*You should read the following discussion and analysis in conjunction with our consolidated financial statements, included in the Accountants' Report in Appendix I, together with the respective accompanying notes. Our consolidated financial information has been prepared in accordance with the International Financial Reporting Standards ("IFRSs").*

*The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties, many of which we cannot control or foresee. In evaluating our business, you should carefully consider all of the information provided in this document, including the sections headed "Risk Factors" and "Business," and elsewhere in this document. For further details, see "Forward-Looking Statements."*

## OVERVIEW

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 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.

We established the largest one-stop home meal products retail store network in China as of December 31, 2022 in terms of number of retail stores, according to Frost & Sullivan. Leveraging on 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. We were China's largest home meal products retailer under proprietary brands in terms of retail sales value of proprietary brand products in 2022, according to Frost & Sullivan.

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. Our gross profit also 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 rate was 11.1%, 9.0%, 17.4%, 13.8% and 21.1% in 2020, 2021 and 2022 and the four months ended April 30, 2022 and 2023, respectively. Our significant scale of business operations has enabled us to capitalize on the advantages of economies of scale. This has been accomplished through the rapid expansion of our store network driving revenue growth, 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 continued to record a net profit of RMB119.6 million for the four months ended April 30, 2023.

## BASIS OF PRESENTATION

Our historical financial information has been prepared in accordance with IFRSs, issued by the International Accounting Standards Board. The historical financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and equity investments designated at fair value through other comprehensive income, which have been measured at fair value.

The preparation of the historical financial information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the historical financial information are disclosed in Note 3 to the Accountants' Report included in Appendix I to this document.

## MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

### Number of Stores in Operation and Expansion of Our Store Network

Our revenue is derived primarily from the sales of home meal products to franchisees, who operate franchised stores under our brand and sell our products to end consumers. As such, our revenue is primarily driven by the scale of our store network, which mainly comprises franchised stores, and our future revenue growth depends on our ability to open new stores and expand the coverage of our store network. As of December 31, 2020, 2021 and 2022 and April 30, 2023, our store network included 4,296, 6,864, 9,216 and 9,838 franchised stores and four, four, five and six self-operated stores, respectively. While it generally takes time for the new stores to ramp up, we believe that we are able to leverage our expanding store network to achieve economies of scale and further enhance our brand awareness.

We provide all-round support for franchisees and their franchised stores. For example, we offer a variety of services to our franchisees such as training, guidance, branding, marketing and logistical support. We also offer promotional events together with our franchisees to attract end consumers. Our regional managers supervise and provide guidance for franchisees with respect to market development and store operating strategies. As a result, our franchisees' operating capability has been continuously improving, with many of them starting from operating a single franchised store to operating multiple franchised stores and becoming entrepreneurial franchisees. As of April 30, 2023, our 9,838 franchised stores were operated by 6,045 franchisees and approximately 29.2% of our franchisees were operating more than one franchised store.

We plan to continue to grow our presence in China by expanding our geographic coverage and deepening our market penetration. We expect to open more stores in provincial capitals and municipalities, as well as penetrating into new geographic regions to cover more county-level and above cities in China, and gradually extend our store network to townships, offering quality ingredients to the general households in towns and villages across the country.

### Our Ability to Capitalize on the Rapid Growth of China's Home Meal Products Market

We attribute the rapid expansion in the number of our franchised stores and substantial increase in revenue to the robust growth of China's home meal products market. During the COVID-19 pandemic, people began to eat at home more frequently due to restaurant closures, risk of infection and lockdown measures, resulting in a surge in the home dining market from 2020 to 2022, which have partially contributed to our revenue growth. This market has grown significantly from RMB147.9 billion in 2018 to RMB367.3 billion in 2022, representing a CAGR of 25.5%, according to Frost & Sullivan. The market is projected to further expand to RMB940.0 billion in 2027, representing a CAGR of 20.7% from 2022. Despite our leading position in the market, we accounted for only 3.0% of the market in 2022 in terms of retail sales value of home meal products. This indicates ample opportunities for us to enhance our market penetration. Given the expansive potential of the home meal products market, our franchised stores are structured to be agile and customer-centric. Primarily catering to community-based operations, franchised stores typically consisting of store areas between 40 to 100 sq.m. and are staffed with two to three persons and located in close proximity to residential neighborhoods. A typical franchised aims to serve approximately 3,000 households, a relatively small number considering the densely populated urban areas in China. Catering to the needs of the modern community who look for convenient and time-saving options to purchase all their food items in one place, our franchised stores provides convenient one-stop shopping destinations with both offline and online shopping options, offering a wide range of products that allows consumers to mix and match according to their tastes. This agile and customer-centric store model enables our franchisees to penetrate their neighborhood communities. By strategically enhancing store density, we intend to generate local scale benefits, thereby improving our service, increasing logistics efficiency, and augmenting our brand influence.

