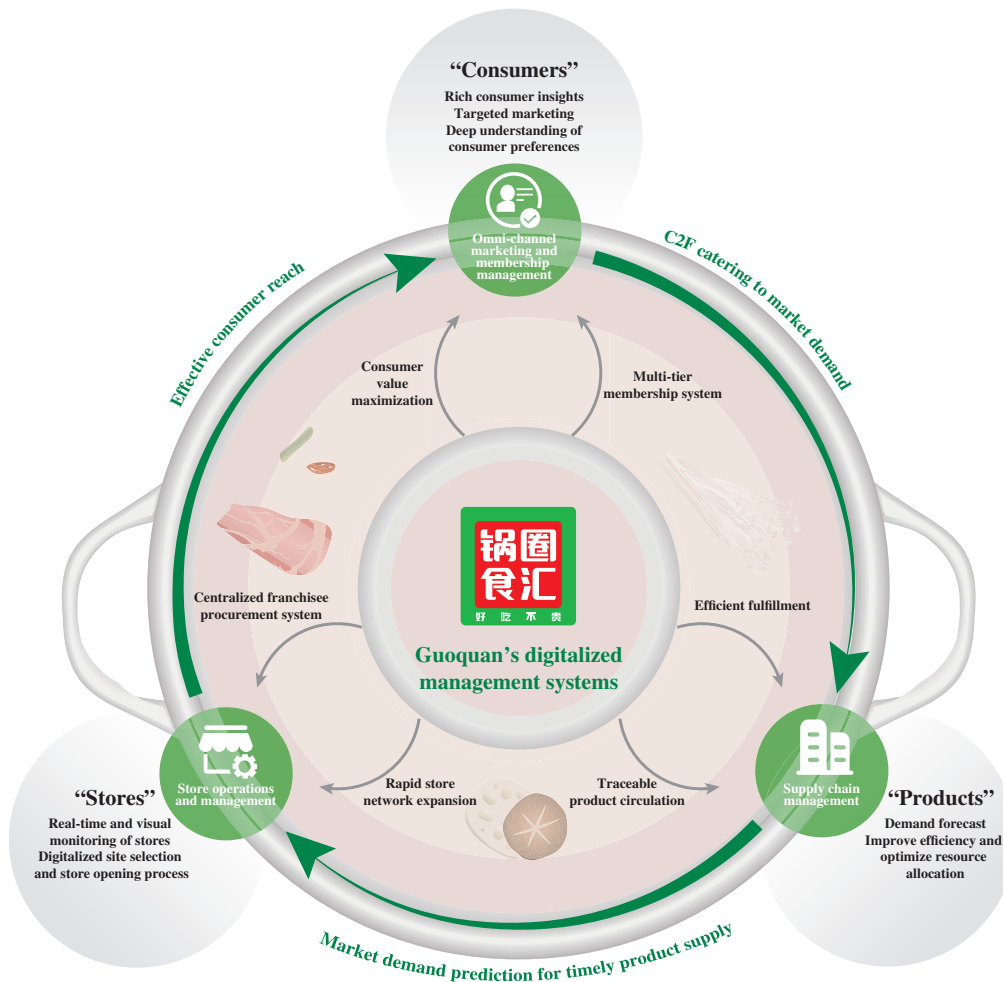
Our supply chain system also contributes to the high quality and safety of our products with cost advantages. We have maintained a stable, mutually complementary relationship with upstream suppliers, including renowned and household brand names such as Anjoy and Sanquan. Adopting our one-product-one-factory model, we have strategically acquired food ingredient production capabilities to achieve stronger control over the production and supply of our staple products. As of April 30, 2023, we had three food ingredient production plants, Heyi Plant (和一工廠) for the production of our beef products, Wanlai Wanqu Plant (丸來丸去工廠) for the production of meatballs, Chengming Plant (澄明工廠) for production of our hotpot soup base products, and had made investments in one of our suppliers, Daixiaji (逮蝦記) for the production of our shrimp paste products, in order to have better control of the production and supply of our major products. Our long-term stable relationship with suppliers and control over the production of our staple products further ensures the supply of high-quality food and the best value-for-money to consumers.

BUSINESS

Moreover, our robust supply chain management system enables us not only to replenish inventory timely but also to respond quickly to changes in market trends and customer preferences, helping us satisfy customer needs precisely as well as improve their shopping experience. We are able to customize our product offerings according to consumers’ needs identified through our extensive reach to consumer, achieving the C2F development of products. Leveraging our streamlined supply chain management and operation, our gross profit margin increased from 11.1% in 2020 to 17.4% in 2022, and further to 21.1% for the four months ended April 30, 2023. Our gross profit increased by 279.3% from RMB329.3 million in 2020 to RMB1,249.0 million in 2022, and by 47.7% from RMB297.5 million for the four months ended April 30, 2022 to RMB439.3 million for the same period in 2023. We had no major food safety incidents during the Track Record Period and as of the Latest Practicable Date.

Digitalized management systems to achieve high operational efficiency

Information technology has fueled our robust operation and rapid expansion. We have digitalized our core operations to maximize efficiency throughout our business process, illustrated by the following diagram:



BUSINESS

Digitalized, omni-channel marketing and membership management system. Our digital marketing and membership management system builds close online and offline connections and engagement with consumers. Through our digitalized membership system, we are able to analyze the consumption behaviors of our members and categorize them accordingly, to further optimize our product offerings and services. We are able to provide differentiated products and services to consumers through our multi-tier membership management. As we have the record of orders placed by our members, we are able to better understand their preferences and precisely recommend and promote targeted products according to our predictions of their demands. Our average daily online orders increased from 6,193 in 2020 to 68,831 in 2022. As of April 30, 2023, the number of our registered members reached approximately 22.4 million.

Digitalized store operations and management. We have established a digitalized store operation and management system across core aspects of store operations as part of our efforts to improve operational efficiencies. For example, we have established a centralized procurement system for franchisees, enabling convenient order placement by franchisees, followed by efficient delivery of goods to stores. Furthermore, our digital management of store data facilitates our network expansion. Key data involved in the process of store opening including site selection, contract signing, store information and qualification management are all completed and stored online. We also have video supervision systems installed in most stores to enable real-time visual monitoring of store operations. Since the launch of our digitalized system, the average number of stores managed by each staff of our store operations team increased from 3.2 as of December 31, 2020 to 12.8 as of April 30, 2023.

Digitalized supply chain management. The digitalization of our supply chain comprising production, procurement, warehousing, and logistics allows us to exercise monitoring of the supply and demand dynamics from procurement-end to store-end and closely monitor our inventory level, enabling highly efficient management of our entire supply chain. By tracking and processing orders received from stores across the country through our digitalized system, we are able to communicate with our upstream suppliers in advance to ensure timely availability of products for all of our stores. As of April 30, 2023, we leverage 14 digitalized central warehouses across China in cooperation with third-party warehousing and logistics providers, achieving swift circulation of products through digital stock and barcode management. As a result of our monitoring of product circulation, as well as efficient and accurate delivery of products to stores directly, we are able to realize next-day delivery to most of our stores across the country.

Visionary management team with rich industry experience and knowledge leading the successful development of our business and corporate culture

We are led by a management team with rich experience and profound understanding of the food and dining industry. With extensive experience and deep insights in the dining industry, Mr. Yang, our founder and Chairman, strategically designed our entire business architecture, greatly contributing to our success. Our management team includes highly experienced experts who have been serving in the dining industry for years as well as other experienced executives from different industries. Under the leadership of our management team, we have become the leading brand for home meal products in China.

BUSINESS

The culture of being “modest”, “pragmatic”, “down-to-earth” and “other-oriented” has been guiding our development and commitment to providing tasty, convenient and value-for-money product to people all over the country. Our business model revolves around serving others in the best possible way we can. We are devoted to satisfying the diverse needs of consumers and providing convenient and pleasant consumption experiences while ensuring product quality and safety. Our employees are the indispensable link between us and our suppliers, franchisees, store managers and consumers, forming an integral part of our corporate culture. We are committed to the continual development of talent, integration of management, employees and franchisees into our training system, which promotes equal conversations and knowledge sharing. We have also been diligently providing comprehensive support to empower and cultivate our franchisees to promote their business growth and success. Moreover, our management team also places great importance in serving the society and have been actively involved in environmental protection, charitable contributions, disaster relief, and community support.

OUR STRATEGIES

To achieve our vision and further solidify our market leadership, we intend to pursue the following strategies:

Expand and deepen our omni-channel sales network to further our direct reach to consumers

We plan to strengthen the depth and breadth of our offline store network by deepening market penetration in regions already covered and expanding our network to new regions. We will continue to open more stores in provincial capitals and municipalities, and open premium stores in Beijing, Shanghai, Hong Kong and Macau to offer high-end products. Moreover, we will continue to penetrate into new geographic regions, to cover more county-level-and-above cities in China and gradually extend to townships, offering quality ingredients to the general households in towns and villages across the country. We also plan to open new stores overseas where Chinese population is concentrated such as Indonesia, Thailand, Malaysia, the Philippines and Singapore to meet their needs for home meal and suit their taste preferences through developing localized flavor and ingredients and enlarging product categories.

We also plan to further develop our online sales platforms including third-party food delivery platforms, Guoquan APP, WeChat mini-program and Douyin and enhance our all-in-one stores initiative to upgrade our brick-and-mortar stores into offline-to-online hubs and satellite warehouses to provide a seamless shopping experience. To this end, we plan to continue to upgrade our online platforms to complement our offline stores by utilizing its expandable capacity for product display to continually expand our product portfolio beyond the constraints of physical retail space. Our online platforms will also provide more targeted recommendations on product combinations according to their buying habits, thereby increasing consumer traffic. While visiting offline stores, consumers would be prompted to visit our online platforms to explore more product choices and return to the offline stores to pick up their orders, effectively increasing both online and offline consumer traffic. After consumers place online orders, products will be shipped to the offline stores for pickup by consumers, effectively serving as satellite warehouses. This mutually empowering offline-to-online integration and the additional function of offline stores as satellite warehouses would thereby drive the increase of online and offline store sales, and in turn our revenue.

BUSINESS

Moreover, we will continue to cultivate more entrepreneurial franchisees by encouraging our existing franchisees to open more franchised stores. We have always been supporting our franchisees to develop their regionally integrated operations as a long-term business. As of April 30, 2023, approximately 29% of our franchisees were operating more than one franchised store. We intend to continue to strengthen our support and empowerment of franchisees and assist them in cost control through strengthening our back-end business capabilities while simplifying our front-end, franchisee-facing system. Through enhancing our back-end digitalization and data analysis capabilities, we expect to provide franchised stores with cost and profitability analysis to benchmark against the common performances of franchised stores in the same region to assist franchisees to better identify their shortcomings and adopt more effective cost control measure such as reducing electricity consumption. On the front-end, we will simplify the franchisee procurement process through our centralized franchisee procurement system with intelligent product recommendation to enable more efficient inventory management and more accurate product selection by franchised stores to further improve their inventory turnover and potentially boost their sales. Such efforts are intended to drive our revenue growth as franchised stores become more successful and as franchisees open more stores. We also plan to propel their sales growth and cultivate entrepreneurial franchisees by continuously expanding to more product categories, upgrading our product portfolio, and developing more online leads. Going forward, we will continue to optimize our internal training system, *Guoquan Academy*, and build up franchisee and store manager organizations to facilitate the sharing of management experience amongst them. This will improve service quality, raise consumer stickiness and further improve store performance.

Continually extend to more consumption scenarios such as campsite dining and solo-dining to further cater to consumer needs

We aim to create a more diverse product portfolio by actively expanding our product categories and combinations to meet consumers' needs with different consumption scenarios and dining habits. For example, we intend to extend our product categories to fruits, snacks, beverages and alcoholic drinks in order to serve consumption scenarios such as campsite dining, casual snacking at home, fruits and light meals and solo dining. We are exploring campsite dining as a new consumption scenario, especially for our barbecue products, to further expand our scope of business to fulfill campsite dining need in a one-stop manner. We believe that a more diverse product portfolio can effectively attract more consumers, serve more consumption scenarios, and in turn generate more revenue and increase our market share.

Leveraging our strong supply chain capabilities, we plan to establish home meal products processing centers to offer customized Chinese food products. Our home meal products processing centers will offer consumers a great variety of ready-to-cook meal kits to better suit the demand for different styles of convenient meal preparation at home. As the Chinese culinary culture combines vastly different tastes across the country, home meal products processing centers will provide customized ready-to-cook meal kits with localized flavors in addition to our standardized products, including signature dishes from the cuisines of each province. The establishment of our home meal products processing center network will further support our next-day pickup business. Customers can place orders on our Guoquan APP and WeChat mini-program, and the customized products will be available for pickup at a nearby store the next day, enabling efficient meal preparation. By building home meal products processing centers to serve home cooking scenarios, we will not only be able to make meal preparation at home easier but also further cater to different consumer needs and increase our sales through more diverse product categories and combinations.

BUSINESS

Strengthen our R&D and upstream supply chain to expand product offerings to reinforce our core competitive edges

We intend to intensively enhance our R&D capability, enrich our product offerings and create tasty, convenient and value-for-money specialties. To this end, we plan to build more R&D centers and continue to collaborate with upstream suppliers to improve our R&D and innovation capability. We intend to optimize and upgrade our existing products by continually adjusting our production processes according to consumer feedback. We also plan to develop more new products including premium-quality meatballs, shrimp pastes, seafood products and regional delicacies. Based on consumption data analytics, we will prioritize developing products with localized features to meet local preferences. As a result, we believe we will be able to reinforce the identity of our products as tasty, convenient and value-for-money.

We will continue to vertically integrate our supply chain to improve our profitability as well as cultivate more food product brands and expand product categories. For our core products such as beef and lamb, meatballs, shrimp pastes and hotpot seasoning, we will continue to adopt our one-product-one-factory strategy to achieve economies of scale and increase our profit margins and cost advantage. We plan to further integrate our upstream resources and source quality food ingredients through investment in or partnerships with selective and qualified Chinese and overseas food suppliers who have market potential and can achieve synergy with us. During the Track Record Period, we have acquired and invested in several factories to produce our core products. Such efforts in vertically integrating our supply chain have contributed to strengthening our financial performance through (i) producing products at the same or lower prices than procuring from third-party suppliers thereby reducing our cost of goods sold, while consolidating additional profits generated from sales to external third parties by the factories we have acquired, and (ii) enhance quality control of products, and shorten supply cycle and increase stability. Meanwhile, we will continue to cultivate and launch more food product brands catering to different sales channels to further broaden our consumer reach. For example, we collaborated with Luyi Chengming to launch "Seven Tomatoes," a tomato hotpot soup base brand for this purpose. We believe that these plans will not only further increase our revenue and profit but this purpose also facilitates product innovation and development from the source of the supply chain.

Enhance digitalization to continuously increase overall operational efficiency and revenue, while ensuring food safety

We plan to continue to enhance our digitalization across all aspects of our operations with the following focuses:

Product management. With food quality and safety as our utmost priorities, we will continue to enhance digitalized management of our products. We plan to strengthen visualized management at production facilities and carry out computerized monitoring of the supply process covering production, transportation, store delivery and product sales. This will enable consumers to easily access product information through our traceability system, which will further enhance our food safety standards and consumer confidence. We also plan to establish procurement and fulfillment management platforms to enable synchronization of inventory turnover data and inventory management. This will also enable the accurate monitoring of product demand and freshness, thereby lowering fulfillment costs and reinforcing product quality control. In addition, we will extensively utilize sales data at store level to inform upstream production decisions, adjusting and optimizing our product R&D and production decisions.

BUSINESS

Store management. We are committed to continuously developing and optimizing our in-house digital operation and management system for our stores to improve standardization and management efficiency. We will further optimize the functions of our centralized franchisees procurement system including intelligent product recommendation for franchisees, settlement reconciliation, and inventory management, as well as optimizing the intelligent analysis of store profitability, to help franchisees improve their store performance and management efficiency. Going forward, we will strive to achieve all-round digital management of the franchised stores by deploying smart video-monitoring devices and proprietary cashier systems, to better assure food safety, high service quality and standardization of operations.

Intelligent membership system. We will continue to advance the development of our membership system and grow our membership base through precision marketing and optimized membership benefit program. We will also strengthen our insights into consumer behavior to offer the most suitable marketing, services, and products, thus increasing members' activity and stickiness.

Enterprise management. We will continue to integrate connections between different systems and implement centralized management through the launch of proprietary systems to achieve digital integration of our business, financial, and supply chain management systems, thus continuously improving management and operational efficiency.

Continue to enhance our brand image and marketing efforts to increase consumer reach and stickiness

Our vision is to become the go-to brand for dining at home in China. After years of efforts, our brand concepts of "tasty, convenient and value-for-money" have become deeply rooted in consumers' minds. We will further invest in brand building and marketing to reinforce brand awareness increase brand recognition, reputability and consumer loyalty, such as through promotional events surrounding our "517" shopping day. We will also continue to reinforce "Seven Tomatoes" and cultivate other food product brands to further reinforce our brand image.

We also plan to carry out strategic marketing activities, both offline and online. We will continuously enhance our brand awareness and reputation to further deepen our consumer reach through high-profile TV commercials, offline advertisements, community group buy and social commerce platforms including Douyin, Kuaishou and Xiaohongshu.

BUSINESS

OUR BRAND AND PRODUCTS

We operate our business under the Guoquan Shihui brand (“鍋圈食匯”), offering diversified, tasty, convenient and value-for-money (“好吃方便還不貴”) home meal products in a one-stop shop manner for consumers across a wide range of dining scenarios. Our product portfolio comprises eight categories including hotpot products, barbecue products, beverages, solo-dining meals, ready-to-cook meal kits, fresh produce, western cuisines and snacks, totaling 710 SKUs as of April 30, 2023, with approximately 95% of our nationally available SKUs under our proprietary brand carrying the Guoquan Shihui logo.

The following table sets forth our revenue breakdown from the sale of our products by category for the years indicated:

	Year ended December 31,						Four Months ended April 30,			
	2020		2021		2022		2022		2023	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(RMB in thousands, except percentage)</i>									
	<i>(Unaudited)</i>									
Hotpot products	2,389,863	81.9	3,091,345	79.7	5,352,027	75.8	1,670,137	78.5	1,518,322	74.8
– Meats	691,880	23.7	881,995	22.7	1,507,886	21.4	481,099	22.6	404,169	19.9
– Meatballs and pastes	580,233	20.0	777,410	20.0	1,372,387	19.4	427,908	20.1	389,393	19.2
– Hotpot soup base	302,240	10.4	372,496	9.6	678,573	9.6	204,931	9.6	211,616	10.4
– Other hotpot products ⁽¹⁾	815,510	27.8	1,059,444	27.4	1,793,181	25.4	556,199	26.2	513,144	25.3
Barbecue products	170,486	5.8	294,157	7.6	714,223	10.1	218,536	10.3	248,754	12.3
Others ⁽²⁾	357,589	12.3	494,702	12.7	992,524	14.1	238,504	11.2	262,951	12.9
Total	2,917,938	100.0	3,880,204	100.0	7,058,774	100.0	2,127,177	100.0	2,030,027	100.0

Notes:

⁽¹⁾ Other hotpot products mainly include beef tripe, bean curd products, seafood, poultry and starch noodles.

⁽²⁾ Others mainly include food products such as beverages, solo-dining meals, ready-to-cook meal kits.

Our Main Products

Hotpot Products






As our main product category, our hotpot products consisted of 322 SKUs as of April 30, 2023, which primarily included meats, meatballs and pastes, hotpot soup base, and pots, among others.

BUSINESS

The following table sets forth the shelf life, unit sales price range and net weight specification of the representative products of our hotpot ingredients as of April 30, 2023, and the total revenue from the sales of the representative products in amount and as percentages of our total revenue during the Track Record Period:

Product name	Picture	Shelf life	Unit retail sales price range (RMB)	Net weight per individual package	Sales revenue (RMB'000)	%
Shrimp paste (青蝦滑)		12 months	18.9-21.0	150g	711,215	4.5
Thinly sliced lamb (羔羊板)		12 months	20.0-22.9/49.0-55.0	200g/500g	507,431	3.2
Thinly sliced beef with tendon (筋頭巴腦雪花肥牛)		12 months	17.9-21.9/42.0-47.9	200g/500g	316,359	2.0
Thinly sliced snowflake beef (美人脂雪花肥牛)		12 months	32.0-37.9/63.8-69.0	250g/500g	249,581	1.6
Black beef tripe (巴適黑毛肚)		120 days	19.9	150g	227,385	1.4
Fish roe balls (魚籽福袋)		18 months	15.9-18.0	150g	211,998	1.3
Thinly sliced chicken (烏雞卷)		12 months	12.0-14.0/28.0	200g/500g	182,800	1.2

BUSINESS






Product name	Picture	Shelf life	Unit retail sales price range (RMB)	Net weight per individual package	Sales revenue (RMB'000)	%
Tallow hotpot soup base (牛油火鍋底料)		12 months	10.9-14.9/23.0-24.9	200g/500g	160,353	1.0
Juicy beef ball (撒尿牛肉丸)		12 months	3.9-5.0	120g	153,655	1.0
Tomato hotpot soup base (番茄火鍋湯料)		12 months	13.0-14.5	200g	132,349	0.8
Beancurd roll (豆香炒鈴卷)		9 months	12.0-15.0	120g	120,517	0.8
Chongqing traditional hotpot soup base (重慶老炮火鍋底料)		12 months	39.9-42.0/48.0-50.0	600g/750g	41,076	0.3

BUSINESS

Barbecue Products

Our barbecue products primarily consist of seafood, skewers, other meat products, and barbecue grills. As of April 30, 2023, we had 194 SKUs under our barbecue products category.

The following table sets forth the shelf life, unit sales price range and net weight specification of the representative products of our barbecue ingredients as of April 30, 2023, and the total revenue from the sales of the representative products in amount and as percentages of our total revenue during the Track Record Period:

Product name	Picture	Shelf life	Unit retail price range (RMB)	Net weight per individual package	Sales revenue (RMB'000)	%
Seasoned crawfish (正經蝦-調味小龍蝦)		18 months	39.0	600g	110,156	0.7
Baked chicken wings (香烤翅中)		12 months	20.0-24.0	eight pieces per package	73,795	0.5
Lamb skewers (大串咩咩的串 (羊肉串))		12 months	23.9-25.9	200g	33,527	0.2
Beef skewers (大串哞哞的串 (牛肉串))		12 months	25.9-28.9	200g	23,975	0.2
Lamb tomahawk chops (戰斧羊排)		12 months	27.9-29.9	180g	20,321	0.1

BUSINESS

Product name	Picture	Shelf life	Unit retail price range (RMB)	Net weight per individual package	Sales revenue (RMB'000)	%
Chicken gristle (二十只雞(掌中寶))		12 months	22.9-24.9	160g	19,826	0.1
Wagyu beef cubes (和牛小魔方)		12 months	22.9-25.9	150g	15,545	0.1







Others

We also offer beverages, solo-dining meals, ready-to-cook meal kits, fresh produce, western cuisines and snacks, among others. As of April 30, 2023, we had 194 SKUs under our other products category.




The following table sets forth the shelf life, unit sales price range and net weight specification of the representative products of our other products as of April 30, 2023, and the total revenue from the sales of the representative products in amount and as percentages of our total revenue during the Track Record Period:

Product name	Picture	Shelf life	Unit retail price range (RMB)	Net weight/ volume per individual package/unit	Sales revenue (RMB'000)	%
Electric heated hotpot (電火鍋)		N/A	198.0-203.0	N/A	145,732	0.9
Rotating barbecue grill (旋轉烤盤)		N/A	369.0	N/A	47,663	0.3

BUSINESS

Product name	Picture	Shelf life	Unit retail price range (RMB)	Net weight/ volume per individual package/unit	Sales revenue (RMB'000)	%
Kiwi-fruit juice (猕猴桃果汁飲料)		12 months	5.0-6.0	348ml	15,523	0.1
Black Pepper Sausage (黑胡椒地道腸)		12 months	11.8	300g	11,218	0.1
Yellow peach juice (黄桃汁)		12 months	11.9	1L	8,167	0.1
Crispy Popcorn Chicken (鹽酥雞米花)		12 months	6.9	250g	7,619	0.0
Hawthorn juice (山楂汁)		12 months	9.9	1.26L	6,966	0.0
Black Pepper Steak (黑椒牛排)		12 months	9.9	100g	5,773	0.0

BUSINESS

Product name	Picture	Shelf life	Unit retail price range (RMB)	Net weight/ volume per individual package/unit	Sales revenue (RMB'000)	%
Fish soup with pickled cabbage (金湯酸菜魚)		12 months	20.0	420g	3,544	0.0
Spicy grilled fish (重慶風味麻辣烤魚)		12 months	78.0	1.48kg	762	0.0
Sweet and sour sunflower seeds (山楂陳皮味瓜子)		8 months	1.0	20g	443	0.0

Pricing Policy

We offer high-quality products at competitive prices to bring best value-for-money to consumers. We set the retail prices for our products at the headquarters level, which our franchisees are required to adhere to. Recognizing the importance of adapting to local market conditions, we provide our franchisees with some discretions in terms of holding promotional events based on the specific needs and preferences of their local community. We set different retail pricing tiers for most of our nationally available SKUs, and select the appropriate tier for each region according to the region's level of consumption power and other factors. We conduct thorough market research to set the prices of our products, taking into account a number of factors including the specific situation of different regions such as local consumer purchasing power and preferences, as well as procurement costs and our target profit margin. We adopt the same retail prices for our products sold on the Guoquan APP and WeChat mini-program as our offline store in the same region, whereas the retail prices on third-party delivery platforms are slightly above our offline retail prices in the same region. We also closely monitor the pricing of our competitors in the same commercial districts to evaluate our pricing. We may update our pricing from time to time to reflect market trends and general economic conditions.

BUSINESS

In terms of pricing for products we sell to our franchisees, we set uniform selling prices for each product, which applies to all franchises across our network. This approach helps ensure transparency and consistency in our pricing strategy. We set the prices to our franchisees considering numerous factors such as procurement and production costs, logistics and warehousing costs, anticipated profitability and pricing of our competitors and comparable products in the market.

OUR SALES CHANNELS AND STORE NETWORK

During the Track Record Period, we derived substantially all of our revenue from the sales of our proprietary brand products primarily comprising hotpot and barbecue products to our franchisees, who operate franchised stores under our brand and sell our products to consumers. The other sales channels primarily comprise (i) direct sales of our proprietary brand products to end consumers via our self-operated stores, (ii) sales of processed products by our self-operated plants to enterprise customers, and (iii) sales of processed meat parts to certain food wholesalers.

The table below sets forth our revenue breakdown by nature and channels in amounts and as percentages of our total revenue for the periods indicated:

	Year ended December 31,						Four Months ended April 30,			
	2020		2021		2022		2022		2023	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentages)</i>									
	<i>(Unaudited)</i>									
Product sales	2,917,938	98.4	3,880,204	98.0	7,058,774	98.4	2,127,177	98.5	2,030,027	97.7
Sales to franchisees	2,910,129	98.2	3,727,859	94.2	6,476,687	90.3	2,011,282	93.1	1,821,511	87.6
Other sales channels ⁽¹⁾	7,809	0.2	152,345	3.8	582,087	8.1	115,895	5.4	208,516	10.1
Operational support services⁽²⁾	46,805	1.6	77,600	2.0	114,683	1.6	32,449	1.5	48,207	2.3
Total	2,964,743	100.0	3,957,804	100.0	7,173,457	100.0	2,159,626	100.0	2,078,234	100.0

Notes:

- (1) Other sales channels primarily include (i) direct sales to end consumers; and (ii) sales to enterprise customers, including food wholesalers, supermarkets, restaurants and other enterprises.
- (2) We collect annual operational support service fee from each franchisee at a fixed amount for the support we provide to our franchisees such as training, guidance, branding, marketing and logistical support.

Offline Retail Store Network

As of April 30, 2023, we established a network of 9,844 stores under our brand in China, comprising 9,838 franchised stores and six self-operated stores. As of the Latest Practicable Date, all self-operated stores and the significant majority of franchised stores held the necessary permits and licenses for business operations in all material respects.

BUSINESS

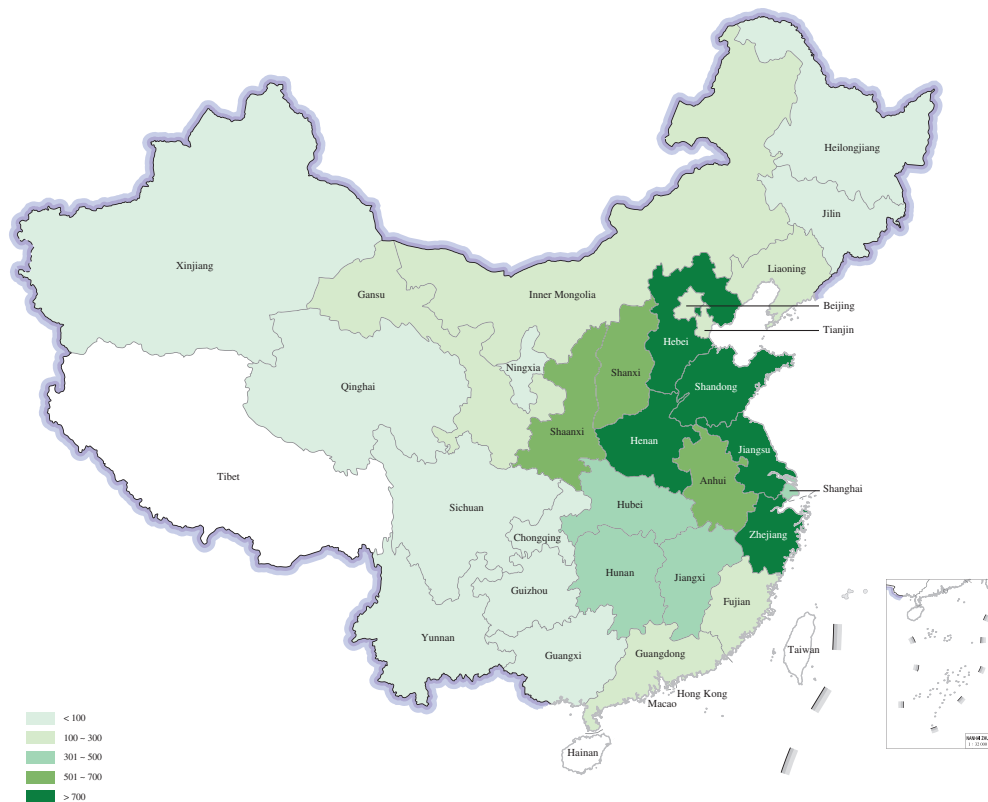
The following table sets forth the total number of franchised stores and self-operated stores as of the dates indicated.

	As of December 31,						As of April 30,	
	2020		2021		2022		2023	
	Number of stores	%	Number of stores	%	Number of stores	%	Number of stores	%
Franchised stores	4,296	99.9	6,864	99.9	9,216	99.9	9,838	99.9
Self-operated stores	4	0.1	4	0.1	5	0.1	6	0.1
Total	4,300	100.0	6,868	100.0	9,221	100.0	9,844	100.0

Under our franchised store model, we derive revenue from the sales of our products to franchisees, who open and operate franchised stores under our brand and sell our products to consumers. During the Track Record Period, we sold all our products within China. We enter into franchise agreements with franchisees granting them the right to operate franchised stores carrying our brand and trademarks. We do not charge or rely on franchise fees. In selecting our franchisees, we take into account their industry experience, financial circumstances, recognition of our value and management philosophy and their passion and long-term commitment towards operating our franchised stores.

In addition, as of April 30, 2023, we had six self-operated stores located in Chengdu, Shenyang, and Zhengzhou, for the purpose of providing a sample model for franchised stores as well as acting as pilot programs for innovative store operation and management strategies and tools, marketing activities, digital tools and new decoration styles, among others, before introducing them to our franchised stores.

The following map illustrates our store network including both franchised and self-operated stores as of April 30, 2023:



BUSINESS

The following table sets forth the number of our stores by geographic location as of the dates indicated:

	As of December 31,						As of April 30,	
	2020		2021		2022		2023	
	Number	%	Number	%	Number	%	Number	%
Municipalities	176	4.1	376	5.5	687	7.5	749	7.6
Provincial capitals	832	19.3	1,329	19.4	1,959	21.2	2,104	21.4
Prefectural-level cities	1,201	27.9	1,867	27.2	2,549	27.6	2,758	28.0
County-level cities	1,355	31.5	2,094	30.5	2,437	26.4	2,582	26.2
Townships	736	17.1	1,202	17.5	1,589	17.2	1,651	16.8
Total	4,300	100.0	6,868	100.0	9,221	100.0	9,844	100.0

During the Track Record Period, we saw a steady increase in the number of stores in municipalities and provincial capitals in accordance with our strategy of establishing a balanced geographic presence across each administrative level in China. See “Financial Information — Description of Major Components of Our Results of Operations — Revenue.”

As of April 30, 2023, our network consisted of 9,838 franchised stores and six self-operated stores.

Retail Store Features

Most of the standard stores in our network are between 40 and 100 sq.m. in size and staffed with two to three people. We instruct our franchisees on store design, layout and decorations to maintain consistent brand image and consumer experience across stores. Our stores feature a unified design where our standard store exteriors prominently display our brand name and logo, as well as our signature red and green colors. Products are neatly displayed and organized inside the stores to give consumers a convenient and pleasant shopping experience. Such standardized store presentation schemes lead to a consistent, distinct style across our franchised stores, reinforcing a uniform brand image to consumers.

In addition to standard stores, we also have two other types of stores, namely “store within a store” type stores (“店中店”) and “township” type stores (“鄉鎮店”). Our “store within a store” type stores are typically set up within supermarkets or department stores to take advantage of high foot traffic and are 40 to 50 sq.m. in size and staffed with one to three people. Our “township” type stores are 30 to 70 sq.m. in size, staffed with one to four people, and are located in townships and villages, although not all stores located in townships are of this type. “Township” type stores serve the needs of residents in remote rural areas who may have difficulty finding tasty and value-for-money hot pot and barbecue ingredients. This store type is also suitable for franchisees in such places who want to invest in a low-cost business. These types of stores are managed in the same way as our standard stores.

As of April 30, 2023, there were 26 “store within a store” type stores and 941 “township” type stores in our store network.

BUSINESS

The following pictures illustrate typical exteriors and interiors of standard stores in selected locations:



Franchised Stores

As of April 30, 2023, we were in contract with a total of 6,045 franchisees, operating 9,838 franchised stores in 29 provinces, autonomous regions and municipalities in China. The franchise business model provides an asset-light and cost-effective means of rapidly expanding our store network and geographical coverage in a short amount of time, which has in turn contributed significantly to the increase of our revenue, market share and brand recognition. Compared with a business model developed through employees who only receive salaries as incentive, the prospect of earning profits provides greater incentives to franchisees and better aligns their goals with ours. Franchise model is a common market practice in China’s retail industry. We believe the effective and systematic management of our franchisees is critical to the success of our business. We consider each franchised store a conveyance of our business philosophy and brand image. Therefore, we value each of our franchisees beyond merely as a business partner, but also as a teammate who is committed to our business philosophy and motivated to grow our brand and store network with us. We strive to continuously support and empower our franchisees while providing comprehensive training for franchisees and their employees in terms of both store operations and business development, to help our franchised stores succeed.

The franchised stores are managed by our regional management teams. The regional management teams provide support and guidance for franchisees with respect to market development and store operating strategies, among others. With the support of our headquarters and management by our regional teams, we are able to empower and serve franchisees more efficiently and effectively to drive their sales growth, and in turn our revenue. The average number of orders procured from us per franchised store during the Track Record Period were 52.4 in 2020, 73.8 in 2021, 95.9 in 2022 and 32.6 in the four months ended April 30, 2023. Given the limited store size and warehouse storage space of each store, the overall increase in the frequency of orders for products procured from us by our franchised stores reflects the subsequent sales of products and an increase in consumer demand for our products.

BUSINESS

The following table sets forth the revenue breakdown of our products sold to franchised stores by year of opening for the periods indicated:

	Year ended December 31,						Four Months ended April 30,	
	2020		2021		2022		2023	
	Amount	%	Amount	%	Amount	%	Amount	%
<i>(RMB in thousands, except for percentages)</i>								
Franchised stores								
opened before 2020	1,586,435	54.5	1,274,629	34.2	1,633,233	25.2	393,996	21.6
Franchised stores								
opened in 2020	1,323,694	45.5	1,788,414	48.0	2,416,207	37.3	585,378	32.1
Franchised stores								
opened in 2021	—	—	664,816	17.8	1,623,929	25.1	414,589	22.8
Franchised stores								
opened in 2022	—	—	—	—	803,318	12.4	347,813	19.1
Franchised stores								
opened in the four months ended April 30, 2023	—	—	—	—	—	—	79,735	4.4
Total	<u>2,910,129</u>	<u>100.0</u>	<u>3,727,859</u>	<u>100.0</u>	<u>6,476,687</u>	<u>100.0</u>	<u>1,821,511</u>	<u>100.0</u>

The revenue of our products sold to franchised stores that were opened in the same period during the Track Record Period generally showed a steady growth trajectory throughout the Track Record Period. For instance, the revenue contribution by franchised stores opened in 2020 increased from RMB1,323.7 million in 2020 to RMB1,788.4 million in 2021, and further to RMB2,416.2 million in 2022.

The following table sets forth the average revenue contributions by our franchised stores by year of opening for the periods indicated:

	Year ended December 31,			Four Months ended April 30,
	2020	2021	2022	2023
	<i>(RMB in thousands)</i>			
Franchised stores opened before 2020				
2020		1,051	861	1,113
Franchised stores opened in 2020				
2020		475	642	905

BUSINESS

	Year ended December 31,			Four Months ended April 30,
	2020	2021	2022	2023
	<i>(RMB in thousands)</i>			
Franchised stores opened in 2021	—	256	600	158
Franchised stores opened in 2022	—	—	399	138
Franchised stores opened in the four months ended April 30, 2023	—	—	—	135
Total	677	543	703	185

Growth of Our Franchised Store Network

The growth of our franchised store network is essential to the success and growth of our business. We expand our franchised store network both by attracting new franchisees to join our network and by encouraging existing franchisees to open new franchised stores. We expand our franchisee network primarily through our online franchisee recruitment channel and referrals by existing franchisees. Moreover, some consumers become our franchisees after learning about such business opportunity during their visits at our stores.

We motivate franchisees to open more franchised stores by providing comprehensive support to guide and empower our franchisees throughout all stages of franchised store operation, from site selection, store design, staff training, store opening to all post-opening operations and management. Moreover, our systematic and robust training program is designed to empower franchisees with necessary skills to successfully operate on their own and drive them to take initiative in improving their operational capabilities, motivating them to open and operate more franchised stores.

BUSINESS

Historical Expansion

During the Track Record Period, our franchised store network grew rapidly. The following table sets forth the movement of our franchised stores during the Track Record Period:

	Year ended December 31,			Four Months ended April 30,
	2020	2021	2022	2023
	Number of franchised stores at the beginning of the period	1,441	4,296	6,864
Number of new franchised stores opened during the period	2,883	2,762	2,631	754
Number of franchised stores closed during the period	28	194	279	132
Net increase in number of franchised stores for the period	2,855	2,568	2,352	622
Number of franchised stores at the end of the period	4,296	6,864	9,216	9,838

In 2020, 2021 and 2022, the number of franchised stores closed was 28, 194 and 279, respectively, with closure rates of 0.7%, 2.8% and 3.0% of the number of franchised stores at the end of the year, respectively. In the four months ended April 30, 2023, the number of franchised stores closed was 132. The major reasons for closures of franchised stores were (i) failure of franchised store to follow our store operational standards or otherwise materially breach the franchise agreement, and (ii) franchisees took the initiative to terminate for various personal reasons. For example, we may terminate franchised stores for selling self-procured products outside the permitted categories, or for violating food safety standards such as failure to dispose of expired or spoiled products.

For movement of our franchisees during the Track Record Period, see “— Our Sales Channels and Store Network — Offline Retail Store Network — Franchised Stores — Franchisee Selection.”

During the Track Record Period, we have also seen an increase in the number of our franchisees who operate more than one franchised store. As of December 31, 2020, 2021, 2022 and the four months ended April 30, 2023, 892, 1,284, 1,651 and 1,765 of our franchisees were operating more than one franchised store.

BUSINESS

Expansion Plan

We plan to continue to grow our presence by expanding our geographic coverage and deepening our market penetration. In terms of geographic location, we will deepen our penetration in provincial capitals and municipalities. Increasing our store density in these economic hubs will enable us to further strengthen our brand awareness and drive our sales growth as we gradually extend to lower level cities in the region. The number of franchised stores in municipalities expanded from 176 as of December 31, 2020, to 376 as of December 31, 2021, and further to 687 as of December 31, 2022 and 749 as of April 30, 2023, enhancing our store representation from 4.1% to 5.5% and further to 7.5% and 7.6% in these regions, respectively. There is a similar upward trajectory for stores in provincial capitals, where the number of franchised stores increased from 832 as of December 31, 2020 to 1,329 as of December 31, 2021 and further to 1,959 as of December 31, 2022 and 2,104 as of April 30, 2023, enhancing our store representation from 19.3% to 19.4% and further to 21.2% and 21.3% in these regions, respectively. In accordance with such expansion strategy, the revenue contribution of our sales to franchised stores in provincial capitals and municipalities also generally showed an upward trend, being 27.3%, 30.3%, 33.5% and 31.5% in 2020, 2021, 2022 and the four months ended April 30, 2023, respectively. We will also continue to penetrate into new geographic regions, gradually covering more county-level-and-above cities in China and open new stores overseas where Chinese population is concentrated such as Southeast Asia. We plan to establish approximately 2,500 new franchised stores in 2023. We have newly opened 754 franchised stores in the first four months of 2023, with 194 newly signed franchised stores in addition that have not yet opened for business. Therefore, we are on track for our expansion plan for 2023, especially as historically, more franchised stores open in the second half of the year. We also plan to increase the ratio of our franchisees who operate more than one franchise stores.

Site Selection

We believe that each store's location is important for its success. We rigorously assess the viability of new stores, whether in new or existing cities. We generally prefer opening new stores in close proximity to residential neighborhoods.

Usually, the franchisee identifies and selects the suitable location for the new franchised store and submits a proposal to our marketing department, who prepares an evaluation report for the proposed new franchised store according to our evaluation standards, based on thorough surveys and analysis (including on-site visits) in connection with the target location, which cover local population size and density, consumer traffic, demographics, spending patterns and income level, expected revenue level, as well as characteristics of residential neighborhoods within one kilometer of target location. We may only approve the store opening and sign the franchise agreement after the store location evaluation report is approved by us.

BUSINESS

New Store Opening Process

It takes an average of approximately 40 days to open a new franchised store after signing of the franchise agreement. The development process of a new franchised store mainly consists of the following key steps after signing of the franchise agreement and approval of the new store location:

- *Store design and renovation.* We provide store design plans to ensure unified design and recommend third-party vendor to provide store renovation and decoration services for the franchised stores, with the associated costs borne by franchisees.
- *Obtaining licenses and permits.* Franchisees are responsible for obtaining all the licenses and permits required for operating a franchised store.
- *Hiring store employees and training.* Franchisees and store staff must complete mandatory trainings before store opening. Such trainings are included in the service fees we charge the franchisees.
- *Initial equipment and stock purchase.* Before store opening, the franchised store will procure store inventory and the necessary equipment for store operations such as freezers and POS machine that is connected with our centralized POS system from us at their cost.
- *Store opening assistance and supervision.* Our store operations team will provide assistance for franchised stores in planning their initial opening such as devising marketing campaigns, guiding store staff through daily operation procedures, and supervising their preparations for opening. Such assistance is included in the service fees we charge the franchisees.
- *Initial marketing.* Based on the marketing strategies we devise with franchisees tailored to the franchised store, they engage in pre-opening marketing activities including online and offline advertisements and offer gifts and prizes to attract consumers on opening day. Such marketing costs are borne by franchisees, although we may give free products such as pots and grills to the new franchised stores to gift to consumers during initial opening.
- *Official opening.* After final preparations, the franchised store officially opens.

Store Expansion Management

To manage our rapidly expanding store network, we have implemented measures and systems, including our centralized POS system, video supervision system, ad hoc on-site inspections and standardized guidelines for franchised stores. We established guidelines for franchised stores to standardize practice and ensure food safety standards are consistently upheld across our store network. To ensure that our franchisees follow our quality control standards and uniform procurement requirement, we monitor and manage the products sold by

BUSINESS

franchised stores through our POS system, video supervision system and periodic on-site inspection. To monitor the sales activities of the offline stores, we implemented a store-level POS system which is linked to and monitored by our centralized management system. We require all transactions to be recorded through the store-level POS system, except certain transactions through third-party delivery platforms and social commerce platforms. This cloud-based POS system is monitored by designated personnel in our headquarters, which is designed to improve operating efficiency and provide standardized and centralized control over product offerings and pricing. Our video supervision system allows us to remotely inspect different aspects of store operations, including whether there was any sales of franchisee self-procured products beyond the permitted selection, and evaluate franchised stores' compliance and food safety standards. To ensure store quality, we conduct ad hoc inspections both through the video supervision system and on-site inspections. See "— Food Safety and Quality Control — Store Quality Control."

As we increase the density of our store network, we place significant emphasis on preventing cannibalization among our existing and new stores. We centrally manage and plan for new store openings taking into account a number of factors including the population, economic conditions, market potential and existing store network of each city and region. We consider the distance between each store for site selection approval purposes to eliminate the risks of cannibalization in advance. Each of our franchisees is required to operate the franchised store in the designated approved location as specified under the relevant franchise agreement. Any store relocation shall be approved by us in advance. New store openings by existing franchisees and the location of the new franchised stores are also subject to our approval, based on the additional factors including the performance records of the franchisees and their store management capabilities, whether operating our franchised stores is their main business focus, as well as their enthusiasm, loyalty and commitment to our business philosophy and values.

Franchisee Selection

Generally, upon receiving a franchisee candidate's initial application, we reach out to ascertain their identity and business plan, and then evaluate comprehensively their past relevant experience, financial situation, local connections and resources, risk capacity and tolerance, and understanding of our business philosophy and values. We believe our highly standardized, scalable and strictly controlled franchise model supported by our robust supply chain, standard operation requirements, and comprehensive training system enables us to attract, select and retain franchisees who have true enthusiasm, commitment and capabilities to grow with us as our teammates.

BUSINESS

Key steps of our franchisee selection procedure include:

- Potential franchisees reach out to learn about our franchise model and submit initial franchisee application form and questionnaire on the applicant’s general background and interest.
- If our marketing directors find the applicant to be a suitable candidate, he or she is invited to our office for further discussions where we learn more about the candidate, provide detailed information on becoming our franchisee and answer questions from the candidate.
- Subsequently, the candidate submit further materials for our final evaluation and approval, including their education, career and financial background, their relevant experience and understanding of our business.

The following table sets forth the changes in the number of our franchisees for the periods indicated:

	Year ended December 31,			Four Months ended April 30,
	2020	2021	2022	2023
	Franchisees at the beginning of the period	1,007	2,629	3,955
Addition of new franchisees	1,652	1,575	2,195	670
Departing franchisees ¹	30	249	470	305
Net increase of franchisees	1,622	1,326	1,725	365
Number of franchisees at the end of the period	2,629	3,955	5,680	6,045
– Individual franchisees	2,628	3,954	5,650	5,991
– Corporate franchisees	1	1	30	54

Note:

- (1) Number of departing franchisees may exceed the number of closed franchised stores for the same periods as many of the departed franchisee’s stores are transferred to another franchisee without being closed.

BUSINESS

During the Track Record Period, the total number of our franchisees increased steadily, from 2,629 as of December 31, 2020 to 3,955 as of December 31, 2021, and further increased to 5,680 as of December 31, 2022 and 6,045 as of April 30, 2023, in line with the expansion of our franchised store network. It is not uncommon during the Track Record Period that one franchisee own and operated multiple franchised stores, and some franchisees chose to open up more franchised stores when acquired successful operation experience. As of April 30, 2023, each franchisee owned and operated an average of 1.6 franchised stores.

Franchisees may opt to operate the store as an individual, or incorporate a corporate entity, subject to (i) the local regulations of the region(s) they choose to operate, and (ii) their personal preferences. The number of corporate franchisees increased from one as of December 31, 2020 and 2021 to 30 as of December 31, 2022, and further to 54 as of April 30, 2023. The overall revenue contributions by such corporate franchisees accounted for approximately 0.3%, 0.4%, 0.3% and 0.5% of our total revenue in 2020, 2021, 2022 and the four months ended April 30, 2023, respectively. To the best of our knowledge, during the Track Record Period, our franchisees departed primarily because they were not able to continue to operate their franchised stores due to personal reasons or other reasons not within our control. Subject to negotiation with the relevant franchisees and under certain circumstances, such as failure of franchisees to follow our store operational standards or otherwise materially breach the franchise agreement, we may from time to time decide to terminate the franchise arrangements with our franchisees and close the relevant franchised stores.