**Our Ability to Efficiently Manage the Supply Chain and Enhance Operational Efficiency**

We endeavor to vertically integrate our supply chain to improve our profitability and operational efficiency. We currently operate three production facilities in Henan Province to process and produce a certain proportion of our main products by ourselves, including beef, meatball and hotpot soup base. We believe that our in-house production capabilities will support a stable and high-volume supply of high-quality products while securing the food safety. We plan to further integrate our upstream resources through investment in or partnerships with selective and qualified food producers to achieve economies of scale and increase our profit margins and cost advantage.

In addition, we aim to have a closer cooperative relationship with our supply chain partners, in particular the third-party logistics providers. We leverage their integrated warehousing and distribution operations to create a short and highly efficient supply chain from production facilities to third-party central warehouses and further to retail stores, further enhancing efficiency. We believe that a strong distribution network will continuously empower our business expansion. Meanwhile, the proximity provided by our dense store network in turn allows for faster delivery of goods to our franchisees. During the Track Record Period, we incurred delivery charges of RMB121.0 million, RMB155.0 million, RMB257.2 million and RMB76.0 million in 2020, 2021 and 2022, and the four months ended April 30, 2023, accounting for 4.6%, 4.3%, 4.3% and 4.6% of our total cost of sales, respectively.

We are committed to digitizing and automating our supply chain to improve our operational efficiency. Our ERP system allows us to exercise monitoring the supply and demand dynamics from procurement-end to store-end as well as our inventory level. In this way, we are able to analyze and predict customers' preferences and demands, and communicate to our supply chain to timely adjust procurement plans and product developments.

### Seasonality and Our Ability to Manage the Seasonal Fluctuations

Our business and operating results are subject to seasonal fluctuations because of several 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 of 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, among others, 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.

### Our Ability to Deliver Home Meal Products with Excellent Value-for-Money

Our ability to provide diverse product portfolio with high quality at affordable prices is vital to maintain our financial performance as well as market position. Our cost of sales primarily consists of cost of inventories sold, mainly including procurement of food products and raw materials. The prices of our inventory may be affected by a variety of factors, including but not limited to developments and changes in market demand and supply, seasonal shifts, climate and environmental conditions, natural disasters, and government policies. During the Track Record Period, our cost of inventories sold amounted to RMB2,514.1 million, RMB3,438.9 million, RMB5,620.8 million and RMB1,554.0 million in 2020, 2021 and 2022, and the four months ended April 30, 2023, respectively, representing 95.4%, 95.5%, 94.9% and 94.8% of the cost of sales during those years.

We put great efforts into ensuring an adequate supply that meets our quality standards and at competitive prices. Our large procurement scale and strong brand image help strengthen our bargaining power, thereby effectively controlling our procurement costs. We have taken measures to manage costs, such as integrating multi-channel supply resources including domestic and global markets to reduce costs, entering into agreements with certain suppliers to ensure sufficient supply at agreed prices or within agreed ranges, and implementing a price-locking mechanism in some of our supply contracts. See "Business — Production, Procurement, and Suppliers — Procurement — Procurement Cost Control." Our strong cost management capabilities also enable us to sell products to our franchisees at relatively low prices to ensure their profitability, which in turn contributes to the sustainable growth of our business.

### Our Ability to Carry Out Sales and Marketing Effectively and Efficiently

Effective implementation of marketing strategy is critical to our sales growth. During the Track Record Period, we launched various marketing initiatives, including the appointment of celebrity ambassador, placement of high-profile TV commercials, offline advertisement, livestream promotions, and in-store promotional events. Our selling and distribution expenses amounted to RMB220.1 million, RMB629.4 million, RMB624.6 million and RMB184.7 million, accounting for 7.4%, 15.9%, 8.7% and 8.9% of our revenue in 2020, 2021 and 2022, and the four months ended April 30, 2023, respectively. We expect the absolute amounts of our selling and distribution expenses will continue to increase along our business growth in the future. However, as we expand the scale and scope of our business, we expect to make continuous improvement to our selling and distribution efficiency and benefit from economies of scale.