For movement of our franchised stores during the Track Record Period, see “— Our Sales Channels and Store Network — Offline Retail Store Network — Franchised Stores — Growth of Our Franchised Store Network — Historical Expansion.”

Franchise Agreement

We enter into franchise agreements with our franchisees to govern our relationship and the operation of our franchised stores. Below is a summary of the salient contractual terms of our standard franchise agreements:

- *Product offering and pricing.* Franchisees must only sell products procured from us, with the limited exception that we may give consent to franchisees to self-procure a specified range of fresh produce from local sources for convenience. For details, see “— Our Sales Channels and Store Network — Offline Retail Store Network — Franchised Stores — Uniform Procurement.” Franchisees must strictly adhere to our pricing and may not set their own prices for products sourced from us. When we uniformly adjust our pricing due to market change, franchisees must timely adjust their prices accordingly to avoid penalties.
- *Exclusivity.* Without our prior consent, our franchisees are prohibited from engaging in any other franchise business operated by our competitors.

BUSINESS

- *Location and renovation.* Store location is specified in the franchise agreement, and franchisees are not allowed to change their designated store location or open new franchised stores without our consent. We determine the distance between the franchised stores based on our market analysis as well as commercial considerations to avoid potential cannibalization. To ensure the uniformity of our brand image, we provide store design plans and recommend third-party vendor to provide store renovation and decoration services as well as store equipment and appliances for the franchised stores, with the associated costs borne by franchisees.
- *Service fees.* We do not require our franchisees to pay us franchise fees or royalty fees. Our franchisees are usually required to pay us a fixed service fee of RMB20,000 per year per franchised store for the support we provide to our franchisees such as training, supervision, guidance, branding, marketing and logistical support. As an incentive for franchisees to operate multiple stores, we may charge franchisees that open more than two stores a lower service fee of RMB10,000 or waive such service fee for additional stores opened by the same franchisee, depending on the region where the proposed store is located.
- *Security deposit.* We charge a fixed amount of security deposit of typically RMB20,000 per franchisee upon first signing with each franchisee. We are entitled to deduct from the security deposit the amount of outstanding payments or damages due from the franchisee for any breach of the franchise agreement and require the franchisee to replenish the security deposit amount. Where the outstanding payments or damages exceed the security deposit amount, we are entitled to require further payments from the franchisee. Such security deposit will be returned to the franchisee provided that the franchisee has fully discharged its liability under the franchise agreement and ceased all operations of the franchised stores.
- *Franchised store opening.* With our assistance, franchisees are responsible for obtaining all the licenses and permits required for operating a franchised store. Failure to do so or failure to commence store operations within 60 days of signing the franchise agreement gives us the right to unilaterally terminate the franchise agreement without refund of any fees paid to us already. We have established a store profile for each franchised store in our system where our marketing and operations teams verify the validity of their licenses and permits, as well as monitor the validity on an ongoing basis.
- *Operational standards and store management.* We have adopted strict standards and requirements to ensure standardized store operation and management. We require all franchisees to attend mandatory training before store opening and we have the right to conduct inspections of the franchised stores regularly to ensure compliance with our store management and operation standards. Any food safety related issues or consumer complaints resulting from the failure to adhere to these standards will result in the franchisee taking full responsibility and receiving penalty from us, and the franchisee shall compensate us any loss of profits and indirect losses such as those resulting from reputational harm.

BUSINESS

- *Logistical support.* We provide logistical support to our franchisees by engaging third party logistics service providers to deliver products from third-party warehouses to franchised stores.
- *Liabilities.* Where consumers commence legal proceedings against us due to the misconducts of the franchisees, the franchisees shall compensate us for the associated costs. In addition, if we receive any consumer complaints in relation to the misconducts of the franchisees that infringed consumer rights, we have the right to compensate the consumers on behalf of the franchisees and deduct the amount from the security deposit paid by the relevant franchisees. However, we do not have any insurance that protects us from potential damages in relation to franchisee misconducts and consumer rights infringements.
- *Sales target.* While we did not set any sales target for any franchised stores during the Track Record Period, we monitor store performance and may offer guidance to franchisees to improve their sales.
- *Payment terms.* Generally, franchisees pay for products procured from us in advance of shipment. Franchisees pay us the annual operational support service fee for the first year within three working days of contract signing, and one month in advance for each following year.
- *Return or exchanges of products.* We typically do not allow the return or exchange of products procured from us by franchisees, other than for quality defects. Franchisees may reject goods delivered to them after inspection if the quality of goods are below standards.
- *Term and renewal.* The terms of our contracts with franchisees are generally three years. The agreement may be renewed if the franchisee fully complied with and carried out all obligations under the franchise agreement with no violations or has corrected such violations to our satisfaction. Renewal requests should be given at least six months before expiry.
- *Termination.* The major termination events include expiration of contract without renewal, one party's material breach of the franchise agreement and force majeure.

Given our franchise business model, (i) we do not accept product returns from franchisees unless the products are defective, (ii) we generally require full payment before delivering products to franchised stores, (iii) we did not impose any sales target for franchised stores, (iv) most of the products we sell to franchisees are frozen food products with storage requirements, and are usually delivered directly to the franchised stores which have limited capacity to maintain a large amount of inventory. Our franchisees generally place orders for our products in view of their depleting inventory. The average number of orders procured from us per franchised store during the Track Record Period were 52.4 in 2020, 73.8 in 2021, 95.9 in 2022 and 32.6 in the four months ended April 30, 2023. By comparing the sales transactions of our franchised stores as recorded in our POS system and the procurement orders placed by them,

BUSINESS

we did not detect any unreasonable fluctuations and material discrepancies during the Track Record Period. As such our Directors are of the view that franchisees have little incentive or ability to maintain an unreasonably high level of inventory and thus the risk of channel stuffing by our franchisees is low.

We had not experienced any material disputes or litigations with our past or present franchisees during the Track Record Period and up to the Latest Practicable Date.

Uniform Procurement

To ensure food safety, standardized quality as well as brand reputation, we require franchisees to uniformly procure all home meal products they sell from us. Violation results in deduction of security deposit, mandatory correctional training, or suspension of store operation. We also have the right to terminate franchisees who violate this rule repeatedly. As an exception, for convenience, we may give consent to franchisees to self-procure a designated range of fresh produce products from local reputable sources, provided that the procured products are in accordance with relevant food safety laws and regulations and that the franchisee bears any liability related to food safety and quality, and be liable to us for any damage caused to our brand reputation. Each franchised store usually self-procures no more than three permitted categories of products, namely soy products, vegetables and mushrooms, and the sales of these self-procured products usually account for a small portion of products sold by our franchisees. We provide an exhaustive list of permitted food items within these three permitted categories and franchisees are strictly prohibited from procuring products beyond this list. We are able to monitor and control the products sold by franchised stores through our POS system, video supervision system and periodic onsite inspection to ensure that the franchised stores do not sell products outside of our designated SKUs. To ensure the food safety and quality of self-procured products by franchisees, we require our franchisees to follow our quality control standard contained in the food safety handbook for franchisees. For example, the franchisee shall strictly control the source of the food, examine the quality of the suppliers and thoroughly inspect incoming products.

Inventory and Food Safety Management

We implement standardized guidelines for the franchised stores including, among others, our food safety management policy (門店食品安全管理制度) and food safety operations handbook (門店食品安全操作手冊) for franchised stores and stringently implement such standards to ensure our food safety standards are consistently upheld throughout our store network. Our food safety management policy for franchised stores include detailed rules and policies covering health and food safety training for employees, self-inspection and reporting for food safety matters, cleaning, disinfection, and maintenance of facilities and equipment, incoming inspection and record-keeping for product procurement, storage and product management, handling of substandard food products, customer complaint handling policy, waste disposal management, and emergency response plan for food safety incidents, among others. Our food safety operations handbook sets out detailed rules for self-procured products and the punishments imposed on violating related rules. The handbook also outlines the consequences of selling or storing expired products, and hygiene requirements for store staff and store interiors, as well as detailed step-by-step guidance on the self-inspection procedures to be regularly carried out by each franchised store.

BUSINESS

Specifically for inventory and expired products management, stores are required to adhere to the First-In-First-Out principle, conduct regular inspection of products and record results on a real-time basis to identify and remove products approaching their expiration date in a timely manner. We have set out detailed standards on the time before expiration that products with different expiration periods must be removed. In addition, stores must inspect products received from us and reject any expired products and notify us.

Standardized Management and Supervision

We have adopted the following measures to ensure standardized store operation and management of our franchised stores. We require all franchisees, franchised store managers and employees to attend mandatory training and pass our assessments before they can operate a franchised store. After opening, we regularly provide training and guidance to franchisees in relation to our standards relating to food safety, inventory, product display, storage, labeling and packaging, among others.

Franchisees must adhere to our store management and operation standards, including ensuring all staff employees have necessary health certificates. Franchisees are required to utilize and only utilize our information management systems including our online store system, inventory ordering system, cashier system, financial system, and consumer membership system, to facilitate our unified management and monitoring of the operating data of our stores. For all other aspects of store operation management, franchisees should adhere to the relevant standards and provisions in our franchised store operating manual (“鍋圈食匯運營手冊”).

To supervise compliance, our specialized regional supervisors visit franchised stores for onsite inspection from time to time as well as supervise store operations through our video supervision system to remotely inspect different aspects of store operations online and evaluate their compliance and food safety standards on ad hoc basis. The inspections cover various aspects of the store operations, such as (i) the overall hygiene conditions of the store, (ii) in-store food processing, storage and display, and (iii) whether products are within their shelf life. If a franchised store is found to be non-compliant, our inspection personnel will report the incident to our regional management team and conduct follow-up supervision with the store, which may lead to the implementation of remedial actions and the imposition of penalties.

For more details, see “– Food Safety and Quality Control.”

Comprehensive Training

We believe our management team, general employees, regional teams and our franchisees and franchised store employees together play crucially important roles in every aspect of our store operations. We have established our *Guoquan Academy* (“鍋圈學堂”), a systematic and comprehensive training system that provides customized multi-tiered online and offline training courses designed for different personnel, including headquarters office personnel, regional management employees, franchisees and franchised store staff. These training courses cover comprehensively all aspects of franchised store operations and management, progressing from basic trainings relating to our business philosophy, food safety and store operations, to increasingly advanced courses on marketing strategies, industry insights, multi-store management, and data analysis, among others. In particular, before the opening of any new

BUSINESS

franchised store, the franchisee, store manager and store employees must take our mandatory training courses and pass our evaluations. We also host a wide range of online courses and lectures on specific topics or themes. In addition, for franchised store managers hired by franchisees, we guide franchisees to establish incentive programs for their store managers and have also established our own multi-tiered training and qualification system for these store managers, according to the sales performance of each franchised store.

We have also established franchisee organizations and store manager organizations forming an effective training network where we select outstanding franchisees or store managers trained by us with excellent performance to share their experiences and demonstrate to other franchisees or store managers and employees. We also designate high-performing stores as model stores for other stores in the region to visit and learn from. This interactive training network enables the joint learning, improvement and communication among franchisees, store managers, and our own employees.

Our Support for Franchisees

We provide the following support for franchisees:

- regularly provide training and guidance to franchisees in relation to store operations and management;
- formulate and implement marketing campaigns to promote our brand;
- construct, manage, and optimize the store operating system and continuously upgrade our product portfolio to ensure the competitiveness of our business model;
- manage competition and prevent cannibalization between franchisees;
- provide guidance and recommendations on store design, product selection and positioning, promotional activities, and consumer analysis;
- provide IT support to franchisees including data analysis and digital tools.

Relationship with Franchisees

As of April 30, 2023, none of our franchisees were our current employees (“**Then-Current Employee-Franchisees**”) and 55 or 0.9% of our franchisees were our former employees (“**Former Employee-Franchisees**”) who were motivated to develop their personal career by partnering with us through franchise arrangements. We applied the same selection criteria and procedures when considering these Former Employee-Franchisees. The franchise agreements that we entered into with these Former Employee-Franchisees contained same terms and conditions that we offered to other third parties. We believe this was not uncommon for franchise business model. As of April 30, 2023, the number of stores being operated by the Former Employee-Franchisees was 75. In 2020, 2021, 2022 and the four months ended April

BUSINESS

30, 2023, revenue contribution from our Former Employee-Franchisees was RMB7.1 million, RMB13.6 million, RMB44.6 million and RMB16.2 million, respectively. We had 15, 15, nil, and nil Then-Current Employee Franchisees as of December 31, 2020, 2021, 2022 and April 30, 2023, who remained as our employees when they opened and operated their stores. They operated 26, 22, nil, and nil franchised stores as of December 31, 2020, 2021, 2022 and April 30, 2023, respectively. The revenue contribution of Then-Current Employee Franchisees amounted to RMB25.0 million, RMB20.6 million, RMB12.3 million, and nil in 2020, 2021, 2022, and the four months ended April 30, 2023, respectively. In addition, during the Track Record Period, four, four, one, and one of our franchisees were connected persons of our Company ("**Connected Franchisees**") as of December 31, 2020, 2021, 2022, and April 30, 2023, respectively, who operated seven, eight, three, and three franchised stores as of the respective dates. The revenue contribution of the Connected Franchisees amounted to RMB7.8 million, RMB7.2 million, RMB7.0 million, and RMB0.66 million in 2020, 2021, 2022, and the four months ended April 30, 2023, respectively. The revenue contribution from our Former Employee-Franchisees, Then-Current Employee Franchisees and Connected Franchisees were immaterial, each accounting for less than 1% of our total revenue for each period during the Track Record Period.

Self-operated Stores

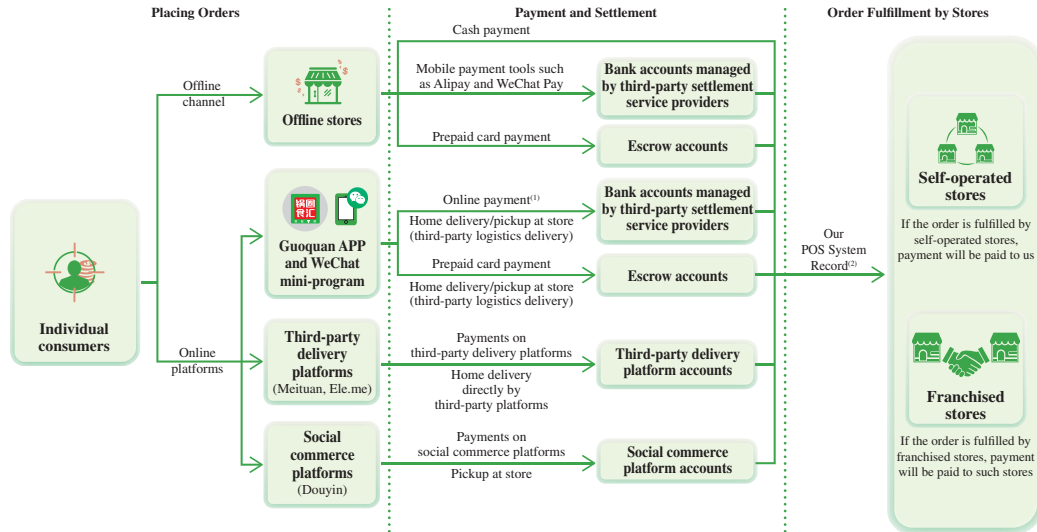
As of April 30, 2023, we had six self-operated stores for the purpose of providing a model for franchised stores as well as acting as trial sites for innovative store operation and management strategies and tools, marketing activities, digital tools and new decoration styles, among others, before introducing them to our franchised stores.

For the four months ended April 30, 2023, the revenue of our self-operated stores was RMB3.0 million, accounting for 0.2% of our total revenue. It should be noted that the primary role of our self-operated stores during the Track Record Period was to serve as pilot programs for our franchised store operations.

BUSINESS

OUR TRANSACTION FLOW

The following diagram illustrates the transaction flow of purchases by individual consumers through online platforms and offline stores:



Notes:

- (1) We accept a variety of online payments, including payment through third-party online payment platforms, such as Alipay and WeChat Pay.
- (2) To monitor the sales activities in the offline stores, we implement a store-level POS system which is linked to and monitored by our centralized management system. We require all transactions to be recorded in our store-level POS system, except certain transaction received through third-party delivery platforms and social commerce platforms.

Offline Channel

Our offline retail store network comprises franchised stores and self-operated stores, covering various geographic locations across China from municipalities to townships. See “— Our Sales Channels and Store Network — Offline Retail Store Network.” Consumers can make purchases and pay in our offline stores by cash, prepaid cards and mobile payment tools. All sales transactions at an offline store are required to be recorded in our store-level POS system, including those settled by cash in store. All mobile payments made in store with WeChat Pay and Alipay will be directly paid to our designated bank accounts managed by third-party settlement service providers that are licensed entities, and such payments will be paid from our designated bank accounts to our franchisees under the current T+1 settlement arrangement. Our members may also pay using their prepaid card balance. For payments made by prepaid cards, see “— Marketing and Brand Building — Prepaid Cards.”

BUSINESS

Online Platforms

To empower franchisees and facilitate their sales growth as well as further our consumer reach and offer more flexible shopping experience, we have established multiple online platforms, including (i) partnering with third-party food delivery platforms such as Meituan and Ele.me, (ii) our Guoquan APP and WeChat mini-program, and (iii) Douyin. Sales derived from online orders via third-party food delivery platforms, our Guoquan APP, WeChat mini-program and Douyin are sales revenue of the relevant store which processes and performs the order. Our average daily online orders increased from 6,193 in 2020 to 68,831 in 2022, accounting for 21.5% of total orders across all channels. We plan to continue to upgrade our online platforms to complement our offline stores and utilize its expanded shelf capacity to continually expand the categories of our inventory to offer significant product combination potentials for consumers.

Guoquan APP and WeChat Mini-program

We operate our own online platforms including our WeChat mini-program and our Guoquan APP as flexible and convenient way for consumers to browse our products and place orders. Consumers may choose to pick up in person at a designated store nearby or request home delivery, fulfilled by third-party logistic service providers. Our Guoquan APP and mini-program automatically recommend the nearest store location for the consumer based on device location. Accordingly, most of these orders are fulfilled by the designated franchised stores in the consumer's selected location.

Consumers make online payments using a variety of methods, including through third-party online payment platforms such as WeChat Pay or Alipay. Such payments shall be directly paid to our designated bank accounts managed by third-party settlement service providers that are licensed entities. Orders received through our Guoquan APP and WeChat Mini-program are recorded in our store-level POS system. According to these records, the payment amount will be paid from our designated bank accounts to our franchisees under the T+1 settlement arrangement. Our members may also pay using their prepaid card balance. See "— Marketing and Brand Building — Prepaid cards." Cash payment is not accepted for in-store pickup orders.

We plan to further develop these platforms to provide consumers with differentiated products and more targeted recommendations on product combinations to consumers according to their buying habits, thereby increasing consumer traffic. Costs incurred from offering discounts and other promotional activities on such platforms are borne either by the franchisee or by us depending on the nature of such promotional activities on a case by case basis.

BUSINESS

Third-party Delivery Platforms

To empower our franchisees and facilitate their sales growth, we collaborate with third-party food delivery platforms to deliver our products to consumers. Consumers place orders for the specific store in their location on such platforms and these orders are fulfilled and delivered to consumer by the corresponding store, who receives the sales proceeds. Consumers make payments directly on the third-party delivery platforms, who directly settles with the franchisees for orders fulfilled by franchised stores. Consumers may not pay using prepaid cards on such platforms.

We communicate with and manage the relationship with these third-party food delivery platforms, and the stores that fulfill the orders are responsible for all associated fees such as platform service fees and directly pay such fees to these third-party platforms. Costs incurred from offering discounts and other promotional activities on such platforms are borne either by the franchisee or by us depending on the nature of such promotional activities on a case by case basis. Not all orders placed through third-party delivery platforms are recorded in our store-level POS system, as our franchisees may cooperate with third-party delivery platforms on their own and conduct certain sales in collaboration with such platforms.

Douyin as a Social Commerce Platform

We also collaborate with Douyin, a popular social commerce platform, to extend our online consumer reach by leveraging Douyin's e-commerce features and traffic. We commenced operation on the local lifestyle division of Douyin ("抖音生活服務") in March 2022, which adopts an online to offline business model. Consumers place orders by clicking the embedded links in live streaming or short promotional videos. They may select the preferred store for pick up and make payments on Douyin for the corresponding store that fulfills the order. Consumers may not pay by cash or prepaid cards for such orders. Not all orders placed through Douyin are recorded in our POS system, as our franchisees may cooperate with Douyin on their own and conduct certain sales in collaboration with Douyin.

Promotion on Douyin through live streaming or short promotional videos are conducted both by us and by our franchisees, and we provide franchisees with support and training resources to sell products through Douyin to capitalize on the potential of this sales channel. The platform service fees and costs incurred from product discounts are borne by the stores that fulfilled the orders. However, fees associated with paid advertisements for promotional content on Douyin are paid by us. In addition, we may engage marketing agencies that specialize in Douyin marketing. Depending on the nature of such engagements, the fees paid to these agencies are either based on a tiered pricing model contingent on the effectiveness of the service, which are borne by us, or fixed campaign fees, which are typically jointly borne by us and the franchisees. As of April 30, 2023, more than 8,000 of our stores were using this platform to sell products.

BUSINESS

We are developing this sales channel and anticipating the continuous increase of our sales through this channel in the near future. We monitor live streaming content by conducting spot checks and enforcing strict guidelines for service providers and franchisees. If any violations of our guidelines are detected, we will take swift action, including terminating contracts or revoking the live streaming privileges of the responsible party. We have also established clear contractual obligations with service providers requiring them to take responsibility for such violations that arise in relation to live streaming content. During the Track Record Period and as of the Latest Practicable Date, we have not experienced any major live streaming issues or incidents.

Our Settlement with Franchisees

With regards to settlement with franchisees, we receive payments from franchisees both for products procured from us and fees paid to us in relation to the franchise agreement, including annual operational support service fees as well as security deposits. For product procurement, our franchisees usually pay us before we deliver the goods to them. The operational support service fees and security deposits are paid by the franchised stores to us when they are due.

Where consumers place their orders via our Guoquan APP and mini-program and such orders are fulfilled by a franchised store, payments shall be paid to our designated bank accounts managed by third-party settlement service providers that are licensed entities. The third-party settlement service providers currently arrange T+1 settlement of our payables to the relevant franchisee who fulfilled the order.

Settlement Arrangements for Prepaid Cards

When consumers purchase our prepaid cards or top up their rechargeable membership accounts, such amount is deposited into a designated escrow account which we maintain for our franchisees. The amount is recognized as receipt on behalf of franchisees for prepaid cards under other payables and accruals. See "Financial Information — Discussion of Key Items of Consolidated Statements of Financial Position — Other Payables and Accruals." When the prepaid amount is used to pay for purchases, our POS system will make real-time record for the purchase and payment amount.

We issue the prepaid cards and manage such prepaid amounts under the current settlement arrangements with our franchisees. We are able to monitor such top-ups by members and transfers to the escrow accounts on a daily basis. For orders fulfilled by franchised stores, we currently arrange T+1 settlement of payables to the relevant franchisee according to the records in our POS system. Remaining value in member's accounts represented the prepaid but not yet consumed amounts, which will never expire or be forfeited and is refundable upon application by consumers and our approval. We did not record any breakage revenue or forfeited income during the Track Record Period. We have completed the requisite filing procedure with respect to providing such prepaid account service with the relevant government authorities. See "Regulatory Overview — Regulations on Single-Purpose Commercial Prepaid Cards."

BUSINESS

Our Customers

During the Track Record Period, a significant majority of our customers are our franchisees. Revenue from our five largest customers for the fiscal years ended December 31, 2020, 2021, and 2022 and the four months ended April 30, 2023 accounted for 2.3%, 1.9%, 4.0% and 4.2%, respectively, of our total revenue during the same periods. We have a large customer base and we do not rely on any single customer. We generally require our franchisees to pay in advance before we deliver the products to them. We provide certain enterprise customers with a credit term up to 180 days subject to the creditworthiness of the relevant customers.

To increase our control over our supply chain, secure raw materials for the food products production capabilities we gradually established and improve the quality of the food ingredients used to produce our products, we constantly seek procurement sources of quality raw material from domestic and overseas sources. Leveraging such procurement sources, in late 2021 we started to supply certain imported food ingredients, mainly including shrimp and beef, to our suppliers as well as certain food wholesalers, which contributed to the increase in the revenue from sales of other products from RMB494.7 million in 2021 to RMB992.5 million in 2022 and from RMB238.5 million for the four months ended April to RMB263.0 million for the same period in 2023. For the food ingredients supplied by us, we typically granted credit periods to our suppliers and the food wholesalers according to their creditworthiness. As such transactions were generally in large amount, we experienced a change in top customer mix from individuals in 2020 and 2021 to enterprise customers in 2022. For example, during the Track Record Period, Supplier A provided shrimp paste to us. To strengthen our cooperation with Supplier A and maintain optimal food quality, we started to supply the imported shrimp that we procured to Supplier A in 2022, and Supplier A became one of our top five customers in the same year. See “— Production, Procurement and Suppliers — Major Suppliers.” Going forward, we intend to continue to source food ingredients from domestic and overseas sources and supply them to food product producers that are in our supply chain to strengthen our cooperation with them, whereas gradually phasing out transactions with third parties that do not supply us food products. However, we expect the concentration on top customers to remain low, and to generate the vast majority of our revenue from individual customers.

In addition, we own three production facilities in Henan Province, including (i) a beef processing plant acquired in August 2021, which was subsequently relocated and upgraded to a new one on our own land; (ii) a meatball production plant acquired in August 2021; and (iii) a hotpot soup base production plant acquired in November 2022. The products from these facilities not only supply our franchised store network but also cater to some enterprise customers, including food wholesalers, restaurants and supermarkets. The purpose of this business is mainly to better utilize our production capabilities. As our main business continues to grow, we expect a higher proportion of our products to supply our franchised store network. Moreover, as we plan to manufacture an increasing variety of products ourselves, we will also be supplying these new product categories to our enterprise customers, and adjust our future sales volume to these customers according to market demands and our overall business strategy. We believe that this approach is critical to maintaining the balance between our key business areas and ensuring long-term, sustainable growth.

BUSINESS

MARKETING AND BRAND BUILDING

Our vision is to become the go-to brand for dining at home in China. After years of efforts, our brand concepts of “tasty, convenient and value-for-money” have become deeply rooted in consumers’ minds. Our marketing efforts seek to further build our brand equity and advocate for new kinds of dining scenarios and home meal products. Leveraging our profound understanding of consumer preference and profiles powered by our robust and extensive information system and market research, we are able to tailor our marketing efforts to specific regions and consumers, achieving widespread community penetration of our brand image. Our pervasive brand presence fuels the success of our business strategy surrounding the successful opening and operation of new stores as well as the continual improvement of the performance of our existing stores.

To strengthen brand awareness, we have launched various marketing initiatives, including the appointment of celebrity brand ambassador and featuring them in promotion materials, marketing through high-profile TV advertisement such as on CCTV, offline advertisement, and promotion on livestreams and short-form videos on Douyin by us and our franchisees. Our stores also hold online and in-store promotional events surrounding our “517” shopping day, food festivals, Chinese New Year, mid-autumn festival, and “11.11” shopping festival, etc. These promotional events include members-only lucky draws and special rewards redemptions to attract new members and engage existing members. We also give group buy discounts and special coupons on selected products that we want to specifically promote during these events and give out sales discount to stores with high sales rankings with respect to the specific products to be promoted as an incentive for more stores to participate and increase marketing efforts.

We consider a number of factors in selecting brand ambassadors. The celebrity’s image should be relevant to our brands or products; and we conduct background search before engagement and opt for celebrities with a positive public image and reputation. We conduct evaluations on the effectiveness of our collaborations to decide whether to continue collaboration by assessing factors including increases in search volume and followers on our platforms as well as sales increases of our products.

Our Membership Program

To foster consumer loyalty, promote our brand and enhance consumer experience, we have launched our membership system. Our consumers can become members for free through our in-store POS system or online platforms such as WeChat mini program and third-party food delivery platforms. Our members are categorized into four tiers based on their accumulated spending. The program rewards members with points based on the amount they spend, which can be accumulated and used to redeem coupons for our products. As of April 30, 2023, the number of our registered members reached approximately 22.4 million. During the Track Record Period, the number of orders placed by our members increased from approximately 11.0 million in 2020 to approximately 23.7 million in 2021, and further to 33.9 million in 2022, representing cumulative sales value of approximately RMB1,130 million, RMB2,493 million

BUSINESS

and RMB3,773 million for the same periods, respectively. For the four months ended April 30, 2023, our members placed approximately 10.8 million orders, representing cumulative sales value of approximately RMB1,191 million. The average spending per order by our members during the Track Record Period ranged between RMB100 and RMB110. We have established a consolidated membership database for all online and offline consumers. This database is connected with all of our sales platforms including third-party food delivery platforms.

We consider the protection of the data privacy of our consumers to be of paramount importance and we have in place the policies, procedures, software and technology infrastructure to properly collect, use, store, retain and transmit our user data in compliance with applicable data protection laws and regulations. See “— Data Privacy and Security” for further details.

Prepaid Cards Program

To increase consumer stickiness, we provide prepaid cards to our members, which are virtual rechargeable prepaid cards in their membership accounts. Non-members may purchase physical cards of fixed value. Our members enjoy more features, such as opting cash rebate or other gifts for topping up their membership accounts. This incentivizes members to continue using the prepaid cards and encourages them to make repeat purchases. Our members may use the prepaid balance in the cards to pay online or offline for any products throughout our store network. Value stored in prepaid cards can be used in Guoquan APP, WeChat mini-program and our retail stores only, and not third-party delivery platforms and social commerce platforms. We believe this program helps to build customer loyalty and attract new consumers to join our membership program.

PRODUCTION, PROCUREMENT, AND SUPPLIERS

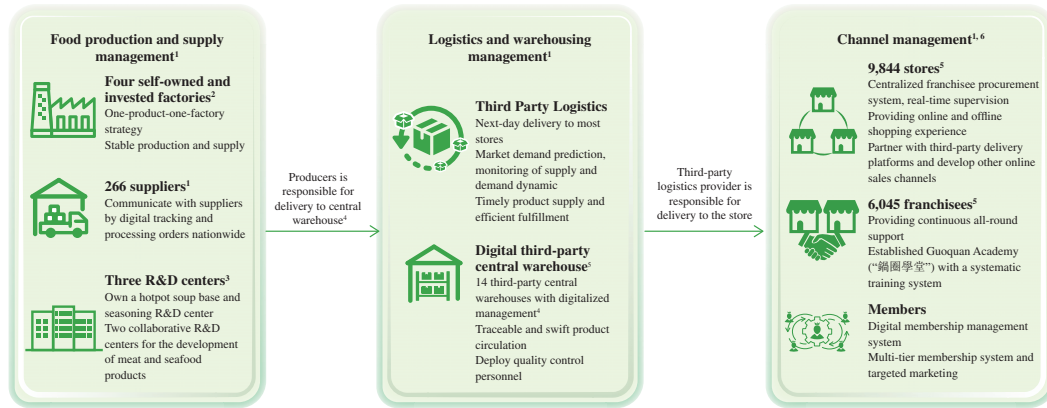
Overview

Adopting our one-product-one-factory model, we have strategically acquired food ingredient production capabilities to achieve stronger control over the production and supply of our staple products. As of April 30, 2023, we had three food ingredient production plants, Heyi Plant (和一工廠) for the production of our beef products, Wanlai Wanqu Plant (丸來丸去工廠) for the production of meatballs, Chengming Plant (澄明工廠) for production of our hotpot soup base products, and had made investments in one of our suppliers, Daixiaji (逮蝦記) for the production of our shrimp paste products, in order to have better control of the production and supply of our major products.

In addition, to maximize production efficiency and broaden our product portfolio, we also engage reliable suppliers to produce our other products. To ensure the food quality of these products, we procure raw materials from external suppliers and sell such ingredients to certain food product manufacturers that further process and produce shrimp paste, beef and lamb products. We subsequently purchase processed products from these manufacturers which became our suppliers. See “— Overlapping of Customers and Suppliers.”

BUSINESS

The following diagram illustrates our control of supply chain and the responsibilities of each parties involved:



Notes:

- Responsible for food safety.
- As of April 30, 2023, we had three production facilities, namely Heyi Plant (和一工廠) for the production of our beef products, Wanlai Wanqu Plant (丸來丸去工廠) for the production of meatballs, Chengming Plant (澄明工廠) for production of our hotpot soup base products, and invested in one of our suppliers, Daixiaji (逮蝦記) for the production of our shrimp paste products.
- As of April 30, 2023, we owned a hotpot soup base and seasoning R&D center in Luyi, Henan Province, and collaborated with our suppliers to leverage shared R&D resources and facilities, including two collaborative R&D centers in Shanghai and Beihai, Guangxi Province for the development of our meat and seafood products, respectively.
- Our self-operated facilities and other suppliers are responsible for delivery of their respective products to the third-party central warehouse. Our self-operated facilities use third-party logistics providers to deliver the products.
- As of April 30, 2023
- See “— Our Sales Channels and Store Network — Settlement and Cash Management.”

Production

Production Facilities

We own three production facilities in Henan Province, including (i) Heyi Plant, a beef processing plant acquired in August 2021, which was subsequently relocated and upgraded to a new one on our own land, (ii) Wanlai Wanqu Plant, a meatball production plant acquired in August 2021, and (iii) Chengming Plant, a hotpot soup base production plant acquired in November 2022. Based on our management’s estimate, our revenue derived from selling products processed or produced by our production facilities amounted to RMB144.8 million in 2021, RMB575.5 million in 2022 and RMB188.8 million in the four months ended April 30, 2023, accounting for 3.7%, 8.0% and 9.1% of our total revenue in the same periods,

BUSINESS

respectively. A significant portion of the beef products, meatballs and hotpot soup base we sold are supplied by these production facilities after the respective acquisitions. However, we continued to procure some of our SKUs from third-party suppliers throughout the Track Record Period.

Our beef processing plant has a GFA of approximately 54,000 sq.m., and produces our signature beef products under our hotpot ingredients series, including thinly sliced beef with tendon (筋頭巴腦雪花肥牛), thick sliced beef (源香厚切雪花肥牛) and thinly sliced Wagyu beef (和牛雪花肥牛). Our meatball production plant has a GFA of approximately 43,000 sq.m., and primarily produces meatballs, including beef balls (開花牛肉丸), juicy beef balls (撒尿牛肉丸), beef balls with tendon (牛筋丸), and beef balls with cilantro (香菜牛肉丸). Our hotpot soup base production plant has a GFA of approximately 50,000 sq.m., and produces hotpot soup base with different flavors, including tomato hotpot soup base (番茄火鍋底料), beef tallow hotpot soup base (牛油火鍋底料), and spicy hotpot soup base (清油火鍋底料).

The following table sets out our production capacity and utilization rate of our production facilities for the periods indicated:

	Year ended December 31,						Four Months ended April 30,		
	2021			2022			2023		
	Designed Capacity ⁽¹⁾	Actual Production	Utilization Rate (%) ⁽²⁾	Designed Capacity ⁽¹⁾	Actual Production	Utilization Rate (%) ⁽²⁾	Designed Capacity ⁽¹⁾	Actual Production	Utilization Rate (%) ⁽²⁾
	<i>(Tons, except percentage)</i>								
Beef processing plant ⁽³⁾	4,050	1,847	45.6%	15,000	8,475	56.5%	5,000	1,394	27.9%
Meatball production plant	625 ⁽⁴⁾	149	23.8%	7,500	4,792	63.9%	2,500	934	37.4%
Hotpot soup base production plant	—	—	—	2,234 ⁽⁵⁾	1,621	72.6%	8,935	2,599	29.1%
Total	4,675	1,996	42.7%	24,734	14,888	60.2%	16,435	4,927	30.0%

Notes:

- (1) Designed capacity is calculated based on length of operation of the specific plant for the relevant year, assuming single shifts for 10 hours/day. Our beef processing plant and meatball production plant were assumed to have operated for 300 days in 2022.
- (2) The utilization rate is calculated by dividing the actual production volume by the designed capacity during the same period.
- (3) Our beef processing plant that was acquired in August 2021 and commenced production in September 2021. As a result, the designed capacity in 2021 only assumed four months operation. Such plant was subsequently relocated and upgraded to a new one which also has an annual designed capacity of 15,000 tons.

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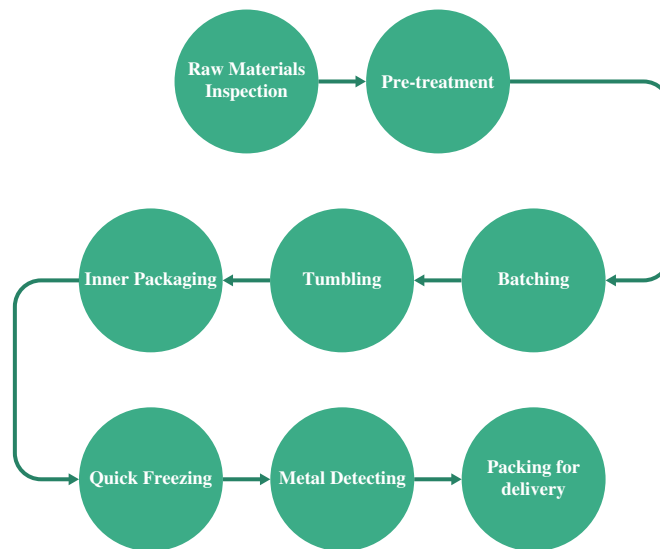
- (4) Our meatball production plant commenced production in December 2021. As a result, the designed capacity in 2021 only assumed one month operation.
- (5) We acquired the hotpot soup base production plant in November 2022 and started to incorporate its production capabilities in December 2022. As a result, the designed capacity in 2022 only assumed one month operation.

The main factors affecting our utilization rates are (i) lower utilization of our production facilities during their production ramp up periods and (ii) effects of seasonality affecting demand for our products. For example, our meatball production plant did not commence production until December, 2021, thus the utilization rate was relatively low in 2021. The design of our production plants takes into account the substantial increase in product demand during peak season, and therefore resulting in a lower overall average capacity utilization rate of the relevant production lines.

Production Process

The following charts illustrate the typical production process of the key production lines:

Process for Beef Processing

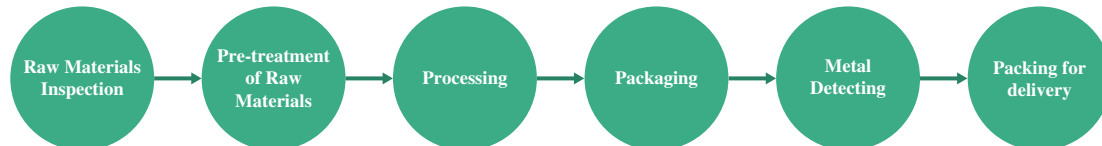


- Raw materials inspection: inspect raw materials upon receipt according to relevant standards
- Pre-treatment of raw materials: defrost, slice, and trim the beef
- Batching: batch the beef with other ingredients according to formula
- Tumbling: add the beef into the vacuum meat tumbling machine
- Inner packaging: pack the beef with inner package

BUSINESS

- Quick freezing: freeze the packed beef products for at least eight hours
- Metal detecting: inspect the packed products with metal detecting machine to prevent metal contamination
- Packing for delivery: pack finished products into boxes

Process for Meatball Production



- Raw materials inspection: inspect raw materials upon receipt according to relevant standards
- Pre-treatment of raw materials: inspect the raw materials according to relevant standards; defrost and slice or mince the raw materials
- Processing: including stirring, flavoring, molding, maturing, cooling and quick freezing
- Packaging: pack the meatballs with inner package
- Metal detecting: inspect the meatballs with metal detecting machine to prevent metal contamination
- Packing for delivery: pack finished products into boxes

Process for Hotpot Soup Base Production



- Raw materials inspection: inspect raw materials upon receipt according to relevant standards
- Batching: batch the raw materials according to the formula
- Mixing: mix the batched raw materials
- Packing: pack the blended materials with inner package

BUSINESS

- Metal detecting: inspect the packed materials with metal detecting machine to prevent metal contamination
- Sterilizing: sterilize the product
- Packing for delivery: pack the sterilized product with cardboard boxes

Research and Development

We believe that product R&D is crucial to our success and growth. We expand and upgrade our product portfolio frequently to meet evolving trends and consumer demands. We launched 66, 185, 173 and 45 new SKUs in 2020, 2021, 2022 and the four months ended April 30, 2023, respectively. We own a hotpot soup base and seasoning R&D center and work with suppliers to leverage shared R&D resources and facilities, including two collaborative R&D centers for the development of our meat and seafood products. As of April 30, 2023, 67% of our nationally available SKUs are self-developed or collaboratively developed. For example, we successfully developed our thick sliced marbled beef, thinly sliced beef with tendon, signature shrimp paste, white beef tripe, fish maw chicken soup base and pepper pork tripe chicken soup base, among others.

Our technology capabilities play an important role in our product development process. Leveraging our in-depth knowledge in food safety, cooking and industrial product development, we have developed various technologies to facilitate our production. Our major technologies include vacuum tumbling method and quick-freezing method, which allow us to preserve the moisture, fresh flavors and authentic taste of the foods. We apply quick-freezing method, vacuum tumbling method, moisture preserving method and seasoning method to produce most of our major products, including beef, lamb and pre-seasoned meats.

We have a product development team consisting of experienced personnel who hold professional degrees in the food industry, including professional chefs with over 20 years of experience. Our strong R&D and technology capabilities allow us to transform tasty food ingredients curated by our chefs into high-quality final products, while ensuring the standardization of quality and taste across all our products. We have been increasing our R&D efforts. We recorded R&D costs of RMB0.2 million, RMB3.5 million, RMB10.0 million and RMB2.5 million in 2020, 2021, 2022 and the four months ended April 30, 2023, respectively.

Our Product Development Process

Benefiting from the cumulative years of operations in the food industry, we enjoy the advantage of in-depth knowledge of consumer demands, which propels our product development to follow market trends and reflect consumer preferences. For our pipeline product development, we conduct market research covering parties across the value chain, including restaurants, hotpot restaurants, supermarkets, and food distribution markets. We then select and develop the potential pipeline products whose raw materials enjoy advantages in terms of supply and cost, forming a pipeline product pool.

BUSINESS

In addition, we continually conduct surveys and collect feedback from our members, consumers and franchisees to improve and upgrade our products. We regularly conduct consumer surveys with respect to product preference and level of satisfaction with the taste of our products. Our sales and marketing team regularly interview our franchisees to evaluate the packaging and quality of our products. Our operations team and regional management teams regularly collect feedback from franchisees about product suggestions, regional preferences, niche product demands, pricing considerations, among others, which will be reported to our product development team for evaluation and planning.

Procurement

We procure processed and unprocessed food ingredients including beef, lamb, shrimp, pork for production and processing at our production plants, or to be sold directly to franchisees. Since the acquisition of the three food ingredient production plants, we began procuring raw materials for the self-production of various products. For instance, we purchased slaughtered cattle and used certain parts to produce beef products in the Heyi Plant. As certain unused processed beef parts are no longer used in our own production, we would sell such parts to meat processors or food wholesalers at the prevailing market price at the relevant time. In addition, as we procure a large volume of raw materials as a group and able to negotiate for favorable pricing and quality assurance, we also procure additional amount of food ingredients, such as beef and lamb, from external suppliers of raw ingredients, and sold a portion of these raw materials to our suppliers of finished products. This arrangement allows us to ensure a stable supply and food quality of our finished products. As such, some of our suppliers were also our customers purchasing food ingredients from us. See “— Overlapping of Customers and Suppliers.”

We also procure non-food materials such as packaging materials, appliances and consumables. We procure substantially all of our raw materials from within China. We procure from various suppliers, with whom we typically enter into framework supply agreements with. We generally place procurement orders two or three times a month, according to the estimated volume.

Procurement Cost Control

We implement certain measures to control our purchase cost: (i) integrating multi-channel supply resources including domestic and global markets to reduce costs and (ii) entering into agreement with certain suppliers to secure sufficient supplies at agreed price or agreed price range. In addition, we stipulate in our agreements with suppliers that they cannot charge us more than the amount they charge their other customers and require suppliers to not increase their prices within six months of entering into agreement. Our large procurement scale and strong brand images have helped to strengthen our bargaining power so as to effectively control our procurement cost.

BUSINESS

Anti-kickback Measures

An effective set of anti-kickback policies and procedures is critical to ensure the integrity of our quality control, supply chain management and the control of our costs. We set out anti-kickback measures in the procurement contracts we enter into with our suppliers. In particular, we strictly prohibit receipt of gifts, discounts, kickbacks and additional benefits, including but not limited to traveling and other marketing entertainments, either directly or indirectly.

We also developed a whistle-blower program where we encourage our employees to report instances of bribery directly to the internal audit department. We also encourage our suppliers to report to us any kickbacks by providing a compliant mailbox for them.

Our Suppliers

We procure most of our food ingredients from within China. We believe that our stable relationship with suppliers builds a strong foundation for our robust supply chain and high-quality products. As of April 30, 2023, we were in collaboration with 266 food ingredients suppliers, including renowned and household brand names such as Anjoy and Sanquan, where we procure customized products from these suppliers. During the Track Record Period, we did not encounter delay or shortage in the supply of food ingredients that materially interrupted our business operations.

Supplier Selection and Management

We carefully select our suppliers. Potential suppliers must pass comprehensive evaluations by our procurement, quality control and product R&D departments before being placed on our qualified suppliers list. To qualify, suppliers must satisfy a series of conditions, including having a good public reputation, all necessary documentations, and have not received material sanctions or negative publicity in relation to food safety issues in the past year. We also require that the supplier has implemented a sound management and quality control system and internal structure with sufficient and stable production capabilities and equipment. We also request suppliers to deliver sample products for taste and quality inspection before procuring from them. We also consider various ESG related matters when choosing suppliers. In consideration of social responsibility with regards to food health and safety, we look for suppliers that have strong food safety management systems, adhere to high operating and hygiene standards, have effective pest control measures in place, and have rigorous supplier management and raw material acceptance procedures. We consider the supplier's management of non-conforming products, product labeling compliance, and product traceability. We also take into account environmental issues when assessing suppliers' management of warehouse facilities and production processes.

In addition to vetting new suppliers, we also regularly evaluate existing ones. For our major suppliers or during peak seasons, we usually deploy staff from our quality control department to supervise on site at our suppliers' factories.

BUSINESS

We will terminate our relationship with suppliers who do not meet our assessment standards or trigger a disqualifying event such as violating national laws and regulations, having food safety related crisis, engaging in fraudulent or dishonest practices during the production process or during our engagements, including corruptive practices such as bribing our employees.

Key Terms of Our Supply Agreements

Our framework agreements with our suppliers typically include the following salient terms:

- *Product specifications.* Our agreement will set forth the specific requirements that we have with respect to a particular SKU, including with respect to product quality and safety.
- *Term.* Usually one year.
- *Price.* Our suppliers promise to offer us their lowest price and to not raise their prices within the first six months of entering into agreement.
- *Inspection and acceptance.* The products are subject to our inspection upon arrival at our designated place, and we may refuse acceptance of any defective products or products that do not meet our specifications. In such cases, we are entitled to a prompt replacement or refund with associated costs borne by the suppliers.
- *Liabilities.* Our suppliers shall inform us of any product quality issues timely and accept our mitigating measures, including but not limited to suspension of delivery, product return and recall, and take full responsibility for such incidents. We reserve the right to resolve any consumer complaints or public relations issues resulting from product quality issues, and suppliers shall take full responsibility and bear all associated costs and losses.
- *Delivery.* The suppliers are required to deliver the products to our designated place pursuant to the supply agreement and shall bear any related logistics costs.
- *Payment.* We are generally granted a credit term within one month.

Major Suppliers

Our suppliers mainly include suppliers for food products, raw materials and warehousing and logistic services. Purchases from our largest supplier in each year during the Track Record Period amounted to RMB206.7 million, RMB286.7 million, RMB445.3 million and RMB103.5 million, accounting for 6.4%, 7.8%, 7.0% and 8.6%, respectively, of our total purchase amount

BUSINESS

during the respective period. Purchases from our five largest suppliers for the years ended December 31, 2020, 2021, 2022 and the four months ended April 30, 2023 accounted for 24.6%, 24.5%, 23.3% and 26.1%, respectively, of our total purchase amount during those periods.