To further foster consumer loyalty, promote our brand and enhance consumer experience, we have launched our digitalized membership system leveraging our consolidated membership database for all online and offline consumers. As of April 30, 2023, our registered members reached approximately 22.4 million. According to Frost and Sullivan, in 2022, our consumer satisfaction was as high as 96%, and 95% of our consumers were willing to repurchase. See "Business — Our Sales Channels and Store Network — Marketing."

## IMPACT OF COVID-19

Since the end of December 2019, the outbreak of a disease caused by a novel strain of coronavirus, or COVID-19, had materially and adversely affected the global economy.

We took a series of measures in response to the outbreak of COVID-19, including different variants of the virus such as Delta and Omicron, and the relevant restrictions:

- *Production.* We obtained permits from local authorities for continuous production at our facilities, and enforced stringent prevention and control measures in our production facilities and third-party warehouses to ensure that the production in our factories was not materially affected.

- *Supply chain.* In late 2020 and the second half of 2022, respectively, we expected that the pandemic would induce supply chain disruptions, and strategically maintained a relatively high inventory level of finished goods in our third-party central warehouses across the country to reduce the risk of supply shortage in the event of any temporary warehouse closures. Moreover, in the first half of 2022, we arranged with our logistics partners to ensure sufficient supply in our franchised stores in the Shanghai City.

- *Sales.* We obtained approval from local authorities to keep some of our stores open during the lockdown to guarantee key supplies for local residents. Meanwhile, we provided home delivery services through our online sales channels and partnered with third-party food delivery platforms to enable our franchisees to sell and deliver products to end consumers.

Leveraging our effective response measures and highly efficient supply chain, we had successfully minimized the slowdown in production, logistics and sales arrangements, which contributed to our growth in revenue during the Track Record Period. As a result of the aforementioned measures, our production, supply chain and daily operations had not been materially and adversely affected during the Track Record Period. However, the COVID-19 pandemic had a mixed impact of positive and negative effects on our general business operation and financial performance during the Track Record Period in the following manner:

- **Negative impacts**

  - ***Store closure***. There were a number of stores that closed for extended periods of time during the pandemic and did not record any sales during those periods. For example, 377, 231 and 882 stores did not record any transaction for more than two consecutive weeks in 2020, 2021 and 2022, respectively. In particular, a total of 234 stores in Henan and 86 stores in Shanghai experienced closures for an average of approximately one month in 2022;

  - ***COVID-19 related expenses***. We incurred approximately RMB1.1 million in 2020 to purchase sanitization, protective, testing and other supplies to enforce the measures and control in our premises, such as sanitizing regularly and requiring employees to wear masks and undergo testing;

  - ***Heightened inventory level***. To ensure stable supply of raw materials and products, we stocked up higher level of inventory in warehouses, which used up more working capital.

- **Positive impacts**

  - ***Increased number of orders from online channels***. During the COVID-19 pandemic, people began to eat at home more frequently due to restaurant closures, risk of infection and lockdown measures, resulting in a surge in the home dining market from 2020 to 2022. This trend has partially contributed to our revenue growth, as our expanded store network enabled us to capture such demand given its close proximity to residential neighborhoods. Based on its operational records, we observed an increase in our average daily orders from online channels from 6,193 in 2020 to 68,831 in 2022;

  - ***Faster store sales growth***. Stores that were less affected by the restrictive measures due to the pandemic experienced higher sales. For example, the average revenue contribution by franchised stores opened in 2020 increased by approximately 35.2% from RMB475 thousand in 2020 (the year of opening) to RMB642 thousand in 2021 (the first full year of operation following the year of opening). The average revenue contribution by franchised stores opened in 2021 increased by approximately 134.3% from RMB256 thousand in 2021 (the year of opening) to RMB600 thousand in 2022 (the first full year of operation following the year of opening). Such increased store sales growth may in part be due to the trend that people began to eat at home more frequently during the pandemic.

As the COVID-19 pandemic has since subsided, we do not anticipate further adverse impact on our business and financial performance.

## CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments relating to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and results of operations. Our management continually evaluates such estimates, assumptions and judgments based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There has not been any material deviation between our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

Set forth below are discussions of the accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Other significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in detail in Notes 2.3 and 3 to the Accountants' Report in Appendix I to this document.

### Revenue Recognition

#### *Revenue from Contracts with Customers*

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

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

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

*(a) Sales of home meal products and related products*

We mainly sell our home meal products and related products to franchisees, and to a lesser extent, we sell to enterprise customers including food wholesalers, supermarkets, restaurants and other enterprises, as well as directly to end consumers. Revenue from sales of home meal products and related products is recognized at the point in time when control is transferred to the customer, and the customer has accepted the products.