The table below sets forth the details of our top five largest suppliers during the Track Record Period:

Year ended December 31, 2020					
No.	Suppliers	Background	Purchase amount <i>(RMB'000)</i>	% of our total purchase	Year of commencement of business relationship with us
1.	Supplier A ⁽¹⁾	Supplier A primarily engages in the business of sales of fish balls, deep processing of seafood (including processed shrimp food), fast food prepared food and snacks.	206,736	6.4	2018
2.	Luyi Chengming	Luyi Chengming, which became our subsidiary in 2022, primarily engages in the business of sales of food flavoring, fast food and prepared food. See "History, Development and Corporate Structure — Establishment and Development of Our Company."	182,730	5.7	2019
3.	Supplier B	Supplier B primarily engages in the business of providing cold storage, transportation and other related supply chain management services.	171,119	5.3	2019
4.	Supplier C	Supplier C primarily engages in the business of sales of frozen beef and lamb meat.	149,118	4.7	2019

BUSINESS

Year ended December 31, 2020

No.	Suppliers	Background	Purchase amount	% of our total purchase	Year of commencement of business relationship with us
			<i>(RMB'000)</i>		
5.	Supplier D	Supplier D primarily engages in the business of wholesale and retail of edible agricultural products as well as sales of frozen beef and lamb meat.	79,102	2.5	2018
	Total		788,805	24.6	

Year ended December 31, 2021

No.	Suppliers	Background	Purchase amount	% of our total purchase	Year of commencement of business relationship with us
			<i>(RMB'000)</i>		
1.	Supplier A ⁽¹⁾	Supplier A primarily engages in the business of sales of fish balls, deep processing of seafood (including processed shrimp food), fast food prepared food and snacks.	286,668	7.8	2018
2.	Luyi Chengming	Luyi Chengming, which became our subsidiary in 2022, primarily engages in the business of sales of food flavoring, fast food and prepared food. See “History, Development and Corporate Structure — Establishment and Development of Our Company.”	217,358	5.9	2019

BUSINESS

Year ended December 31, 2021

No.	Suppliers	Background	Purchase amount <i>(RMB'000)</i>	% of our total purchase	Year of commencement of business relationship with us
3.	Supplier B	Supplier B primarily engages in the business of providing cold storage, transportation and other related supply chain management services.	198,496	5.4	2019
4.	Supplier E	Supplier E primarily engages in the business of sales of frozen lamb meat and other meat.	110,305	3.0	2020
5.	Shanghai Shengxian Food Co., Ltd. (上海盛鮮食品有限公司) (“Shanghai Shengxian”)	Shanghai Shengxian primarily engages in the business of production and wholesale of seafood and meat products, including beef and lamb products.	87,248	2.4	2020
Total			900,075	24.5	

BUSINESS

Year ended December 31, 2022

No.	Suppliers	Background	Purchase amount	% of our total purchase	Year of commencement of business relationship with us
			<i>(RMB'000)</i>		
1.	Supplier A ⁽¹⁾	Supplier A primarily engages in the business of sales of fish balls, deep processing of seafood (including processed shrimp food), fast food, prepared food and snacks.	445,291	7.0	2018
2.	Supplier B	Supplier B primarily engages in the business of providing cold storage, transportation and other related supply chain management services.	339,063	5.3	2019
3.	Luyi Chengming	Luyi Chengming, which became our subsidiary in 2022, primarily engages in the business of sales of food flavoring, fast food and prepared food. See “History, Development and Corporate Structure — Establishment and Development of Our Company.”	252,631	4.0	2019
4.	Supplier E	Supplier E primarily engages in the business of sales of frozen lamb meat and other meat.	251,891	4.0	2020
5.	Supplier F	Supplier F primarily engages in the business of sales of frozen processed beef and lamb meat and other viscera food.	191,557	3.0	2020
	Total		1,480,433	23.3	

BUSINESS

Four Months ended April 30, 2023

No.	Suppliers	Background	Purchase amount <i>(RMB'000)</i>	% of our total purchase	Year of commencement of business relationship with us
1.	Supplier B	Supplier B primarily engages in the business of providing cold storage, transportation and other related supply chain management services.	103,500	8.6	2019
2.	Supplier D	Supplier D primarily engages in the business of wholesale and retail sales of edible agricultural products as well as sales of frozen beef and lamb meat.	65,677	5.5	2018
3.	Supplier G	Supplier G primarily engages in the business of sales of frozen beef and lamb meat.	60,022	5.0	2022
4.	Supplier A ⁽¹⁾	Supplier A primarily engages in the business of sales of fish balls, deep processing of seafood (including processed shrimp food), fast food, prepared food and snacks.	43,207	3.6	2018
5.	Supplier F	Supplier F primarily engages in the business of sales of frozen processed beef and lamb meat and other viscera food.	40,946	3.4	2020
Total			313,352	26.1	

Note:

(1) Supplier A comprises Daixiaji and a food production company.

BUSINESS

Prior to the acquisition of our self-operated production facilities, we primarily procured beef from Luyi Heyi and other beef suppliers, meatballs from Sanquan, and hotpot soup base from Luyi Chengming. We subsequently acquired Luyi Heyi and Luyi Chengming in August 2021 and November 2022, respectively. Ms. Yang Tongyu (楊童雨) was one of the shareholders of Luyi Chengming, before the acquisition, and is the daughter of Mr. Yang.

We select our suppliers carefully with comprehensive evaluations conducted by our procurement, quality control and product R&D departments. Given the relatively limited operation history, we had a store network with over 500 stores in January 2019. Starting from 2019, we accelerated the expansion of our business scale in home meal products, which requires bulk procurement of quality food ingredients and products. To achieve economies of scale and operational efficiency, we chose to increase the procurement from existing established suppliers with stable supply of food ingredients and products in quantity and quality that satisfy our requirements. Notwithstanding the relatively limited history of cooperation with us, some of the suppliers became the top five largest suppliers during the Track Record Period shortly after we commenced business relationships with them, primarily due to their capability in stable supply and satisfactory quality control.

The change in supplier mix during the Track Record Period was primarily due to the acquisition of production facilities. To further cement our control over supply chain and enhance the vertical integration of upstream supply chain, we acquired (i) the beef processing plant (i.e. Heyi Plant) in August 2021, which was subsequently relocated and upgraded to a new one on our own land, (ii) the meatball production plant (i.e. Wanlai Wanqu Plant) in August 2021, and (iii) the hotpot soup base production plant (i.e. Chengming Plant) in November 2022. With the production capacities of these plants being incorporated into our supply chain, Supplier C and Supplier D, which mainly supplied beef products to us, ceased to be among our top five suppliers in 2021, as our procurement from these two suppliers as a percentage of our total procurement reduced. In addition, we increased our procurement of lamb products from Supplier E and Supplier F, which became one of our top five suppliers in 2021 and 2022, respectively.

OVERLAPPING OF CUSTOMERS AND SUPPLIERS

During the Track Record Period, several of our top five suppliers were also our customers purchasing food products from us. Our purchase amounts attributable to these customer-suppliers accounted for 8.2%, 11.6%, 13.1% and 12.5% of our total purchase amount in 2020, 2021, 2022 and the four months ended April 30, 2023. Our sales amount attributable to these customer-suppliers accounted for nil, 0.5%, 1.3% and 3.6% of our total revenue in 2020, 2021, 2022 and the four months ended April 30, 2023.

Supplier A, one of our five largest suppliers in 2021 and 2022, was also one of our five largest customers in 2022. Supplier A contributed to nil, nil, 0.8% and 1.8% of our revenue in 2020, 2021, 2022, and the four months ended April 30, 2023 respectively, and 6.4%, 7.8%, 7.0% and 3.6% of our total purchase amount in the same periods, respectively. The volume of raw materials that Supplier A purchased from us amounted to nil, nil, 1,010 tons and 517 tons

BUSINESS

in 2020, 2021, 2022 and the four months ended April 30, 2023, respectively; the volume of products that we procured from Supplier A amounted to 5,018 tons, 6,264 tons, 8,766 tons and 890 tons in the same periods, respectively. Supplier A is a group of food production companies in China, which mainly engages in the business of sales of fish balls and deep processing of seafood (including processed shrimp food). As we procure a large volume of raw materials as a group and are able to negotiate for favorable pricing and quality assurance, we also procure shrimps from external suppliers and sold such shrimp to Supplier A to produce processed shrimp products. As such, we are one of the suppliers of shrimp to Supplier A. Separately, we procured shrimp paste products from Supplier A. This arrangement with Supplier A was not a bundled or back-to-back trading arrangement, but allows us to ensure a stable supply of our shrimp paste products and food quality. See “— Our Sales Channels and Store Network — Our Customers.”

Supplier F, one of our five largest suppliers in 2022 and the four months ended April 30, 2023, was also one of our five largest customers in the four months ended April 30, 2023. Supplier F contributed to nil, nil, nil, and 1.0% of our revenue during the Track Record Period, respectively, and 1.5%, 0.9%, 3.0%, 3.4% of our total purchase amount in the same period, respectively. The volume of raw materials that supplier F purchased from us amounted to nil, nil, nil and 500 tons in 2020, 2021, 2022 and the four months ended April 30, 2023, respectively; the volume of products that we procured from supplier F amounted to 968 tons, 634 tons, 3,626 tons and 771 tons in the same periods, respectively. Supplier F is a wholesaler of frozen processed beef and lamb meat and other viscera food. As we procure a large volume of raw materials as a group and are able to negotiate for favorable pricing and quality assurance, we also procure lamb meat from external suppliers and sold a portion of these lamb meat to Supplier F to produce processed lamb products. As such, we are one of the suppliers of lamb meat to Supplier F. Separately, we procured processed lamb products from Supplier F. This arrangement with Supplier F was not a bundled or back-to-back trading arrangement, but allows us to ensure a stable supply of our lamb products and food quality.

Shanghai Shengxian, one of our five largest suppliers in the four months ended April 30, 2023, was also one of our five largest customers in 2022. Shanghai Shengxian contributed to nil, nil, 0.5% and 0.3% of our total revenue during the Track Record Period, respectively, and 0.2%, 2.4%, 1.8%, 2.7% of our total purchase amount in the same periods, respectively. The volume of raw materials that Shanghai Shengxian purchased from us amounted to nil, 148 tons, 786 tons and 101 tons in 2020, 2021, 2022 and the four months ended April 30, 2023, respectively; the volume of products that we procured from Shanghai Shengxian amounted to 155 tons, 1,993 tons, 2,113 tons and 583 tons in the same periods, respectively. Shanghai Shengxian is a food production company which engages in the production and sales of seafood and meat products including beef and lamb products. We procured and processed raw materials such as beef at group level for our main business and sold a portion of unused processed beef parts to Shanghai Shengxian. Separately, we procured processed beef products from Shanghai Shengxian. See “Connected Transactions — Our Connected Transactions — (B) Non-Exempt Continuing Connected Transaction (Subject to Reporting, Annual Review and Announcement Requirements).”

BUSINESS

There is no entity that was both our customer and our supplier in 2020. To increase its control over supply chain, secure raw materials for the food products production capability we gradually established and improve the quality of the food ingredients used to produce our products, we constantly seek procurement sources of quality raw material from domestic and overseas sources. Leveraging such procurement sources, in late 2021 we started to supply certain imported and domestic food ingredients, mainly including shrimp and beef, to our suppliers as well as certain food wholesalers. These efforts to enhance our supply chain capability results in overlapping customer suppliers. To a lesser extent, 38 suppliers purchased certain home meal products from us primarily for their own consumption during the Track Record Period, such as employee benefits and team building meals, including beef balls, crawfish products and soup base products. Such purchases did not exceed RMB50,000 for each year/period on an individual basis and the aggregate amount of sales of this nature amounted to nil, RMB4.0 thousand, RMB0.1 million and RMB0.3 million in 2020, 2021, 2022 and the four months ended April 30, 2023, respectively. Therefore, the primary roles of overlapping customer-suppliers are our suppliers. In addition, there were 17 overlapping customer-suppliers during the Track Record Period, whose purchase amounts exceeded RMB50,000 on an individual basis for each year/period of the Track Record Period, and our sales to these overlapping customer-suppliers of the respective period amounted to nil, RMB26.2 million, RMB118.0 million and RMB88.2 million in 2020, 2021, 2022 and the four months ended April 30, 2023, respectively.

Our aggregate sales to overlapping customer-suppliers of the respective period amounted to nil, RMB26.2 million, RMB118.1 million and RMB88.5 million in 2020, 2021, 2022 and the four months ended April 30, 2023, accounting for 0.7%, 1.6% and 4.3% of our total sales in the same periods, respectively. Such sales were insignificant during the Track Record Period. Our aggregate purchases from overlapping customer-suppliers of the respective period amounted to nil, RMB147.0 million, RMB1,079.3 million and RMB293.6 million in 2020, 2021, 2022 and the four months ended April 30, 2023, accounting for nil, 4.0%, 17.0% and 24.4% of our total procurement in the same periods, respectively.

Negotiations of the terms of our sales to and purchases from these overlapping customer-suppliers/supplier-customer were conducted on an individual basis, and the sales and purchases were not inter-conditional with each other. During the Track Record Period, there was no bundled or back-to-back trading arrangement where a batch of food products was divided into smaller batches and re-sold to the same overlapping customer/supplier. For each of the overlapping customer-suppliers/supplier-customer, the key terms of our sales of products to such customers and our purchases of products from such suppliers are generally similar to those of our other customers/suppliers. Our Directors are of the view that these arrangements are within our ordinary course of business and under normal commercial terms.

As of the Latest Practicable Date, none of our Directors, their close associates or any of our Shareholders (who owned or to the knowledge of our Directors had owned more than 5% of our issued share capital) had any interest in any of our five largest suppliers.

BUSINESS

WAREHOUSING AND LOGISTICS

Our suppliers are responsible for delivering ingredients and other materials to third-party central warehouses provided by third-party warehousing and logistics providers engaged by us. Upon delivery of the ingredients, the third-party warehousing and logistics providers will provide storage facilities at appropriate temperatures and other storage conditions by following our standards. We set stringent requirements for the storage of ingredients and supplies at third-party warehouses, including with respect to product unloading, recording, shelving, labeling and sanitary and hygiene requirements for the third-party warehouse and its employees, among others.

Generally, the third-party warehousing and logistics providers are also responsible for delivering the ingredients and supplies from the third-party warehouses to our stores. We implement stringent safety policies and requirements during the transportation of these ingredients and other supplies to ensure timely delivery and maintain the quality and freshness of our products. These third-party warehousing and logistics providers have compatible information systems with us, allowing us to digitally monitor and trace our products upon the receipt of products by the third-party warehouses all the way till reaching our stores. This digital integration realizes the efficient management and monitoring of inventory and speedy and precise delivery to our stores, achieving next-day delivery to our major stores across the country.

Our agreements with third-party warehousing and logistics providers typically include the following salient terms:

- *Receipt of products.* We require the third-party warehousing and logistics providers to provide appropriate warehouses that satisfy our specifications.
- *Storage of products.* The third-party warehousing and logistics providers are responsible for the storage of products, in respect of the quantity, appearance and quality of the products. We have the right to inspect the products at any time.
- *Delivery.* The third-party warehousing and logistics providers must arrange delivery according to our requirements, with respect to the required vehicle, time, destination, and recipient, and shall bear the risk of damage to the products during the course of delivery.
- *Term.* Usually one year.
- *Payment.* We generally settle payments with our third party warehousing and logistics providers three times a month.

BUSINESS

OUR DIGITALIZATION

Information technology has fueled our robust operation and rapid expansion. We have digitalized our core operations, implementing digital supply chain and operation systems to maximize efficiency and carry out quality control from plant to shelf.

Digitalized Consumer Engagement and Marketing Tools

We have established an omni-channel digital sales and marketing network comprising our membership system, social media platforms and third-party food delivery platforms. Our membership system connects our physical stores and our online platforms as well as third-party food delivery platforms, integrating online and offline consumer engagement to attract and retain a large number of loyal consumers. We also empower and guide our franchisees and store managers to engage in interactive marketing and member events on social media platforms, such as through livestreaming and short-form videos on Douyin.

Moreover, through our digitalized membership system, we are able to analyze the consumption behaviors of our consumers and categorize them accordingly to further optimize our product offerings and services. We are able to provide differentiated products and services to consumers through our multi-tier membership management. As we have the record of orders placed by our members, we are able to better understand their preferences and precisely recommend and promote targeted products according to our predictions of their demands. See “— Data Privacy and Security” for how we protect consumer data.

Our average daily online orders increased from 6,193 in 2020 to 68,831 in 2022.

Digitalized Store Operations and Management

We empower our franchisees through our digitalized store operation and management tools, facilitate them in their store operations. In 2019, we launched our centralized franchisee procurement system, enabling convenient order placement by franchisees, followed by efficient delivery of goods to stores. This facilitate our inventory management, which streamlines our customer service process and achieve higher operational efficiency. We aim to digitalize the operation and management of our stores. Furthermore, our digital management of store data facilitates our network expansion. Key data involved in the process of store opening including site selection, contract signing, store information and qualification management are all completed and stored online. We also have video supervision systems installed in most stores to enable real-time visual monitoring of store operations. Such features significantly streamlines the processes and reduces the labor involved in the management of franchised stores by our staff members, from store opening, product procurement, to monitoring store operations. As a result, each staff of our store operations team is able to manage more stores. Since the launch of our digital system, the average number of stores managed by each staff of our store operations team increased from 3.2 as of December 31, 2020 to 12.8 as of April 30, 2023.

Moreover, all of our stores use the cloud-based POS system monitored by our headquarters, which is designed to improve operating efficiency, provide standardized and centralized control over product offerings and pricing, such as to detect deviation from our retail prices or sales of franchisee self-procured products outside the allowed range.

BUSINESS

Digitalized Supply Chain Management and Inventory Control

The digitalization of our supply chain comprising production, procurement, warehousing, and logistics allows us to exercise monitoring of the supply and demand dynamics from procurement-end to store-end and closely monitor our inventory level, enabling highly efficient management of our entire supply chain.

Leveraging our grasp of the massive amount of operating and sales data enabled by our extensive IT system underlying our entire business and digital data analysis capabilities, we are able to analyze and predict franchisees' preferences and demands, and communicate to our supply chain to timely adjust procurement plans and product development. For example, we usually increase procurement at the end of the year in preparation of peak season. Accordingly, we are able to achieve targeted delivery of products to third-party warehouses in different regions, facilitating stable, precise and efficient store sales.

Moreover, as of April 30, 2023, we leverage 14 digitalized third-party central warehouses across China in cooperation with third-party warehousing and logistics providers, achieving swift circulation of products through digital stock and bar code management. As a result of our real-time monitoring of product circulation, as well as efficient and accurate delivery of products to stores directly, we are able to realize next-day delivery to most of our stores across the country.

FOOD SAFETY AND QUALITY CONTROL

Food safety and quality control are of paramount importance to our business. We are committed to bringing safe, high quality food ingredients to consumers. To this end, we implement stringent food safety and quality control standards and measures throughout all aspects of our operations, including (i) procurement and supplier, (ii) production, (iii) logistics and storage, and (iv) store operation.

We oversee food safety at our senior management level, with a food safety coordination office responsible for interpreting national food safety laws, direct communication with relevant government authorities and our regional management teams. Under such management structure, we have specialized regional supervisors in charge of food safety, mainly responsible for conducting inspection and offering training to franchised stores over food safety issues. We conduct random store inspections and impose penalties on franchised stores with food safety issues. Our quality control department is responsible for reviewing the background and inspecting the production process of suppliers.

BUSINESS

Consumer satisfaction with our products is vital to the success of our business. Although we have separate contractual rights and obligations between us and our franchisees, we strive to ensure that end-consumers consistently receive the same standard of quality of products at all stores in our network. To this end, we have a department in charge of monitoring consumer feedback, suggestions and complaints. We have set up hotlines for consumers to report any concerns or complaints and have an internal team specifically devoted to resolve all issues from end-consumers at our headquarters level.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any major food safety incidents, material product recalls, returns, product liability claims or customer complaints.

Procurement and Supplier Quality Control

Before we engage a supplier, they must pass our stringent selection procedures, which include background and qualification checks and sample product testing. In addition, we regularly evaluate our suppliers by conducting periodic inspections, assessments and on-site visits. If a supplier fails to meet our requirements and is unable to rectify their faults, we terminate our engagement with them. To ensure food safety of food ingredients, we inspect food ingredients that we receive from our suppliers to ensure their quality and safety. We have implemented thorough inspection procedures for incoming food ingredients that covers vehicle hygiene, inventory records, relevant product certifications, temperature, labeling, appearance, packaging, and other quality indicators. If the ingredients fail to meet our requirements, we return them to the suppliers. Our stringent evaluation of our suppliers, as well as the ingredients we receive from them, help ensure that the ingredients we procure meet our quality control standards. For more information about how we manage our suppliers, see “— Our Suppliers — Supplier Selection and Management.”

If we or regulatory authorities identify product quality concerns that may be attributed to the supplier or production facility, we typically require them to promptly provide relevant product certification and source verification within 24 hours of receiving notice and cooperate with any investigations by regulatory authorities. If found liable, the supplier or production facility will bear administrative penalties and compensate us for related costs and damages. On the other hand, if suppliers or production facilities discover any quality issue of their products supplied to us, they shall notify us promptly and execute remedial actions proposed by us at their own cost, which may include product recall, suspension of delivery and product return. The supplier or production facility is also liable for all losses related to any consumer complaint or negative publicity arising from such issues and the costs of any remedial actions taken by us.

Logistics and Storage Quality Control

We cooperate with third-party warehousing and logistics service providers to store and deliver our products. We have formulated our own technical protocols concerning factors such as temperature, humidity, and hygiene. Apart from requiring the warehousing and logistic service providers to follow our technical protocols, we also deploy personnel from our quality

BUSINESS

control department to the third-party warehousing and logistics service providers to supervise and monitor each consignment received by these third-party warehouses and the temperature and storage conditions of the third-party warehouses. Upon arrival of each consignment of products, we will send samples to third-party inspection companies to inspect the quality of such products before they are put on sale.

During the storage of our products, the third-party warehousing and logistic service provider is fully responsible for the quantity, quality and packing appearance of the products stored. Except for preexisting defects that have been inspected and confirmed by us upon acceptance of the goods by the third-party warehouse, such third-party warehousing and logistic service provider must compensate us for any damages and actual losses incurred.

During transport of products from third-party warehouses to our stores, we require the third-party providers to properly equip cold chain vehicles with temperature controllers. We have implemented a real-time supervising system which receives the real-time temperature and location of each cold chain vehicle on route. Through our technical protocols, field presence at third-party warehouses and real-time supervising system, we ensure the third-party warehousing and logistic service providers fulfill their obligations and adhere to our standards. The risk of damage to the products is borne by the third party logistic services provider, except for losses caused by factors such as product aging or force majeure.

With respect to delivery orders fulfilled by third-party delivery platforms, our stores are responsible for ensuring food safety and quality of our products to be delivered and liable for any issue thereof. Third-party platforms are responsible for ensuring that the delivery personnel maintain good personal hygiene and our products free from contamination during the delivery. Furthermore, third-party delivery platforms are responsible for ensuring punctual delivery of our products and are liable for any damage to our products in delivery.

Store Quality Control

We have implemented guidelines and standards on maintaining food safety and hygiene in the operation of our stores, which our franchisees and their employees are required to follow. These guidelines cover, among others, personal hygiene, the inspection and safe storage of food ingredients, temperature control, cleaning and sanitizing, use of kitchen equipment, and the packaging and labeling of home meal products. All franchisees and store employees undergo mandatory training with respect to these standards.

Franchised stores must carefully inspect all products before displaying them on shelves and are responsible for any product quality issues resulting from their own actions. They must promptly handle any consumer complaint and report them to us. Franchised stores must comply with relevant food safety laws and regulations and may not sell any products with quality issues or potential hazards. Any resulting liabilities or compensation would be borne by the franchised store. If franchised stores violate our quality management standards and cause any food safety incidents that negatively impact our brand image, we have the right to terminate the franchise agreement and franchisee must compensate us for any losses incurred.

BUSINESS

To supervise and detect noncompliance, we conduct regular training, guidance and inspections at franchised stores on food safety issues. We also have video supervision systems in most of our franchised stores, to enable real-time visual monitoring of store operations. We conduct ad hoc inspections of franchised stores remotely through the video supervision system on a daily basis. The inspections cover various aspects of the store operations, such as (i) the overall hygiene conditions of the store, (ii) in-store food processing, storage and display, and (iii) whether products are within their shelf life. If a franchised store is found to be non-compliant, our inspection personnel will report the incident to our regional management team and conduct follow-up supervision with the store, which may require remedial actions and impose penalties if appropriate.

SEASONALITY

Our business is subject to seasonal fluctuations due to factors including weather, holidays and school vacations. In particular, we generate a substantial amount of our revenue from our hotpot products, which are generally more popular during cold seasons. Historically, our sales are generally higher from October to February the following year. To offset the impacts of seasonality to a certain extent, we have enriched our product mix to include barbecue products, snacks, beverages and alcoholic drinks, and expect to meet the needs for more dining scenarios such as campsite dining casual snacking at home, fruits and light meals and solo dining.