*(b) Provision of operational support services*

Our agreements with franchisees also typically include certain less significant operational support services fee. Revenue from the provision of operational support service is recognized over the scheduled period on a straight-line basis over the expected franchise period.

Other income

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

**Contract Liabilities**

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

### Inventories

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

### Leases

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

***As a Lessee***

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

*(a) Right-of-use assets*

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

Office premises and plant: 2-5 years

Leasehold land: 50 years

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

*(b) Lease liabilities*

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

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

**Fair Value Measurement of Fair Value Through Profit or Loss ("FVTPL")**

The fair value assessment of FVTPL that are measured at Level 3 fair value hierarchy requires significant estimates, which include risk-free rates, expected volatility, relevant underlying financial projections, market information of recent transactions (such as recent fund raising transactions undertaken by the investees) and other assumptions. Changes in these assumptions and estimates could materially affect the respective fair value of these investments.

Our finance department performs the valuation of Level 3 financial instruments for financial reporting purposes. We manage the valuation exercise of the investments on a case by case basis. At least once a year, our finance department uses valuation techniques to determine the fair value of our Level 3 instruments and reports to senior management and the directors of our Company. See Note 2.3 to the Accountants' Report in Appendix I to this document.

Our financial assets at FVTPL which are categorized within Level 3 of fair value measurements were mainly equity investments. In respect of the assessment of fair value of the equity investments, with reference to the guidance under the "Guidance Note on Directors' Duties in the Context of Valuations in Corporate Transactions" issued by the SFC in May 2017 applicable to directors of companies listed on the Stock Exchange, our Directors have undertaken the following key actions: (i) considering available information in assessing the financial forecast and assumptions including but not limited to the historical financial performance, market prospects, comparable companies' conditions, economic, political and industry conditions; (ii) engaging an independent external valuer to assist our management to assess the fair value; (iii) considering the independence, reputation, capabilities and objectivity of the external valuer to ensure the suitability of such valuer; (iv) reviewing and discussing with our management and the external valuer on the valuation models and approaches; and (v) reviewing the valuation work papers and results prepared by the valuer. Valuation techniques are verified by the independent and recognized international business valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions.

In respect of the valuation of our equity investments, details and the quantitative information about the significant unobservable inputs used in Level 3 fair value measurements are set forth in Note 41 to the Accountants' Report in Appendix I to this document.

The Reporting Accountants have carried out necessary audit works in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants for the purpose of expressing an opinion on the Group's historical financial information for the Track Record Period as a whole in Appendix I to this document. The Reporting Accountants' opinion on the historical financial information of the Group for the Track Record Period as a whole is set out on page I-2 of Appendix I to this document.

The Joint Sponsors have conducted relevant due diligence work, including (i) obtained the credentials of the valuer and the background, qualifications and work experience of its core team members; (ii) obtaining and reviewing the valuation report issued by the valuer; (iii) understanding from the valuer the key basis and assumptions for the valuation of financial assets categorized as Level 3 fair value measurements; (iv) reviewing relevant notes in the Accountant's Report; and (v) understanding from the management of the Company and the Reporting Accountant the work they have performed in relation to the valuation of the Level 3 financial instruments for the purpose of reporting on the historical financial information of the Group for the Track Record Period as a whole. Having considered the work done by the Company management and the Reporting Accountant, and the relevant due diligence done as stated above, nothing material has come to the Joint Sponsors' attention that indicates that the Company management have not undertaken sufficient investigation and due diligence, or that the Company management's reliance on the work products of the valuer is unreasonable.

**Property, Plant and Equipment and Depreciation**

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

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

| Category | Principal annual rate |
|---|---|
| Buildings | 4.8%-5.0% |
| Leasehold improvements | 19.0%-31.7% |
| Machinery equipment | 9.5% |
| Motor vehicles | 19.0% |
| Office equipment | 19.0%-31.7% |

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

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

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

**Business Combinations and Goodwill**

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

We determine that we have acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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

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

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

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

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

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

**Provisions**

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

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

## SELECTIVE ITEMS OF CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

The following table sets forth a summary of our consolidated statements of profit or loss for the periods indicated:

| | Year ended December 31, | | | Four Months ended April 30, | |
|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2022 | 2023 |
| | *(RMB in thousands)* | | | *(Unaudited)* | |
| **Revenue** | **2,964,743** | **3,957,804** | **7,173,457** | **2,159,626** | **2,078,234** |
| Cost of sales | (2,635,484) | (3,602,520) | (5,924,496) | (1,862,168) | (1,638,968) |
| **Gross profit** | **329,259** | **355,284** | **1,248,961** | **297,458** | **439,266** |
| Other income and gains, net | 11,274 | 38,725 | 121,460 | 16,849 | 62,096 |
| Selling and distribution expenses | (220,134) | (629,440) | (624,577) | (219,421) | (184,708) |
| Administrative expenses | (161,441) | (355,676) | (403,686) | (124,744) | (142,782) |
| Other expenses | (147) | (2,101) | (2,968) | (2,439) | (1,808) |
| Finance costs | (1,994) | (2,834) | (2,564) | (667) | (2,062) |
| Impairment losses on financial assets | — | (426) | (4,584) | (1,932) | (6,462) |
| **Profit/(Loss) before tax** | **(43,183)** | **(596,468)** | **332,042** | **(34,896)** | **163,540** |
| Income tax (expense)/credit | (109) | 135,607 | (91,060) | 9,875 | (43,946) |
| **Profit/(Loss) for the period** | **(43,292)** | **(460,861)** | **240,982** | **(25,021)** | **119,594** |
| **Profit/(Loss) attribute to** | | | | | |
| Owners of the parent | (43,292) | (461,990) | 229,907 | (30,956) | 110,397 |
| Non-controlling interests | — | 1,129 | 11,075 | 5,935 | 9,197 |

## NON-IFRS MEASURE

To supplement our consolidated financial statements, which are presented in accordance with IFRSs, we also use adjusted net profit/(loss) as additional financial measure, which is not required by, or presented in accordance with IFRSs. We believe this non-IFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain items.

We believe this measure provides useful information to investors and others in understanding and evaluating our combined results of operations in the same manner as they help our management. However, our presentation of adjusted net profit/(loss) (non-IFRS measure) may not be comparable to similarly titled measures presented by other companies. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under IFRSs.

We define adjusted net profit/(loss) (non-IFRS measure) as net profit/(loss) for the period adjusted by adding back share-based payment expenses and [**REDACTED**] expenses.

The following table reconciles our adjusted net profit/(loss) (non-IFRS measure) for the periods presented to the most directly comparable financial measures calculated and presented in accordance with IFRSs, which is net profit/(loss) for the period:

| | **Year ended December 31,** | | | **Four Months ended April 30,** | |
|---|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2022** | **2023** |
| | *(RMB in thousands)* | | | | |
| | | | | *(Unaudited)* | |
| **Reconciliation of net profit/(loss) to adjusted net profit/(loss)** | | | | | |
| Profit/(loss) for the period | (43,292) | (460,861) | 240,982 | (25,021) | 119,594 |
| Adjusted: | | | | | |
| Share-based payment expenses(1) | 16,415 | 10,262 | 4,604 | 1,535 | — |
| [**REDACTED**] expenses(2) | — | — | 11,199 | — | [**REDACTED**] |
| **Adjusted net profit/(loss) (non-IFRS measure)** | (26,877) | (450,599) | 256,785 | (23,486) | [**REDACTED**] |

*Notes:*

(1) Share-based payment expenses represent the non-cash employee benefit expenses incurred in connection with our award to key employees. Such expenses in any specific period are not expected to result in future cash payments.

(2) [**REDACTED**] expenses mainly relate to the [**REDACTED**].

## DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

### Revenue

During the Track Record Period, we primarily derived revenue from sales of home meal products and related products, mainly including hotpot products and barbecue products. We also generated revenue from operational support services offered to our franchisees. We generated all of our revenue from the PRC during the Track Record Period.

#### *Revenue by Nature*

The table below sets forth our revenue breakdown by nature 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 | % |
| | *(RMB in thousands, except for percentages)* | | | | | | | | | |
| | | | | | | | *(Unaudited)* | | | |
| **Sales of home meal products and related products** | **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** |
| Hotpot products | 2,389,863 | 80.6 | 3,091,345 | 78.1 | 5,352,027 | 74.6 | 1,670,137 | 77.3 | 1,518,322 | 73.1 |
| Barbecue products | 170,486 | 5.8 | 294,157 | 7.4 | 714,223 | 10.0 | 218,536 | 10.1 | 248,754 | 12.0 |
| Others(1) | 357,589 | 12.0 | 494,702 | 12.5 | 992,524 | 13.8 | 238,504 | 11.1 | 262,951 | 12.6 |
| **Operational support services** | **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** |

*Note:*

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

*Sales of home meal products and related products*

During the Track Record Period, revenue from sales of home meal products and related products was primarily derived from hotpot products and barbecue products. We derived substantially all of our revenue from the sale of our proprietary branded products to our franchisees, who operate franchised stores under our brand and sell our products to end consumers. In addition, we also sell our products to enterprise customers, including food wholesalers, supermarkets, restaurants and other enterprises, as well as directly to end consumers.