COMPETITION

We operate in a competitive and fragmented market. According to the Frost & Sullivan Report, the aggregate market share of the top five players of China's home meal products market accounted for approximately 11.1% of the market share by retail sales value in 2022. We compete with a broad range of competitors in the industry, including domestic and international retailers of home meal products. See "Industry Overview — Competitive Landscape of China's Home Meal Products Market." We compete with these industry players for high-quality suppliers, consumers, store locations and corporate operation talents.

We believe that our competitive advantages include the successful implementation of our store network expansion strategy, and our ability to continuously source high-quality food ingredients and raw materials, to expand product portfolio, and to enhance our operational efficiency. According to the Frost & Sullivan Report, we were the largest home meal products retailer in China in terms of retail sales value in 2022, accounting for 3.0% of total market share in China.

BUSINESS

INTELLECTUAL PROPERTY

Our intellectual property rights primarily consist of trademarks, copyrights, patents and domain names. As of April 30, 2023, we had 641 registered trademarks, 63 copyrights, 36 patents and 13 domain names. We also protect our intellectual property rights through a series of confidentiality agreements or provisions with all of our employees and franchisees.

We undertake a proactive approach to managing our intellectual property portfolio. Our legal department performs regular monitoring of our intellectual rights. We act when we are aware of a potential infringement of our intellectual property rights. For instance, we perform routine checks on the website of trademark office of China national intellectual property administration (“國家知識產權局商標局”) to ensure our trademarks are not infringed by others.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any threatened or pending disputes relating to the infringement of intellectual property rights that would have a material adverse effect on our business.

EMPLOYEES

As of April 30, 2023, we had 2,005 full-time employees. The following table sets forth the number of our employees by function as of the same date:

Function	Number of employees	%
Operation and store management	771	38.5
Store development and marketing	261	13.0
Procurement and supply chain	121	6.0
Production	380	19.0
Customer service	75	3.7
Food safety and quality control	62	3.1
IT	105	5.2
Finance, human resources, administration and others	230	11.5
Total	2,005	100.0

Attracting and retaining qualified employees is important to our success. We recruit employees primarily through headhunters, referrals, job fairs and recruitment websites during the Track Record Period. Committed to providing fair and equal opportunities to our employees, we formulated detailed career development and promotion path plans covering all levels of our staff and conduct performance evaluations regularly. As part of our retention strategy, we offer our employees competitive salaries and comprehensive insurance packages, which are generally based on the performance of the individual employees and the overall performance of our business.

BUSINESS

We emphasize the importance of trainings for our employees to enhance their technical skills and comprehensive abilities and have designed comprehensive training systems through our *Guoquan Academy*. We provide induction training to our new joiners on our culture, business and industry enabling them to fit in. We also provide tailor-made in-house training sessions to our employees to improve technical skills in their practice areas and management skills training opportunities such as leadership trainings to cadre at key positions.

We have maintained a good relationship with our employees. During the Track Record Period, we did not have any strikes, protests or other material labor disputes that may impair our business and image.

INSURANCE

As of the Latest Practicable Date, we did not have any outstanding material insurance claims against us. We have retained the statutory social insurances as required by the relevant PRC laws and regulations, such as pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. We also maintain insurance policies covering employer liability. However, we do not have any insurance that protects us from potential damages in relation to franchisee misconducts and consumer rights infringements. We believe our existing insurance coverage is adequate for our existing operations and is in line with industry standards in China. Nevertheless, we may be exposed to claims and liabilities which exceeds our insurance coverage. See “Risk Factors — Risks Relating to Our Business and Industry — We have limited insurance coverage for our operations.”

ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND GOVERNANCE

We believe environmental, social and governance (“**ESG**”) matters are essential to our continuous development. We are committed to integrating ESG criteria into our daily business activities. We have been, and will continue to be, committed to sustainable corporate development by focusing on areas such as product quality and safety, consumer service, compliance employment, environment protection and public responsibility. We plan to develop ESG strategy to guide our sustainable development. Quantitative targets and metrics will be set to ensure the ESG initiatives are well implemented, and a regular review process of our key ESG performance will be developed.

ESG Governance

We acknowledge that practical and comprehensive ESG governance lays an essential cornerstone for our path toward sustainable development. To effectively manage ESG issues, we have established a top-down ESG governance framework, comprising our Board, the Senior Leadership Team (the “**SLT team**”), and the ESG Working Group (the “**ESG Working Group**”).

BUSINESS

Our Board takes the overall responsibility for our ESG strategy formulation. Our Directors will actively participate in designing our ESG strategies and targets, and will evaluate, determine and address our ESG-related risk. The SLT team, consisting of our chief executive officer, senior management and our department heads, assumes the responsibility to (i) identify and evaluate ESG risks and opportunities related to our business, (ii) set ESG goals and targets, and formulate and assess ESG strategic plans and mitigating measures, (iii) monitor and manage matters relating to ESG issues, and (iv) confirm with our Board with respect to the effectiveness of our ESG system. The ESG Working Group comprises specially assigned personnel of key departments, such as the supply chain management department, operations department, human resources department, marketing department, legal department, and others. The ESG Working Group is dedicated to the implementation of our ESG plans. The ESG Working Group convenes meetings and communicates regularly to report and present the implementation progress and key results. At the same time, we have coordinated efforts across departments, including our production department and procurement department to report on ESG issues to our management.

ESG Policies

In order to effectively manage our sustainable development performance, we formulated ESG-related policies on our material ESG topics, including food safety, information security, occupational health, environmental protection and business ethics. These ESG policies show our commitment to relevant topics and provide a general guide to coordinate the sustainable development efforts.

Materiality Assessment

Considering our features and strategic direction, we identify material ESG issues through cross-functional internal team surveys, industry trends benchmarking and investor outreach. We assess the materiality of each ESG issue based on three factors, namely the importance of the issue, level of management of the issue and the financial impact on us. Through our assessment, we identified 20 ESG issues relevant to our business based on stakeholders' requirements. We rank the materiality of each ESG issue as follows:

Materiality of ESG issues

- 1 Food Quality and Safety
- 2 Supply Chain Management
- 3 Environmental Protection
- 4 Energy Management
- 5 Food Wastage
- 6 Packaging Management
- 7 Employment Compliance
- 8 Occupational Health and Safety
- 9 Information Security
- 10 Business Ethics

We expect to further optimize our assessment process to cover more stakeholders and derive a matrix of material ESG issues based on our conditions and strategic direction.

BUSINESS

ESG Risks and Opportunities

We use materiality assessment to identify, prioritize and strategically address relevant ESG risks that can have a significant impact on our operations, supply chain and communities in which we operate. We have identified the following ESG topics as material:

- (i) *Food safety and quality.* We are subject to risks of food safety incidents such as contamination and food-borne illnesses, which may lead to administrative or criminal penalties and our reputation may be adversely impacted. As a result, we are required to continuously improve our food safety guidelines and policies, standards and procedures, inspections and checks, and training on proper food safety practices.
- (ii) *Supply chain management.* Responsible sourcing and sound supply chain management are essential for us to ensure reliable food quality and sustainability along our supply chain. If we are unable to select quality third-party suppliers or monitor, audit and manage different parties in the supply chain may expose us to risks of suppliers' non-compliance with applicable laws and regulations and unethical practices, which could diminish our competitiveness and harm our reputation.
- (iii) *Environmental protection.* We are subject to relevant environmental laws and regulations. For details, see "Regulatory Overview — Regulations on Environmental Protection." Regulators may impose more stringent environmental requirements and standards on us. For example, we may have to further reduce emissions of wastewater and solid pollutants, which may increase our operating costs.
- (iv) *Energy management.* Implementing effective energy management can help reduce energy consumption, save money on energy bills, reduce environmental impact and improve energy security. Furthermore, it can ensure compliance with regulations and standards and provide a framework for continuous improvement and sustainability. We carry out energy conservation and consumption reduction management in the use of electricity, water and natural gas to improve resource use efficiency and reduce energy consumption.
- (v) *Food wastage.* Food production and society's consumption patterns strain natural resources and the environment. As a company that produces food, we emphasize reducing food waste and incorporating it into our manufacturing operations. We strive to make efficient use of natural resources, reduce our environmental impact, reduce food waste and promote sustainable practices and consumption.

BUSINESS

- (vi) *Packaging management.* Packaging management plays a crucial role in our operations, as it not only ensures product quality and safety but also helps prevent food waste. However, the use of unsustainable packaging materials can lead to significant environmental issues. To address this concern, we have adopted and implemented measures to promote the sustainable utilization of packaging materials.
- (vii) *Employment compliance.* We must comply with employment laws, fair recruitment rules and regulations in the locations where we operate, to prevent and tackle workplace discrimination and ensure employees are paid adequately. It is essential for us to fully understand our obligations and are able to identify areas where further action and training is required to ensure compliance. Failing to meet legal obligations may lead to industrial disputes or tribunal claims.
- (viii) *Occupational health and safety.* Occupational health and safety focuses primarily on protecting employees in the workplace from accidents, injuries, and exposure to harmful substances. We are responsible for maintaining a safe working environment for our employees by providing adequate training, safety equipment, and other necessary resources. Failure to implement effective policies and precautions can lead to injuries, reduced productivity due to the absence or loss of skilled labor, and workers' compensation claims.
- (ix) *Information security.* We endeavor to ensure data security, protecting ourselves from cyber attacks and other unauthorized access and data breaches. Weak data security can lead to crucial information being lost or stolen, creating a poor customer experience that can lead to lost business and reputational harm if a company does not implement sufficient protections over customer data and information security weaknesses are exploited by hackers.
- (x) *Business ethics.* Adhering to ethical business standards means fully protecting the rights and interests of all stakeholders and providing a transparent and reliable environment for internal and external partners to conduct business. Violations of business ethics may prevent healthy competition in the market, weaken brand value and social and customer trust, lose market access or growth opportunities while increasing the cost of litigation, penalties and fines and the uncertainty of future development, and reducing the efficiency of business operations, among other risks.

There are potential opportunities in the whole society's transitioning to a lower-carbon economy. With the popularization and application of technologies and the further streamline of our online and offline operations, we expect to improve our energy efficiency and there will be better chances for us to be recognized by end consumers and business partners over other less environmentally friendly competitors. At the same time, as the public shifts to healthier eating habits, healthy food will play a more important role in people's daily diet and our well-established brand awareness in connection with high-quality food ingredients will enable us to acquire more market share in the future, which in turn, is beneficial to further increasing our popularity, sales and profit margins.

BUSINESS

Climate-related Risks and Opportunities Assessment and Management

Climate change poses unprecedented challenges to global economic development. The international community has become increasingly concerned about climate change in recent years. In November 2016, the Paris Agreement came into force intending to limit global temperature rise to two degrees Celsius by the end of the century compared to pre-industrial times, with a commitment to further control to 1.5 degrees Celsius. In line with its commitment to global cooperation in addressing climate change, the Chinese government has been actively promoting climate change mitigation efforts. It has announced its commitment and targets for “carbon peaking and carbon neutrality.”

Climate Risk Assessment

Recognizing the interconnectedness of our business and climate change, we have identified and assessed climate-related risks to our operations, supply chain and stakeholders, including:

- *Physical risks:* Floods, typhoons, storms, and other extreme weather conditions and natural disasters may cause price volatility of raw materials, fluctuation in supply and physical damage to our stores, factories and offices, pose safety risks to our staff and lead to delayed food delivery to our customers, among other consequences. We aim to protect the health and property of our employees and customers by guaranteeing timely and maximum compensation for economic losses caused by natural disasters or accidents.
- *Transition risks:* Policy risks, technology risks, market access risks, goodwill risks, etc., associated with the transition to a low carbon economy. Against the backdrop of the PRC’s carbon peak and neutrality goals, we may incur additional costs to purchase new energy, replace undegradable packaging, promote sustainable sourcing and engage in low-carbon product development. We will continue to monitor the external compliance environment and stakeholder expectations to explore more sustainable operations and services. We also plan to continuously monitor climate-related matters and governmental developments around actions to combat climate change and act to minimize the impact on our operations.

Climate Related Targets and Metrics

We recognize that optimizing energy and greenhouse gas (“GHG”) emission management is fundamental for us to effectively manage climate change risks, and energy consumption is closely linked to the GHG emission. Setting our energy consumption and GHG emission targets with a clear timeframe is the basis for us to sustainably reduce our energy consumption intensity and GHG emission intensity. We set various targets for the sustainable development of our business operations and financial performance. In terms of energy consumption and GHG emission, we expect to have a 5% reduction in energy consumption intensity and GHG emission intensity from 2022 to 2032.

BUSINESS

Based on the following historical data on energy consumption and GHG emission and our production forecasts, we expect to continually explore measures to reduce our carbon footprints by using clean energy, improving our energy efficiency and monitoring our GHG emission.

Indicators	Year ended December 31,		
	2020	2021	2022
Energy consumption			
Consumption of purchased electricity (million watt-hours)	1,236.0	2,613.0	7,943.5
Diesel (liter)	–	–	465.9
Gasoline (liter)	87,518.9	224,472.4	145,759.7
Natural gas (standard cubic meters)	–	24,446.0	271,363.4
Comprehensive energy consumption			
Comprehensive energy consumption (direct) (ton of standard coal)	93.4	272.0	517.0
Comprehensive energy consumption (indirect) (ton of standard coal)	151.9	321.1	976.3
Total comprehensive energy consumption (ton of standard coal)	245.3	593.1	1,493.2
Comprehensive energy consumption intensity (ton of standard coal/ton of qualified product output)	–	0.3	0.1
Greenhouse Gas			
Scope 1 greenhouse gas emission (ton of carbon dioxide equivalent)	184.3	525.6	894.9
Scope 2 greenhouse gas emission (ton of carbon dioxide equivalent)	704.9	1,490.2	4,530.2
Total greenhouse gas emissions (ton of carbon dioxide equivalent)	889.2	2,015.8	5,425.1
Greenhouse gas emissions intensity (ton of carbon dioxide equivalent/ton of qualified product output)	–	1.1	0.4

BUSINESS

- ***Energy and GHG Management***

We have established a procedure to reduce energy consumption and GHG emission and increase the use of clean energy in our daily operations and production. We strictly abide by the Energy Conservation Law of the PRC and other laws and regulations, and have established an internal energy management policy as follows:

- **Improving the energy efficiency of our operations:** The primary energy sources we utilize include electricity and natural gas consumed by boilers during production, with minor amounts of diesel for emergency generators and gasoline for our vehicles. We prioritize using equipment with higher energy efficiency and set precise schedules for activating boilers, streetlights, and other facilities to minimize energy waste.
- **Monitoring greenhouse gas emissions:** We are dedicated to constantly enhancing energy efficiency, adopting green energy as a long-term objective, and optimizing production lines to improve our energy management performance. We routinely carry out energy consumption analyses and inspections, addressing any abnormal fluctuations in energy data by conducting monthly operational review meetings to optimize energy usage efficiency.
- **Reducing energy usage:** We have entered into agreements with third-party companies to implement power-saving programs, thereby reducing power consumption through centralized coordination and management.

During the Track Record Period, we implemented initiatives such as high energy consumption equipment replacement, energy recycling and energy management information tracking to optimize our energy consumption management and reduce resource costs.

ESG Management Measures

Food Safety and Quality

High standards of food safety and quality of our products are important to maintain our market position. Every employee of our Group is responsible for creating a food safety culture and we are committed to bringing safe, high quality food ingredients to consumers. We have implemented a reliable quality control system to guarantee the quality and safety of the products found in our stores. We recognize the importance of public food safety and have established internal systems such as the Guoquan Quality and Food Safety Management Manual and the Store Food Safety Management System. We have implemented a safety and quality assurance system, a quality management system based on ISO 9001:2015, and a food safety management system based on ISO 22000:2018. These systems cover the entire production, production, storage, transportation and retail processes to ensure the quality and safety of products delivered to our stores.

BUSINESS

We work closely with national authorities to implement strict food safety and quality control standards and measures that covers the entire production, production, storage, transportation and retail process of our products. Our comprehensive food safety and quality assurance system encompasses factory audits, inspections, product testing, labeling and compliance services. It ensures product lifecycle quality control, from design and realization processes to supplier quality evaluations and procurement management. Additionally, the system covers third-party warehouse distribution, logistics, store sales and customer service.

Meanwhile, we require franchised stores to train and assess their employees on food safety knowledge once a year and arrange for at least three employees to receive food safety training and exams at the branch's training department before opening, and for sales managers to undergo at least one in store-wide food safety trainings and exams. All employees have at least 40 hours of food safety knowledge training per person per year. In 2022, our handling rate of the complaint about products and services was 100%.

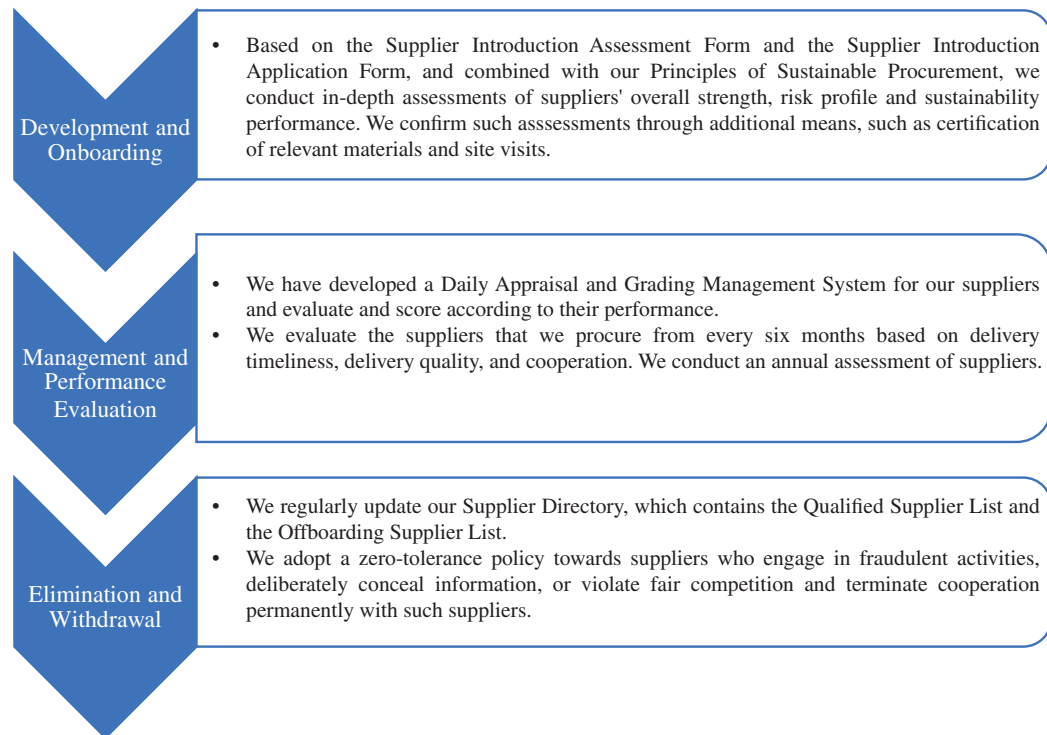
Supply Chain Management

We work closely with our suppliers to ensure the safety and quality of our end products, while also promoting sustainable development throughout our supply chain ecosystem. We encourage our suppliers to meet our procurement access standards and take initiatives in the areas of environmental conservation, labor standards, employee health and animal welfare, in line with our Supplier Code of Conduct. In particular, we place great emphasis on animal welfare and product quality, and require our suppliers to actively engage with other stakeholders within the value chain to enhance awareness of animal welfare issues. Currently, suppliers representing 40% of our purchase value have completed the signing of our Supplier Code of Conduct, and we are committed to achieving 100% coverage in the future.

As a responsible enterprise, we focus on building a transparent, eco-friendly, and healthy supply chain while continually enhancing our internal supply chain management systems. We have a clear process for managing suppliers, which includes our Supplier Management System and other related systems. To onboard as our supplier, the vendors must pass a Supplier Introduction Assessment and Application review process, which is reviewed by our food safety and quality control team as well as our procurement and supply chain team. We also utilize our Supplier Daily Assessment and Management System to monitor their performance and maintain high standards for quality, safety and sustainability throughout the supplier relationship. Moreover, our Supplier Management System ensures a smooth and efficient process for bringing new suppliers on board and offboarding suppliers when necessary. We carefully select suppliers that align with our Group's development through factory qualification assessments and production site audits. To sustainably improve our supply chain's competitiveness, we regularly evaluate suppliers based on quality, delivery costs, and performance, ensuring that only the most capable suppliers are retained and underperforming ones are replaced.

BUSINESS

Our procurement and supply chain team prepares and regularly updates our list of suppliers in accordance with our onboarding and offboarding process, detailed as follows.



Supplier Management Process

Our group regularly evaluates and manages suppliers in nine areas: food safety management system, good practices and hygiene, pest prevention and control, supplier management and raw material acceptance, storage facilities and control, production process management, non-conforming product management, inspection management and marking compliance, product traceability, etc.

We plan to establish a standardized, open, transparent, equal and competitive supplier management system, actively communicate with suppliers and maintain long-term partnerships. Through the Guoquan Academy and our management system, we routinely train key supplier personnel on food safety, production management, and other relevant topics. These include the traditional seven quality control tools (“7 QC tools”) and Plan-Do-Check-Act cycle, non-conformity management training, food contamination control, food traceability and recall, and pest control. The 7 QC tools include arrow diagram, interrelationship diagram, tree diagram, affinity diagram, matrix diagram, matrix data analysis chart and process decision program chart. We also offer one-on-one training and guidance to franchisees, enabling them to quickly adapt to their roles, achieve efficient management, and ensure sustained growth in store turnover. Additionally, Guoquan Academy franchisees with provides training courses and hands-on experiences through various formats, both online and offline.

BUSINESS

We have also established the Supplier Production Site Audit and Evaluation Form management system, which primarily focuses on supplier anti-bribery agreements. By monitoring customer complaints and collaborating with suppliers to develop quality improvement initiatives, we continuously enhance product quality and increase consumer satisfaction. In the future, we plan to incorporate supplier integrity and anti-corruption measures, quality control, and labor compliance into our supplier assessments.

Environmental Protection

We strictly comply with environmental protection laws and regulations in the PRC, including the Environmental Protection Law, the Environmental Impact Assessment Law, the Law on the Prevention and Control of Atmospheric Pollution, the Water Pollution Prevention and Control Law, the Water Law, and the Law on the Prevention and Control of Environment Pollution Caused by Solid Wastes. We have established internal environmental management systems, such as the Chengming Environmental Protection Management System, the Wanlai Wanqu Environmental Management System for Three Wastes, the Wanlai Wanqu Hazardous Waste Management System, the Heyi Hazardous Waste Environmental Management System and the Heyi Sewage Station Management System, further consolidating our internal environmental management.

We set a series of environmental targets to minimize our environmental impact: Our Group is committed to strictly complying with the laws and regulations related to environmental protection in the places where we operate, ensuring that environmental impact assessments and completion inspections are conducted as required, and that the pollutants we discharge (air, wastewater, and waste) are effectively disposed of. In addition, we are committed to improving the efficiency of water use and practicing green development. We have set target for more efficient water consumption. We aim to have a 5% reduction in water consumption intensity from 2022 to 2032.

The waste gas mainly consists of exhaust emissions from natural gas combustion in boilers during production. These boilers generate heat for secondary use, with excess steam supplied to the production facilities. We prioritize water conservation in our production operations and adopt measures to improve recycling rates. Our efforts include daily conservation promotion, using eco-friendly sanitary ware like touch-activated taps, and improving recycling rates through waste heat utilization and water reuse, such as harnessing heat energy during cooling to warm water and repurposing generated water.

In terms of waste management, we have established a system that mandates temporary storage of waste packaging bags produced during the manufacturing process in a designated hazardous waste room. These bags are then entrusted to a third-party institution for proper disposal. Our wastewater is treated at a sewage treatment station, and once it meets the required standards, it is discharged into the municipal sewage treatment plant through the pipe network for advanced processing.

BUSINESS

With a goal to minimize the impacts of our business operation on environment, we are developing environmental protection management and control procedures that consider key risks and issues related to environmental protection and provide guidance for managing and addressing ESG-related matters.

We also participated in charitable activities promoting green public welfare ideas, such as the “Together for Good” charity sale event in Shanghai. Looking forward to the future, we will continue to explore sustainable business opportunities and apply more environmentally friendly new technologies, and we are committed to practicing corporate social responsibility and low-carbon development strategies.

The table below sets forth our water consumption during the Track Record Period.