The increase in revenue from sales of home meal products and related products was primarily attributable to our expansion of franchised store network, with the number of franchised stores increasing from 4,296 as of December 31, 2020 to 6,864 as of December 31, 2021, and further to 9,216 and 9,838 as of December 31, 2022 and April 30, 2023, respectively. As people began to eat at home more frequently due to restaurant closures, risk of infection and lockdown measures, our home meal products became a popular choice among consumers across China, which have partially contributed to our revenue growth. Our expanded store network was able to capture such demand given its close proximity to residential neighborhoods.

As our main product category, our hotpot products consisted of 322 SKUs as of April 30, 2023, which primarily include meats, meatballs and pastes, hotpot soup base, and pots, among others. Revenue generated from our hotpot products contributed a significant proportion of our total revenue, accounting for 80.6%, 78.1%, 74.6% and 73.1% of our total revenue in each of 2020, 2021 and 2022, and the four months ended April 30, 2023, respectively. We have been strategically diversifying our product portfolio, primarily by promoting our barbecue products including seafood, skewers, other meat products, and barbecue grills, among others, which contributed to 5.8%, 7.4%, 10.0% and 12.0% of our total revenue in each of 2020, 2021 and 2022, and the four months ended April 30, 2023, respectively. As of April 30, 2023, we had 194 SKUs under our barbecue products category.

*Operational support services*

We enter into franchise agreements with franchisees granting them the right to operate franchised stores carrying our brand and trademarks. 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. For details of the fee arrangements between our franchisees and us, see "Business — Our Sales Channels and Store Network — Offline Retail Store Network — Franchised Stores." During the Track Record Period, our revenue from operational support services amounted to RMB46.8 million, RMB77.6 million, RMB114.7 million and RMB48.2 million in 2020, 2021 and 2022, and the four months ended April 30, 2023, representing 1.6%, 2.0%, 1.6% and 2.3% of our total revenue for the same periods, respectively.

The table below sets forth our revenue breakdown by nature and channel 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 | % |
| | *(RMB in thousands, except for percentages)* | | | | | | *(Unaudited)* | | | |
| **Sales of home meal products and related products** | **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 |
| — to individual franchisees | 2,900,904 | 97.9 | 3,712,111 | 93.8 | 6,458,679 | 90.0 | 2,009,213 | 93.0 | 1,810,836 | 87.1 |
| — to corporate franchisees | 9,225 | 0.3 | 15,748 | 0.4 | 18,008 | 0.3 | 2,069 | 0.1 | 10,675 | 0.5 |
| Other sales channels | 7,809 | 0.2 | 152,345 | 3.8 | 582,087 | 8.1 | 115,895 | 5.4 | 208,516 | 10.1 |
| — To enterprise customers(1) | 488 | 0.0 | 63,001 | 1.6 | 548,717 | 7.6 | 97,566 | 4.5 | 196,750 | 9.5 |
| — Direct to end consumers(2) | 7,321 | 0.2 | 89,344 | 2.2 | 33,370 | 0.5 | 18,329 | 0.9 | 11,766 | 0.6 |
| **Operational support services** | **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) Mainly include food wholesalers, restaurants, supermarkets, and other enterprises.

(2) Mainly include revenue from self-operated stores and direct-to-consumer sales on e-commerce platforms.

As of April 30, 2023, we had established a network of 9,844 stores under our brand in the PRC, comprising 9,838 franchised stores and six self-operated stores. During the Track Record Period, we derived the majority of our revenue from sales of our proprietary branded products to our franchisees. In 2020, 2021 and 2022, and the four months ended April 30, 2023, revenue from our sales to franchisees amounted to RMB2,910.1 million, RMB3,727.9 million, RMB6,476.7 million and RMB1,821.5 million, accounting for 98.2%, 94.2%, 90.3% and 87.6% of our total revenue in the respective periods. In particular, as 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, our sales of products to corporate franchisees increased from RMB9.2 million in 2020 to RMB15.7 million in 2021, and further to RMB18.0 million and RMB10.7 million in 2022 and the four months ended April 30, 2023, respectively.