Indicators	Year ended December 31,		
	2020	2021	2022
Water Source			
Tap water/municipal water withdrawal (ton)	10,293.1	24,276.5	101,179.5
Water intensity (ton of water withdrawal/ton of qualified product output)	–	13.2	6.8

Food Wastage and Packaging Management

Our Group actively minimizes waste from food and products across our operations and supply chain and explores innovative initiatives to reduce food loss across the value chain, which include the following:

- **Inventory Management:** We strengthen our inventory management at the food procurement stage by strictly limiting the terms with some of our raw material suppliers. For such suppliers, we do not accept raw materials that have been stored for more than two-thirds of their shelf life.
- **Resource Utilization:** At the food disposal stage, we sell expired products, used oil and waste residues to third-party processors for resource utilization as poultry feed.
- **Packaging Innovation:** We launched a variety of small and individually packaged products, which help consumers avoid wastage from over-ordering and allows consumers to reduce calorie intake while enjoying a wider variety of food options.

While we recognize that the introduction of smaller individually packed products can sometimes result in an increase in overall packaging materials used, we are committed to implementing various initiatives aimed at reducing the overall use of packaging materials and

BUSINESS

improving the sustainability of our packaging. Our packaging materials primarily consist of roll film cartons, plastic boxes, plastic bags and tapes. Reducing packaging waste, enhancing recyclability, and effectively managing recycled materials are essential for both consumers and society. We have set target for reducing packaging waste. We aim to reduce the use of non-recyclable materials intensity in our packaging by 5% from 2022 to 2032. We strive to reduce the impact of pollution of product packaging materials on the environment. We do not provide excessive product packaging and adhere to the principles of recycling and environmental friendliness for packaging materials. We have been promoting the use of degradable plastic bags to replace traditional plastic bags across the country, and reusable non-woven shopping bags in many provinces.

Since March 2020, we have been promoting a nationwide program to replace traditional plastic bags with biodegradable plastic bags. Furthermore, we actively urge our suppliers to reduce their use of plastic products.

In 2022, the amount of food-based waste we generated was 31.6 tons. In addition, we regularly track package usage and despite the increase in production in 2022 compared to 2021, the use of packaging materials intensity remains low. The following table sets forth our packaging materials usage during the Track Record Period.

Indicators	Year ended December 31,		
	2020	2021	2022
Packaging materials			
Plastic (ton)	0.4	53.9	477.7
Paper (ton)	–	140.2	1,175.2
Other (ton)	–	–	–
Total use of packaging materials (ton)	0.4	194.1	1,652.9
Use of packaging materials intensity (ton of packaging materials/ton of qualified product output)	/	0.1	0.1

Employment Compliance

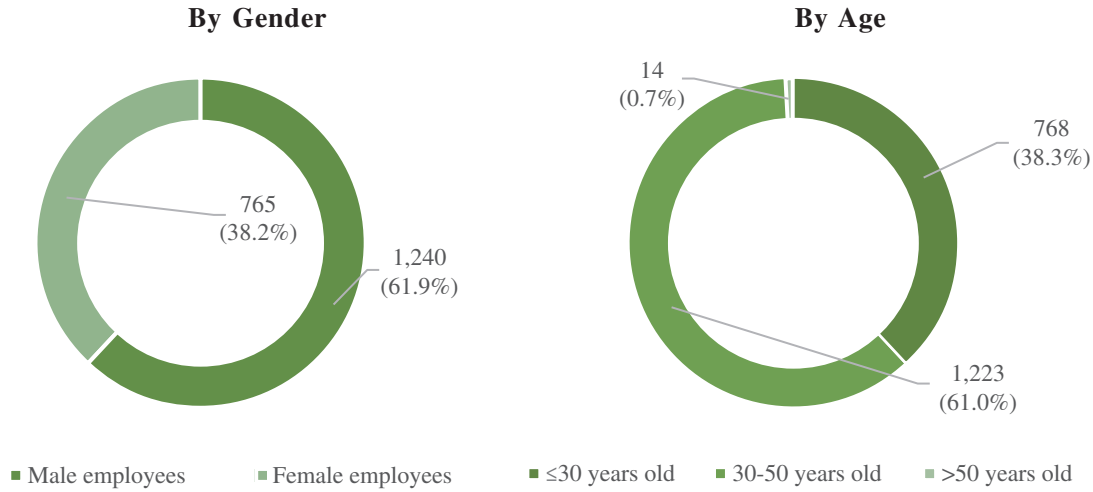
Our employees are fundamental to both our sustainable development and our success. We give job applicants equal job opportunities and hire employees based on their merits. Child labor and forced labor are forbidden. Decisions relating to human resource management such as career promotion, salary increment and dismissal within our Group would be made solely depending on the employee’s performance, experience and capability.

We adhere to principles of open recruitment, equal competition, and merit-based recruitment. We offer a wide range of recruitment channels, including internal recruitment and external recruitment. In accordance with PRC Labor Law, PRC Labor Contract Law and other laws and regulations, we formulated a Remuneration and Bonus Management Specification

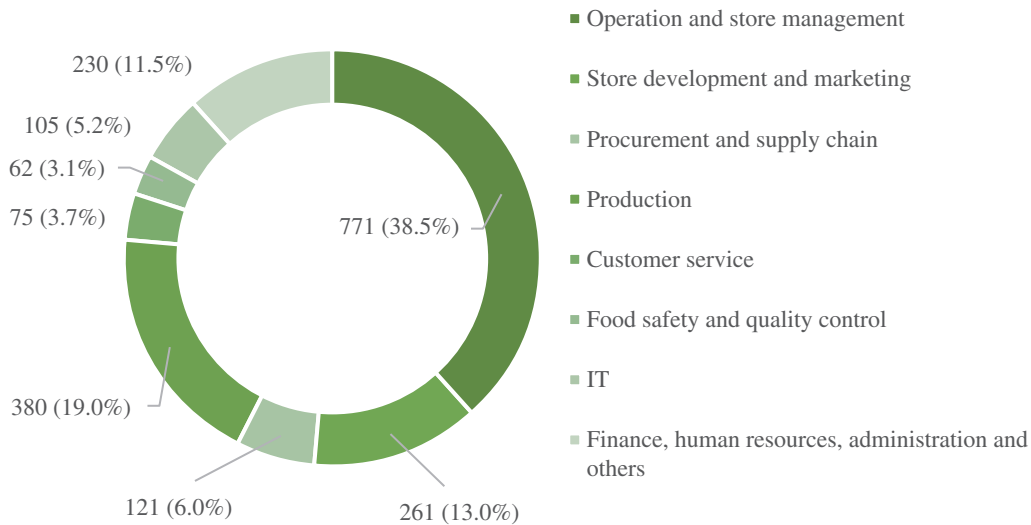
BUSINESS

(Draft) and a Staff Promotion Management Method (Draft) to further ensure the fairness and impartiality of rewards and punishments for employee performance. We have also set up a transparent Recruitment System and Performance Management Manual to determine standards of compliant recruitment and reasonable promotion, providing a solid foundation for the effective implementation of employee compensation and dismissal, recruitment and promotion, working hours, vacation, equal opportunity, diversity, and anti-discrimination.

As of April 30, 2023, we had 2,005 full-time employees, and the composition of which by gender, age and function are illustrated below:



By Function



BUSINESS

We are committed to creating an equal, diverse, and inclusive working environment by providing diverse and equal employment opportunities to our employees and promoting such values to our franchisees, including prioritizing employing people with disabilities and actively helping disadvantaged groups solve employment problems.

Occupational Health and Safety

We have established a series of safety guidelines, rules and procedures for different aspects of our production activities, including fire safety, operation safety, warehouse safety, work-related injuries and emergency and evacuation procedures to promote occupational health and safety and to ensure compliance with applicable laws and regulations. The Heyi Plant (和一工廠) has established an Occupational Health and Safety Management System to control and eliminate occupational hazards, prevent occupational diseases, and ensure the occupational health and safety of employees in the production process.

We provide suitable and necessary protection equipment to our employees, i.e., protective suits and masks to ensure their safety during work. Furthermore, we inspect our production facilities from time to time in order to ensure that such facilities are safe for use. We have been on the front line of the prevention and control of the COVID-19 outbreak, maintaining a high level of vigilance at all times, strictly implementing various epidemic prevention initiatives and deploying emergency measures to protect the safety of our employees. We are subject to PRC laws and regulations in relation to labor, safety and environment protection matters. We have established occupational safety and sanitation systems and provide employees with workplace safety training on a regular basis to increase their awareness of work safety issues. We are dedicated to providing employees with an environment where they can experience caring leadership. During the Track Record Period and up to the Latest Practicable Date, we had complied with PRC laws and regulations in relation to occupational health and workplace safety in all material respects and have not had any material work safety incidents.

Information Security

Our Group strives to implement the high level of information security standards to protect our business and the rights of our stakeholders. We have established a strict information security management system, which regulates the contents of network security and information platform security. All our customer information is stored uniformly through the system and can only be accessed with the appropriate management authority.

In addition, we organized regular security checks and maintenance work to protect the privacy of our customers.

BUSINESS

Business Ethics

Our Group has adhered to the principle of “Striving for excellence and goodness, with a focus on helping others (向上向善 • 利在利他),” aiming to protect the legitimate interests of employees, customers, franchisees, and other stakeholders. We have set up an independent internal inspection department specifically responsible for investigating internal irregularities and violations. And we established clear reporting channels, encouraging franchisees and others nationwide to supervise our daily work.

We focus on all-around business ethics risk control. Our group has established a risk management team responsible for the overall work of risk management and crisis management. At the same time, we have established a “Major and Emergency Response Team” at our headquarters, headed by our chief executive officer, with the vice president as the deputy head and the chief financial officer and heads of departments as members, to lead and coordinate the handling of primary and emergency events.

We accurately classify and categorize the risks that may occur according to the actual situation of the Company’s operation, formulate practical emergency response plans in advance, and establish emergency management mechanisms. In addition, we supervise and inspect the management of operational risks weekly and report on them as part of the weekly business meeting to promptly address the risks.

Economic Development and Rural Revitalization

We are committed to serving the economy, supporting rural revitalization, and practicing long-termism by promoting low-carbon environmental development and shared prosperity. Our strong support and empowerment of franchisees has attracted many entrepreneurs to start their own businesses, boosting employment and contributing to local economic growth. Our procurement of raw materials and construction of factories has also promoted rural industrial upgrading and local employment.

Our investments in and efforts in constructing a robust supply chain has promoted local economic growth and our extensive nationwide store network has been creating a large number of entrepreneurial and job opportunities for people through franchisees, store managers, and store employees. For our contribution to the supply chain, green development, and active social responsibility, we have been awarded the “2022 ESG Collaboration Award.”

In 2022, the amount of charitable donation by our Group was more than RMB3.9 million.

DATA PRIVACY AND SECURITY

Our Efforts on Data Privacy and Protection

In the ordinary course of business, we from time to time collect and use certain personal information of our consumers, such as the consumer’s mobile phone number and delivery address, which are primarily used for the purpose of membership identification and provision of consumer services, including matching the stores near the consumers, processing orders

BUSINESS

placed by consumers, delivery of products, settlement of payment, issuing receipts and customized recommendation of products, among others. We consider the protection of the data privacy of our consumers to be of paramount importance. We have in place policies, procedures, software and technology infrastructure to collect, use, store, retain and transmit our consumer data in compliance with applicable data protection laws and regulations of the PRC, such as the Personal Information Protection Law of the PRC (《中華人民共和國個人信息保護法》), Cybersecurity Law of the PRC (《中華人民共和國網絡安全法》), and the Data Security Law of the PRC (《中華人民共和國數據安全法》). See “Regulatory Overview — Regulations on Internet Information Security and Privacy Protection” for further details.

We have adopted a broad range of data security and protection policies, which provide for data management responsibilities, data classification, data protection and confidentiality procedures. We have also established committees for personal information protection, information security and data security, respectively. The committees assume the overall responsibilities of respective data privacy and security, oversee our data management framework, and proactively identify any potential risks including those with respect to privacy and data protection.

In addition, we have currently implemented a number of specific measures with respect to personal information protection, data security and cybersecurity. For example, we have formulated appropriate rules to handle consumers’ personal information and provide consumers with privacy policy, ensuring that they provide personal information authorization before they can use our online services. These enable consumers to understand the types of personal information that we will collect from them, which includes, amongst others, their username, mobile number, delivery address and historical order information with us. Furthermore, we have obtained record filing certificates for the graded protection of cybersecurity (網絡安全等級保護備案證明) for our core business systems. And we have also obtained the record filing certificate for the communication network unit of our core business systems. As of the Latest Practicable Date, all consumers’ personal data collected during our daily business operations within the PRC had been stored within the PRC. We adopt encrypted storage and backup measures to store and protect consumers’ personal data. In addition, we comprehensively classify the data in our systems by the level of confidentiality.

Apart from the abovementioned measures and mechanisms we adopt, we have also in place internal policies to provide our employees with the guidelines for data sharing, transmission, and processing. Furthermore, we implement an access control mechanism. Our franchisees only have access to the personal data of their respective consumers to process relevant orders. In addition, we sign agreements with our franchisees, requiring them to comply with relevant data security laws and regulations.

We believe the measures we take with respect to data privacy and protection are consistent with industry practice. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material data breach incident. For risks related to data privacy protection, see “Risk Factors — Risks Relating to Our Business and Industry

BUSINESS

— Actual or alleged failure to comply with cybersecurity and data privacy and protection laws and regulations could damage our reputation and operating results, and discourage consumers from registering memberships, or subject us to governmental regulation and other legal obligations.”

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material claims, investigations or legal proceedings settled, pending or threatened for any material non-compliance with or violations of applicable PRC laws and regulations with respect to privacy and personal data protection. As of the Latest Practicable Date, we were in compliance with applicable laws and regulations relating to data security and privacy in all material aspects.

In addition, on June 10, 2021, the SCNPC promulgated the PRC Data Security Law, which took effect in September 2021. The PRC Data Security Law provides for a security review procedure for the data activities that may affect national security. On December 28, 2021, the CAC, together with other relevant administrative departments, jointly promulgated the revised Cybersecurity Review Measures (《網絡安全審查辦法》) with effect from February 15, 2022, according to which, the purchase of network products and services by a critical information infrastructure operator (the “**CIIO**”) or the data processing activities of a network platform operator that affect or may affect national security will be subject to a cybersecurity review. In addition, an online platform operator who possesses personal information of over one million users and intends for listing in a foreign country (國外上市) must be subject to the cybersecurity review.

Furthermore, on November 14, 2021, the CAC published the Administration Regulations on Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) (the “**Draft Data Security Regulations**”), which reiterate the circumstances under which data processors shall apply for cybersecurity review, including, among others, (i) the data processors who process personal information of at least one million users apply for listing in a foreign country (國外上市); and (ii) the data processors’ listing in Hong Kong affects or may possibly affect national security. As of the Latest Practicable Date, the Draft Data Security Regulations had not been formally adopted.

On March 16, 2023, CM Law Firm, our PRC Legal Advisor and the Joint Sponsors’ PRC Legal Advisor made a telephone consultation on a named basis with the the China Cybersecurity Review Technology and Certification Center (the “**CCRC**”), which is the competent authority entrusted by the CAC to set up cybersecurity review consultation hotlines. The CCRC confirmed that (i) the term of “listing in a foreign country” (國外上市) under the revised Cybersecurity Review Measures does not apply to listings in Hong Kong, and thus the obligation to proactively apply for cybersecurity review by an entity seeking listing in a foreign country shall not be applicable to the proposed listing in Hong Kong and (ii) given that the Draft Data Security Regulations has not become effective, the obligation to apply for cybersecurity review with the CAC under the Draft Data Security Regulations does not apply to our proposed [REDACTED].

BUSINESS

As of the Latest Practicable Date, we had not been subject to any material administrative penalties, mandatory rectifications or other sanctions imposed by any competent regulatory authorities in relation to the infringement of cybersecurity, data security and personal information protection related laws and regulations, nor had we been subject to or involved in any investigations, or received any material inquiry, examination, warning or interview in such respect. As of the Latest Practicable Date, we had not been involved in any investigations on cybersecurity review initiated by the CAC, nor had we received any inquiry, notice, material warning or sanctions in such respect. To our best knowledge, as of the Latest Practicable Date, we had not been involved in any material litigation, arbitration or administrative proceedings in relation to the infringement of cybersecurity, data security and personal information protection related laws and regulations, either pending or threatened against us, that were expected to materially and adversely affect our business operations and financial condition. During the Track Record period and up to the Latest Practicable Date, to our best knowledge, we did not engage in any business nor process any data that may give rise to national security risks based on the factors set out in Article 10 of the revised Cybersecurity Review Measures. As of the Latest Practicable Date, we had not received any notification from relevant authorities of being identified as CIIO. As of the Latest Practicable Date, we had not encountered any material cybersecurity, data or personal information security incidents, and we had adopted various technical and management measures to ensure secured storage and transmission of data and prevent unauthorized access or use of data. As discussed above, as of the Latest Practicable Date, we had also adopted and implemented internal control systems, policies and procedures to guide our cybersecurity, data security and privacy protection practices to comply with the existing PRC laws and regulations on cybersecurity, data security and personal information protection. We have been constantly monitoring and will continue to monitor and assess the latest legislative and regulatory development in cybersecurity and data protection, and we have been maintaining and will continue to maintain ongoing consultation with relevant government authorities to seek guidance on the applicability of relevant laws and regulations, so that we may continually amend our internal policies in response to new regulatory developments and take any necessary rectification measures in a timely manner to comply with the requirements thereof if and when they come into effect. Based on the abovementioned factors, our Directors and CM Law Firm believe that (i) as of the Latest Practicable Date, we were in compliance with existing applicable laws and regulations relating to data security, privacy and personal data protection in all material aspects and (ii) the cybersecurity-related regulations will not have any material adverse effect on our business operations or the proposed [REDACTED]. In addition, we believe that we will be able to comply with the Draft Data Security Regulations in all material aspects, if implemented in its current form.

Taking into account the above, as well as based on the independent due diligence conducted by the Joint Sponsors, nothing has come to the Joint Sponsors' attention that would cause the Joint Sponsors to disagree with the Directors' view.

RISK MANAGEMENT AND INTERNAL CONTROL

We have established our risk management systems to identify, assess, monitor and mitigate the risks that may hinder our success including strategic risks, operational risks, financial risks and legal risks.

BUSINESS

To monitor the ongoing implementation of our risk management policies and corporate governance measures after the [REDACTED], we have adopted or will continue to adopt, among other things, the following risk management measures:

- establish an Audit Committee to review and supervise our financial reporting process and internal control system. For the qualifications and experience of the committee members, see “Directors, Supervisors and Senior Management;”
- adopt various policies to ensure compliance with the Listing Rules, including but not limited to aspects related to risk management, connected transactions and information disclosure;
- provide anti-corruption and anti-bribery compliance training periodically to our senior management and employees to enhance their knowledge and compliance with applicable laws and regulations, and include relevant policies against non-compliance in employee handbooks;
- organize training sessions for our Directors and senior management in respect of the relevant requirements of the Listing Rules and duties of directors of companies listed in Hong Kong;
- enhance our reporting and records system for production facilities, including centralizing their quality control and safety management systems and conducting regular inspections of the facilities;
- establish a set of emergency procedures in the event of major quality-related issues; and provide enhanced training programs on quality assurance and product safety procedures.

Third-party Settlement Arrangements

Historically, certain of our customers and suppliers (individual or collectively, the “**Relevant Counterparty(ies)**”) settled transactions with us through the accounts of third parties chosen by these Relevant Counterparties (the “**Third-party Settlement Arrangement**”). In 2020, 2021, 2022 and the four months ended April 30, 2023, the aggregate amount of payment from the chosen third parties to us accounted for approximately 17.3%, 9.3%, 1.3% and nil of our total payments received from franchisees, respectively. During the same periods, the aggregate amount of payment we made to the chosen third parties accounted for approximately 1.3%, nil, nil and nil of our total payments made to all suppliers, respectively.

During the Track Record Period, the Relevant Counterparties include our franchisees and suppliers who operate small-scale business. These franchisees and suppliers settled payments with us through the chosen third parties because they mainly operated their business on a small scale and preferred settlement of payments through bank accounts of the chosen third parties for convenience considering that many small-scale business operators typically prefer using personal bank accounts of shareholders, legal representatives, employees, family members or

BUSINESS

friends due to cumbersomeness of using corporate bank accounts. According to Frost & Sullivan, it is relatively common within the industry to arrange third party payments for small scale-business in China for flexibility and convenience reasons.

During the Track Record Period and up to the Latest Practicable Date, we have not proactively initiated any Third-Party Settlement Arrangement, nor have we participated in other forms in any of separate arrangements between the Relevant Counterparties and their respective chosen third parties for the settlement between themselves. In addition, during the Track Record Period and up to the Latest Practicable Date, we have not provided any discount, commission, rebate, or other benefits to any of the Relevant Counterparties or the chosen third parties to facilitate or encourage the Third-Party Settlement Arrangement. The payment and pricing terms and transaction patterns of the Counterparties involved in the Third-party Settlement Arrangement did not differ from other customers or suppliers with direct settlement with our Group in all material respects.

As advised by our PRC Legal Advisor, the Third-party Settlement Arrangement did not violate any mandatory provisions of any applicable laws or regulations in China. We have ceased all Third-party Settlement Arrangement with our franchisees and suppliers since September 2022 and April 2020, respectively. Our Group considers that the cessation of arrangements did not have, nor will have, any material adverse effect on the business, operations and financial results of our Group. We have also obtained the confirmation letters from the majority of the Relevant Counterparties confirming that (i) the payments we settled with the chosen third parties were arising from our transactions with the Relevant Counterparties within the normal course of our business; (ii) the amount listed therein was fully settled between us and the chosen third-parties on behalf of the Relevant Counterparties; and (iii) we had no disputes arising from the Third-party Settlement Arrangement with the Relevant Counterparties and the chosen third parties.

We have adopted enhanced internal control measures to safeguard our interest against risks associated with the Third-party Settlement Arrangement, including but not limited to the following:

- (i) Our customers and suppliers are required to submit their own settlement account information to us before any settlement is made, and we will closely monitor any change of settlement account information to identify any potential Third-party Settlement Arrangement;
- (ii) Our employees are required to notify the above policies and measures to our customers; and
- (iii) We manage our bank accounts in accordance with the principle of segregation of duties. Different personnel of our finance department are assigned with different duties to verify, record, manage and settle transactions through such accounts, to ensure the accuracy of our accounting records, reduce the risks of account misuse and avoid account security risks.

BUSINESS

Based on the follow-up review on the implementation of measures, our Directors are of the view that the above measures are effective and adequate in preventing recurrence of Third-party Settlement Arrangement and its associated risks, and our Directors will oversee the effectiveness of the aforementioned enhanced internal controls on the Third-party Settlement Arrangement in the future.

Enhanced Internal Control Measures

Since the cessation of the use of the Personal Bank Accounts, we also implemented enhanced internal control measures with respect to sales management which explicitly provide the following:

- Explicit prohibitions as to the use of personal bank accounts for business purposes;
- Enhance the management of bank accounts within the finance department;
- All business-related transactions to be made through our Group's corporate bank accounts only; and
- Designated senior management to closely monitor the use of corporate bank accounts and their transactions.

AWARDS AND RECOGNITIONS

During the Track Record Period, we received awards and recognition in respect of our products, technology and innovation, significant ones of which are set forth below:

<u>Award/Recognition</u>	<u>Award year</u>	<u>Awarding Institution/Authority</u>
Award for Pioneer in Zero-Carbon for the Year 2023, International Green Zero-Carbon Festival (國際綠色零碳節2023碳中和數字先鋒獎)	2023	Organizing Committee of International Green Zero-Carbon Festival (國際綠色零碳節組委會)
Hongqiao Business District (Minhang) Outstanding Contribution Enterprise Award (虹橋商務區(閔行)突出貢獻企業獎)	2022	Shanghai Hongqiao International Central Business District Administrative Committee (虹橋國際中央商務區管委會)
The 2022 KPMG Top 50 Chinese New National Product Enterprises, Committee Special Award (第二屆畢馬威中國新國貨企業50榜單評委會特別獎)	2022	KPMG China (畢馬威中國)

BUSINESS

<u>Award/Recognition</u>	<u>Award year</u>	<u>Awarding Institution/Authority</u>
2022 ESG Collaboration Award (2022年度ESG協作獎)	2022	KPMG China (畢馬威中國)
The Model Enterprise for Social Responsibility of the Year 2020, China Philanthropy Festival (中國公益節2020企業社會責任行業典範獎)	2021	Syobserve.com (數央網) & Gongyidaily.com (數央公益)
The Best Retail Sales Business of Digitalization and Innovation for the Year (年度最佳零售數字化轉型與創新獎)	2021	The Commerce Economy Association of Shanghai (上海商業經濟學會), WRE World Retail Elite, etc.
The Most Popular Brand among Young Consumers for the Year 2021 (消費者報道2021年度最受年輕消費者歡迎品牌獎)	2021	Guangdong Times Media Group (廣東時代傳媒集團)
Ebrun Top 30 Digital Businesses of Future Retail Sales (億邦未來零售數字化榜單TOP30)	2021	Ebrun (億邦動力)
Top 30 Consumer Good Companies of Chinese Unicorn Index 2021 (2021中國獨角獸榜單消費獨角獸TOP30)	2021	Blue Shark Consume (藍鯊消費)
Forbes High-growth Gazelle Enterprises in China for the Year 2020 (2020福布斯中國高增長瞪羚企業)	2020	Forbes China (福布斯中國)

PROPERTIES

Owned Properties

We owned certain properties in China in connection with our business operations. As of the Latest Practicable Date, we owned land use rights to four land parcels with a total site area of approximately 165,671 sq.m. and ten properties with a GFA of approximately 78,351 sq.m., mainly for production facilities and office spaces. We had obtained land use right certificates for the land parcels and building ownership certificates for the properties. In addition, in July 2022, we acquired a parcel of land with a site area of approximately 18,563 sq.m., with a plan to enhance our product development and production capabilities. As of the Latest Practicable Date, we had received the approval from the local authority for the land use right, and were in the process of applying for the land use right certificate.

BUSINESS

Leased Properties

As of the Latest Practicable Date, we had entered into 86 lease agreements to lease properties with a GFA of approximately 37,376 sq.m. from third parties, mainly for our office spaces and employee dormitories. The leases generally have a term from one year to eight years.

As of the Latest Practicable Date, 29 of our leased properties in China that are primarily used as employee dormitories and office spaces with a GFA of approximately 11,416 sq.m. were subject to potential title defects, representing approximately 30.5% of the total GFA of our leased properties in China. The title defects were mainly due to that (i) the lessors of such leased properties had not provided us with the relevant title ownership certificates for the leased properties or proof of authorizations from the property owners to sublease the properties to us, (ii) the defective leased properties were located on allocated lands, and (iii) the lessors had not leased such properties in accordance with the permitted usage as specified on title certificates. During the Track Record Period and up to the Latest Practicable Date, we had not encountered any safety issues or disputes with respect to these defective leased properties.

As advised by our PRC Legal Advisor, without ownership certificates or proof of authorizations from the property owners, our use of these defective leased properties may be affected by third parties' claims or challenges against the lease rights. In addition, if the lessors do not have the requisite rights to lease these defective leased properties, we may be required to vacate these defective leased properties and relocate our office space and third-party warehouses.

Our Directors believe that such defective leased properties will not have a material adverse impact on our business, financial conditions and results of operations, primarily because, (i) our leases for the defective leased properties were not challenged by third parties or relevant authorities with respect to the defective leased properties, (ii) we were not involved in disputes, lawsuits or claims or receive administrative penalties in connection with the rights to lease and use such properties occupied by us, and (iii) we are able to identify a replacement premise and relocate without incurring significant relocation cost, considering the purposes and floor area of such leased properties.

As of April 30, 2023, none of the properties held by us had a carrying amount of 15% or more of our consolidated total assets. According to Chapter 5 of the Hong Kong Listing Rules and section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this document is exempt from the requirements of section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance to include all interests in land or buildings in a valuation report as described under paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance.

BUSINESS

In an effort to prevent future recurrence of occupying properties with defective titles, we have established internal control policies regarding the selection and approval of leasing and purchasing of properties. See “Business — Risk Management and Internal Control.”

LICENSES, APPROVALS AND PERMITS

We are required to maintain various licenses, approvals and permits to operate our business. Our legal department is responsible for monitoring the validity status of our and making timely applications for renewal to relevant government authorities. We monitor our compliance with the relevant laws and regulations to ensure that we have the requisite licenses, approvals and permits for our operations. See “Regulatory Overview.”

As of the Latest Practicable Date, we had obtained the requisite licenses, approvals and permits from relevant authorities that are material to our operations in the PRC and such licenses, approvals and permits were valid and remained in effect. The following table sets out a list of the material licenses and permits currently held by us.

<u>Name of Licenses, Permits and Approvals</u>	<u>Holder</u>	<u>Expiry Date</u>
Food Operation License (食品經營許可證)	Our Company	January 1, 2025
Value-added Telecommunications Business License (增值電信業務經營許可證)	Our Company	July 28, 2026
Liquor Retail License (酒類商品零售許可證)	Our Company	October 14, 2025
Liquor Wholesale License (酒類商品批發許可證)	Our Company	October 14, 2025
Food Operation License (食品經營許可證)	Henan Guoxiaoquan Electronic Commerce Co., Ltd.	September 15, 2025
Food Operation License (食品經營許可證)	Henan Guoquan Supply Chain Management Co., Ltd.	May 10, 2028
Single-Purpose Commercial Prepaid Cards Registration (單用途預付卡企業備案)	Henan Guoquan Supply Chain Management Co., Ltd.	N/A
Commercial Franchise Filing Certificate (商業特許經營備案)	Henan Guoquan Supply Chain Management Co., Ltd.	N/A
Food Operation License (食品經營許可證)	Wuhan Guoquan Shihui Commercial Management Co., Ltd.	April 13, 2026
Food Operation License (食品經營許可證)	Hangzhou Guoquan Shihui Commercial Management Co., Ltd.	May 13, 2026

BUSINESS

Name of Licenses, Permits and Approvals	Holder	Expiry Date
Food Operation License (食品經營許可證)	Changsha Guoquan Shihui Commercial Management Co., Ltd.	January 21, 2026
Food Operation License (食品經營許可證)	Shaanxi Guoquan Shihui Commercial Management Co., Ltd.	August 10, 2025
Food Operation License (食品經營許可證)	Shanxi Guoquan Shihui Commercial Management Co., Ltd.	October 18, 2025
Shenzhen Food Operators Filing Form (sales of prepackaged foods only) (深圳市僅銷售預包裝食品單位備案憑證)	Shenzhen Guoquan Shihui Commercial Management Co., Ltd.	N/A
Food Operation License (食品經營許可證)	Hebei Guoquan Shihui Commercial Management Co., Ltd.	March 14, 2026
Food Operation License (食品經營許可證)	Shanghai Guoquan Shihui Trading Co., Ltd.	September 8, 2025
Food Operation License (食品經營許可證)	Zhengzhou Guoquan Shihui Internet Technology Co., Ltd.	July 18, 2027
Food Operation License (食品經營許可證)	Shenyang Guoquan Shihui Commercial Management Co., Ltd.	January 3, 2026
Food Production License (食品生產許可證)	Luyi Chengming	October 15, 2025
Food Operation License (食品經營許可證)	Luyi Chengming	June 18, 2025
Food Operators Filing (sales of prepackaged foods only) (僅銷售預包裝食品經營者備案)	Sichuan Chengming Food Co., Ltd.	N/A
Food Production License (食品生產許可證)	Luyi Heyi	September 12, 2026
Food Production License (食品生產許可證)	Wanlai Wanqu	October 27, 2026
Food Operation License (食品經營許可證)	Luyi Heyi (Shanghai branch)	January 26, 2026
Food Operation License (食品經營許可證)	Henan Guoquan Supply Chain Management Co., Ltd. (Lanbaowan branch)	September 10, 2025

BUSINESS

Name of Licenses, Permits and Approvals	Holder	Expiry Date
Food Operation License (食品經營許可證)	Henan Guoquan Supply Chain Management Co., Ltd. (Fuyuan Road branch)	September 1, 2025
Food Operation License (食品經營許可證)	Shenyang Guoquan Shihui Commercial Management Co., Ltd. (Xiaobeiyi Middle Road branch)	October 27, 2027
Food Operation License (食品經營許可證)	Chengdu Guoquan Shihui Commercial Management Co., Ltd. (Wuhou District branch)	November 9, 2027
Food Operation License (食品經營許可證)	Chengdu Guoquan Shihui Commercial Management Co., Ltd. (High-tech Industrial Development Zone branch)	October 24, 2027
Food Operation License (食品經營許可證)	Zhengzhou Guoquan Shihui Internet Technology Co., Ltd. (International Trade store)	February 16, 2028

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

From time to time, we may become involved in legal proceedings in the ordinary course of our business. During the Track Record Period, we were not involved in any material lawsuits.

Non-Compliance

During the Track Record Period and up to the Latest Practicable Date, we had not been and were not involved in any material incidents of non-compliance. Our Directors are of the view that we had complied, in all material respects, with all relevant laws and regulations in the PRC during the Track Record Period and up to the Latest Practicable Date. The summary below sets out incidents of historical non-compliance with applicable regulations during the Track Record Period. Our Directors believe that these non-compliance incidents did not have any material operational or financial impact on us.

BUSINESS

New Production Facilities for Heyi Plant

In 2021, we began the construction of our new production line for beef products on a parcel of land to which we own land use right in Luyi County, Henan Province, for our Heyi Plant. During the Track Record Period, three buildings of the production facilities were put into operation upon completion without the fire protection acceptance filings (消防驗收備案) and the as-built acceptance filings (竣工驗收備案) as required by applicable PRC laws and regulations. The as-built acceptance filings serve as the proof of completion of required inspection and receipt of approvals from relevant authorities for the use of the buildings. Given that the remaining part of the production facilities were under construction, we were unable to obtain the as-built acceptance filings for the three buildings separately. As of the Latest Practicable Date, we had completed the construction and obtained the fire protection acceptance filings and the as-built acceptance filings for such production facilities.

In addition, we have obtained confirmations from the competent governmental authorities, that they have not imposed any administrative penalty or initiated any investigation against us during the Track Record Period. Such governmental authorities were the Housing and Urban-Rural Development Bureau of Luyi County (鹿邑縣住房和城鄉建設局), the Luyi Branch of Zhoukou Municipal Bureau of Ecology and Environment (周口市生態環境局鹿邑分局) and the Fire Station of Luyi County (鹿邑縣消防救援大隊). We have also conducted interviews with and obtained confirmations from the relevant local authorities of Luyi County, which confirmed that we will not be subject to administrative penalties due to our use of the three buildings without the required fire protection acceptance filings and the as-built acceptance filings during the Track Record Period. These local authorities of Luyi County were the Housing and Urban-Rural Development Bureau of Luyi County (鹿邑縣住房和城鄉建設局), the Luyi Comprehensive Administrative Law Enforcement Team of Zhoukou Municipal Bureau of Ecology and Environment (周口市生態環境局鹿邑綜合行政執法大隊) and the Management Committee of Advanced Manufacturing Development Zone in Luyi County (鹿邑縣先進製造業開發區管理委員會). As advised by our PRC Legal Advisor, the relevant local authorities of Luyi County are the competent government authorities in charge of construction projects where Heyi Plant is located and has the power to supervise and administrate the as-built acceptance filings and fire protection acceptance filings procedures. Based on such confirmations and the interviews, our PRC Legal Advisor is of the view that it is unlikely that the relevant governmental authorities will impose a material administrative penalty on us due to our use of the three buildings before completing the required fire protection acceptance filings and the as-built acceptance filings during the Track Record Period.

To prevent future non-compliances with respect to relevant construction laws and regulations, we have implemented and enhanced internal control measures, which include (i) we will obtain the requisite licenses and permits (including but not limited to as-built acceptance filings and fire protection acceptance filings) as and when required by the laws and regulations and follow the requisite procedures relating to construction and work completion of buildings; (ii) we will seek our PRC Legal Advisor's opinion on the issues relating to the compliance of construction laws and regulations; (iii) we have established a set of policies and procedures to obtain relevant permits for acceptance, including but not limited to construction land use planning permit and construction project planning permit, construction permit; and (iv) our legal department and engineering department will monitor the implementation of the above measures and will check whether there is any non-compliance going forward.

BUSINESS

Social Insurance and Housing Provident Funds

During the Track Record Period, we had not made social insurance and housing provident fund contributions for some of our employees in full, primarily due to our large labor force and relatively high mobility, the lack of experience of our human resources personnel who did not fully understand the relevant requirements of the relevant PRC laws and regulations, and the preference of many of our employees not to contribute to such funds. The shortfall of social insurance and housing provident fund contributions amounted to approximately RMB14.0 million, RMB24.7 million, RMB39.4 million and RMB40.9 million as of December 31, 2020, 2021, 2022 and April 30, 2023, respectively. Our PRC Legal Advisor has advised us that, pursuant to relevant PRC laws and regulations, if we fail to pay the full amount of social insurance contributions as required, we may be ordered to pay the outstanding social insurance contributions within a prescribed time limit and may be subject to an overdue fine of 0.05% of the delayed payment per day from the date on which the payment is payable. If such payment is not made within the stipulated period, the competent authority may further impose a fine from one to three times the amount of any overdue payment. Our PRC Legal Advisor has further advised us that, pursuant to relevant PRC laws and regulations, if we fail to pay the full amount of housing provident fund as required, the housing provident fund management center may order us to make the outstanding payment within a prescribed time limit. If the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement. As a result, in 2020, 2021, 2022 and the four months April 30, 2023, we made provisions of RMB6.5 million, RMB10.7 million, RMB14.7 million and RMB1.5 million, respectively in respect of the estimated shortfall in social insurance plans and housing provident fund contributions.

Our Directors believe that the aforementioned issue would not have a material and adverse effect on our business and results of operations, considering that (i) as of the Latest Practicable Date, we had not received any administrative penalty, rectification order imposed by competent authorities in PRC, or any material complaint from our employees concerning their payment of social insurance and housing provident funds; and (ii) proper provisions have been made in light of the circumstances. Based on the foresaid (i) and (ii), and assuming that (a) there is no material change to current PRC laws and regulations and the practice in policy implementation and inspection of local governments in connection with the aforementioned issue, and (b) if we make contributions to social insurance and housing provident funds upon the requests from competent authorities in a timely manner, our PRC Legal Advisor is of the view that, the likelihood that we will be subject to a material administrative penalty by the relevant competent social insurance and housing provident fund authorities is remote.

During the Track Record Period, certain of our PRC subsidiaries engaged third-party human resource agencies to pay social insurance premium and housing provident funds for certain of our employees in certain location where they work. The incidents happened primarily because certain of our subsidiaries that enter into employment contracts with such employees have their registered addresses in cities that are different from where these employees actually worked, hence paying social insurance premiums or housing provident funds for them locally through third-party human resource agencies according to the preference of such employees.

BUSINESS

Pursuant to the arrangements between the relevant subsidiaries and such third-party human resource agencies, the human resource agencies are required to pay social insurance premiums and housing provident funds for our relevant employees in a timely manner. The third-party human resource agencies have confirmed in writing that they have paid such contributions. Despite the agreements between us and the third-party human resource agencies, if such agencies fail to pay the social insurance premiums or housing provident funds for and on behalf of our employees as they agreed or if such arrangements are challenged by government authorities, we may be subject to additional contribution, late payment fee and/or penalties imposed by the relevant PRC authorities for failing to discharge our obligations in relation to payment of social insurance and housing provident funds as an employer or be ordered to rectify. As advised by our PRC Legal Advisor, considering the facts stated above, the risk of us being subject to material penalties due to the above-mentioned arrangements with third-party human resource agencies is remote.

We have also conducted interviews with some of the local authorities in charge of social insurance and housing provident funds (the "**Relevant Authorities**"), which confirmed that normally the relevant entities would not be penalized for not making contributions to social insurance and housing provident funds for their employees in full and would not be ordered to rectify for using third-party human resources agencies to make contributions. The Relevant Authorities were the Human Resources and Social Security Bureau of Yuhua District, Shijiazhuang (石家莊市裕華區人力資源和社會保障局), the Human Resources and Social Security Bureau of Luyi County (鹿邑縣人力資源和社會保障局), the Zhengzhou Social Insurance Center (鄭州市社會保險中心), the Shijiazhuang Housing Provident Fund Management Center (石家莊住房公積金管理中心) and the Housing Fund Management Center of Luyi County (鹿邑縣住房公積金管理中心). As advised by our PRC Legal Advisor, the Relevant Authorities are the competent authorities in charge of the social insurance and housing provident funds in the cities where our relevant operating entities are located.

We have taken the following internal control rectification measures to prevent future occurrences of such non-compliance:

- We have enhanced our human resources policies, which explicitly require social insurance and housing provident fund contributions to be made in full in accordance with applicable local requirements;
- we have designated our human resources department to review and monitor the reporting and contributions of social insurance and housing provident fund on a regular basis in order to ensure that we have made these payments for our employees in compliance with the applicable laws and regulations or in a manner as required by the relevant government authorities. The designated human resources personnel shall prepare the written records of the relevant payments on a monthly basis and submit the same to the heads of our human resources and finance departments for review;

BUSINESS

- we will keep abreast of latest developments in PRC laws and regulations in relation to social insurance and housing provident funds; and
- we will strengthen legal compliance training to our employees to increase their awareness of the relevant PRC laws and regulations and encourage their cooperation in making payments for social insurance and housing provident funds.
- we will consult our PRC legal counsel on a regular basis for advice on relevant PRC laws and regulations to keep us abreast of relevant regulatory developments.

As of the Latest Practicable Date, we were still in the process of communicating with our employees with a view to seek their understanding and cooperation in complying with the applicable payment base, which also requires additional contribution from our employees. Certain of our employees were not willing to bear the costs associated with social insurance and housing provident funds that are required to be borne by the employees, and certain of our employees prefer to participate in the local social insurance and housing fund schemes in their respective place of residency. Accordingly, we have begun to work with our employees to contribute social insurance and housing provident fund using the basis and in a manner in accordance with relevant PRC laws and regulations. As advised by our PRC Legal Advisor, according to its consultations with competent governmental authorities in Shanghai and Henan where majority of our employees are located, the payment basis can only be adjusted and submitted to these authorities in a designated month of a fiscal year, and the next time window for making such adjustments is expected to be in July 2024 for Shanghai and Henan. These government authorities were the Department of Human Resources and Social Security of Henan Province (河南省人力資源和社會保障廳), the House Fund Management Center for Departments under Henan Province (河南省省直機關住房資金管理中心), the Shanghai Municipal Human Resources and Social Security Bureau (上海市人力資源和社會保障局) and the Shanghai Provident Fund Management Center (上海市公積金管理中心). As a result, our subsidiaries in these regions can only undertake rectification measures and adjust the payment basis within the designated time window. We undertake to fully rectify and make full contributions of social insurance premiums and housing provident funds as soon as practicable, and disclose the status in our annual report(s) in due course. We also undertake to make timely payments for the shortfalls and overdue charges and take practical measures to mitigate the practice of engaging third party agencies to make contributions, as soon as requested by the competent government authorities.

Management of the Use of Personal Bank Accounts

Two PRC subsidiaries of our Company, namely Henan Guoquan and Zhengzhou Guoquan (the “**Relevant Subsidiaries**”), used four personal bank accounts (the “**Personal Bank Accounts**”) opened under the names of Mr. Li Xinhua, who is one of our Controlling Shareholders, and an employee of our Group (the “**Personal Bank Account Owners**”) mainly to receive payments from the Relevant Subsidiaries’ franchisees and make payments to suppliers during the Track Record Period (the “**Transactions**”) for convenience (the “**Use of Personal Bank Accounts**”). The Relevant Subsidiaries had ceased the Use of Personal Bank

BUSINESS

Accounts since May 1, 2020. For the first four months in 2020, the payments received from our franchisees through the Personal Bank Accounts were approximately RMB1.7 million, representing 0.06% of the total revenue of our Group in 2020, while the payments made to our suppliers through the Personal Bank Accounts were approximately RMB11.6 million, representing 0.36% of the total purchase amount of our Group in 2020, which is an immaterial amount. We recorded the Transactions in 2020 in the Relevant Subsidiaries' books and record as well as their respective 2020 annual tax return. All the remaining balance in the Personal Bank Accounts has been transferred back to the corporate bank account of the Relevant Subsidiaries by the end of April 2020.

During the Track Record Period and up to the Latest Practicable Date, there had been no administrative penalties imposed by the relevant government authorities with respect to the Use of Personal Bank Accounts. We have conducted interviews with the Taxation Bureau of Zhengzhou High-tech Industrial Development Zone under the State Taxation Administration (國家稅務總局鄭州高新技術產業開發區稅務局), which confirmed that we would not be penalized. As advised by our PRC Legal Advisor, the tax authority is the competent authority in charge of the tax of Henan Guoquan and Zhengzhou Guoquan. Based on the compliance certificates from and regulatory interview conducted with the competent tax authority, our PRC Legal Advisor is of the view that (i) with respect to the Use of Personal Bank Accounts, the Relevant Subsidiaries do not have any unpaid taxes, nor are subject to surcharges or penalties; (ii) the Use of Personal Bank Accounts does not constitute a material non-compliance of the Relevant Subsidiaries under the PRC laws and regulations; and (iii) the risk that relevant regulatory authorities would impose any material administrative penalties on the Relevant Subsidiaries for the Use of Personal Bank Accounts is remote.

Compliance Status of Franchised Stores

As of April 30, 2023, out of 9,838 franchised stores, 735 stores, representing approximately 7.5% of our total franchised stores, failed to obtain all necessary permits and licenses for business operations as of the same date. The revenue attributable to these 735 stores for the four months ended April 30, 2023 amounted to RMB122.7 million, which represents 5.9% of our total revenue of the same period.

Among these 735 franchised stores,

- 300 stores did not obtain all necessary permits and licenses, which may be due to (i) a small number of our franchisees lacked compliance awareness, (ii) missing documentations, or (iii) inability to obtain such permits and licenses timely during the COVID-19 pandemic. As a result, these stores were unable to provide valid proof of compliance for our record; and
- 435 stores provided insufficient or incomplete proof of compliance, which were mainly due to the following reasons: (i) incomplete materials submitted, which did not demonstrate that all necessary permits and licenses has been obtained; and (ii)

BUSINESS

certain materials with deficiencies (for instance, name of entities were not consistent across all permits and licenses, because certain franchisees that operate as mom-and-pop business and licenses were registered under different family members).

Franchisees are responsible for obtaining all the licenses and permits required for operating a franchised store. Our designated personnel actively follow up with these stores in relation to their compliance status. According to the franchise agreements, our Group shall not be held liable for any losses arising from the franchisees' non-compliance in this regard. In event the relevant competent government authorities impose any retrospective monetary penalty due to our non-compliant franchised stores, we will not be liable for the penalty according to the franchise agreements. Furthermore, we are entitled to suspend our business relationships with such franchisees until they have rectified their non-compliance. We had suspended the business relationships with certain franchisees that were not cooperative in rectifying their non-compliant status during the Track Record Period.

According to the franchise agreement, we reserve the right to terminate the franchise agreement in case of any material non-compliance by a franchisee. We undertake to require all of the abovementioned franchisees to rectify and obtain the food operation licenses before the issuance of this Document. Failure to do so by any of these franchisees, we further undertake to require them to suspend their business operations until they have obtained all necessary permits and licenses for business operations.

In addition, based on our records, 643 franchised stores, representing approximately 6.5% of our total franchised stores, did not obtain the food operation licenses but obtained other relevant licenses in relation to food operations, such as the Henan Province Small-scale Food Business Registration Certificate (河南省食品小經營店登記證) in Henan and Food Stall Filing Record (食品小攤點備案卡) in Hebei. This was due to the varied requirements and practices adopted by local governmental authorities of different cities in China where the franchised stores are located. The revenue attributable to these 643 stores for the four months ended April 30, 2023 amounted to RMB123.2 million, which represents approximately 5.9% of our total revenue of the same period. As advised by our PRC Legal Advisor, in accordance with the Administrative Measures for Food Operation Licensing and Record-filing (《食品經營許可和備案管理辦法》) and according to its consultations with the China Light Industry Enterprises Investment & Development Association (中國輕工企業投資發展協會) of the China National Light Industry Council (中國輕工業聯合會), the current business operations of these stores will not be affected by holding such relevant licenses in relation to food operations. These franchised stores are in all material respects in compliance with relevant laws and regulations in relation to food operations, and thus the risk of mandatory store closure due to holding such relevant licenses is remote.

BUSINESS

To better monitor our franchised stores to comply with the relevant laws or regulations going forward, we have consulted with our independent internal control consultant and further enhanced our franchised store's internal control measures and procedures. We have implemented franchising compliance policy to govern the business operation of franchisees and requires the franchisees to obtain all required licenses and certificates in the course of their operations. We undertake that all new stores to be opened in the future will not commence operations unless all necessary permits and licenses for business operations have been obtained. We have also designated personnel to monitor the legal and regulatory requirements in relation to the business operations of the franchised stores, and communicate with franchisees on a regular basis in relation to their business operation and compliance status. We also plan to conduct ad hoc inspection on franchised stores and closely monitor the compliance status of our franchised stores, including the renewal of any expiring permits and licenses.