We also generate revenue from offering services to franchisees and other sales channels, which mainly include sales to enterprise customers and direct sales to end consumers. Our revenue from other sales channels increased from RMB7.8 million in 2020 to RMB152.4 million in 2021, and further to RMB582.1 million in 2022, and from RMB115.9 million in the four months ended April 30, 2022 to RMB208.5 million in the four months ended April 30, 2023, primarily due to an increase in revenue from sales to enterprise customers, in particular sales to food wholesalers. For details, see "Business — Our Sales Channels and Store Network — Our Customers."

In addition, we also generate revenue from offering operational support services to franchisees. During the Track Record Period, such revenue increased from RMB46.8 million in 2020 to RMB77.6 million in 2021, and further to RMB114.7 million in 2022, and from RMB32.4 million in the four months ended April 30, 2022 to RMB48.2 million in the four months ended April 30, 2023. This was in line with the expansion of our franchised store network.

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

| | Year ended December 31, | | | | | | Four Months ended April 30, | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | | 2021 | | 2022 | | 2023 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| | *(RMB in thousands, except for percentages)* | | | | | | | |
| 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** | **2,910,129** | **100.0** | **3,727,859** | **100.0** | **6,476,687** | **100.0** | **1,821,511** | **100.0** |

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 revenue breakdown of our products sold to franchised stores by administrative level of their locations for the periods indicated:

| | Year ended December 31, | | | | | | Four Months ended April 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | | 2021 | | 2022 | | 2022 | | 2023 | |
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % |
| | (RMB in thousands, except for percentages) | | | | | | | | | |
| | | | | | | | (Unaudited) | | | |
| **Franchised stores** | | | | | | | | | | |
| Municipalities | 114,129 | 3.9 | 191,197 | 5.1 | 492,769 | 7.6 | 135,338 | 6.7 | 117,979 | 6.5 |
| Provincial capitals | 681,713 | 23.4 | 937,929 | 25.2 | 1,679,588 | 25.9 | 494,115 | 24.6 | 455,206 | 25.0 |
| Prefectural-level cities | 869,774 | 29.9 | 1,071,457 | 28.7 | 1,864,950 | 28.8 | 572,064 | 28.4 | 522,668 | 28.7 |
| County-level cities | 927,396 | 31.9 | 1,103,388 | 29.6 | 1,708,382 | 26.4 | 558,908 | 27.8 | 509,032 | 27.9 |
| Townships | 317,117 | 10.9 | 423,888 | 11.4 | 730,998 | 11.3 | 250,857 | 12.5 | 216,626 | 11.9 |
| **Total** | **2,910,129** | **100.0** | **3,727,859** | **100.0** | **6,476,687** | **100.0** | **2,011,282** | **100.0** | **1,821,511** | **100.0** |

An important aspect of our expansion strategy for the franchised store network involves focusing on initial penetration into provincial capitals and municipalities. By leveraging these economically vibrant regions, we can enhance brand awareness and drive sales growth. To illustrate, the number of franchised stores in municipalities increased from 176 as of December 31, 2020, to 376 as of December 31, 2021, and further to 687 and 749 as of December 31, 2022 and April 30, 2023, enhancing our store representation from 4.1% to 5.5% and further to 7.5% and 7.5% 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 to 1,959 and 2,104 as of December 31, 2022 and 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. As a result, in 2020, 2021, and 2022, and the four months ended April 30, 2023, the revenue attributable to franchised stores in municipalities as a percentage of our total revenue from sales to franchisees generally showed an upward trend, being 3.9%, 5.1%, 7.6% and 6.5%, respectively. During the same periods, the revenue attributable to franchised stores in provincial capitals as a percentage of our total revenue from sales to franchisees generally showed an upward trend, being 23.4%, 25.2%, 25.9% and 25.0%, respectively.

## Cost of Sales

Our cost of sales primarily comprises (i) cost of inventories sold, (ii) delivery charges for third-party delivery service providers, and (iii) manufacturing costs in relation to our self-operated production plants.

The following table sets forth the major components of our cost of sales by nature in actual amounts and as a percentage of our total cost of sales for the periods indicated:

| | Year ended December 31, | | | | | | Four Months ended April 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | | 2021 | | 2022 | | 2022 | | 2023 | |
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % |
| | *(RMB in thousands, except for percentages)* | | | | | | | | | |
| | | | | | | | *(Unaudited)* | | | |
| Cost of inventories sold | 2,514,114 | 95.4 | 3,438,879 | 95.5 | 5,620,820 | 94.9 | 1,776,275 | 95.4 | 1,553,991 | 94.8 |
| Hotpot products | 2,061,049 | 78.2 | 2,733,166 | 75.9 | 4,119,185 | 69.5 | 1,384,011 | 74.3 | 1,118,671 | 68.3 |
| Barbecue products | 146,959 | 5.6 | 262,795 | 7.3 | 587,713 | 9.9 | 183,983 | 9.9 | 196,999 | 12.0 |
| Others[(1)] | 306,106 | 11.6 | 442,918 | 12.3 | 913,922 | 15.5 | 208,281 | 11.2 | 238,321 | 14.5 |
| Delivery charges | 121,043 | 4.6 | 155,017 | 4.3 | 257,177 | 4.3 | 82,841 | 4.4 | 76,036 | 4.6 |
| Manufacturing costs | 327 | 0.0 | 8,624 | 0.2 | 46,499 | 0.8 | 3,052 | 0.2 | 8,941 | 0.6 |
| **Total** | **2,635,484** | **100.0** | **3,602,520** | **100.0** | **5,924,496** | **100.0** | **1,862,168** | **100.0** | **1,638,968** | **100.0** |

*Note:*

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

Our cost of inventories sold as a percentage of cost of sales are generally stable throughout the Track Record Period. Our delivery charges increased by 28.1% from RMB121.0 million in 2020 to RMB155.0 million in 2021, and further increased by 65.9% to RMB257.2 million in 2022. Our delivery charges decreased by 8.2% from RMB82.8 million in the four months ended April 30, 2022 to RMB76.0 million in the four months ended April 30, 2023. Our delivery charges as a percentage of cost of sales remained relatively stable during the Track Record Period.

### *Sensitivity Analysis*

The table sets forth the sensitivity analysis of the impact analysis to our results of operations during the Track Record Period from the change in cost of inventories sold, based on historical price fluctuations.

| | Change in Profit before Tax for the Period due to the Change in Cost of Inventories Sold | | |
|---|---|---|---|
| | +/– 2% | +/– 4% | +/– 6% |
| | *(RMB in thousands)* | | |
| 2020 | 50,282 | 100,565 | 150,847 |
| 2021 | 68,778 | 137,555 | 206,333 |
| 2022 | 112,416 | 224,833 | 337,249 |
| Four months ended April 30, 2023 | 31,080 | 62,160 | 93,239 |

## Gross Profit and Gross Profit Margin

The following table sets forth our gross profit both in amounts and as percentages of revenue, or gross profit margin, by nature for the periods indicated:

| | Year ended December 31, | | | | | | Four Months ended April 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | | 2021 | | 2022 | | 2022 | | 2023 | |
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % |
| | *(RMB in thousands, except for percentages)* | | | | | | | | | |
| | | | | | | | *(Unaudited)* | | | |
| **Sales of home meal products and related products** | **282,454** | **9.7** | **277,684** | **7.2** | **1,134,278** | **16.1** | **265,009** | **12.5** | **391,059** | **19.3** |
| Hotpot products | 229,350 | 9.6 | 226,053 | 7.3 | 991,349 | 18.5 | 218,032 | 13.1 | 333,840 | 22.0 |
| Barbecue products | 16,455 | 9.7 | 19,610 | 6.7 | 100,488 | 14.1 | 26,042 | 11.9 | 42,438 | 17.1 |
| Others(1) | 36,649 | 10.2 | 32,021 | 6.5 | 42,441 | 4.3 | 20,935 | 8.8 | 14,781 | 5.6 |
| **Operational support services(2)** | **46,805** | **100.0** | **77,600** | **100.0** | **114,683** | **100.0** | **32,449** | **100.0** | **48,207** | **100.0** |
| **Total/Overall** | **329,259** | **11.1** | **355,284** | **9.0** | **1,248,961** | **17.4** | **297,458** | **13.8** | **439,266** | **21.1** |

*Notes:*

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

(2) As there is no cost recorded in connection with the provision of operational support services, the gross profit margin of this component was 100.0%.

Our gross profit increased from RMB329.3 million in 2020 to RMB355.3 million in 2021, and further significantly increased to RMB1,249.0 million in 2022. Our gross profit also increased from RMB297.5 million in the four months ended April 30, 2022 to RMB439.3 million in the four months ended April 30, 2023. Our gross profit margin generally increased during the Track Record Period, being 11.1%, 9.0%, 17.4% and 21.1% in 2020, 2021 and 2022, and the four months ended April 30, 2023, respectively. Our gross profit margin is mainly affected by (i) our ability to control the cost of sales and maintain a stable level of procurement price; the number of suppliers that provided purchase rebates to us increased significantly during the Track Record Period; (ii) our continuous efforts to launch new products and upgrade the existing ones with relatively higher margin; for example, we improved our beef, meatball and tripe products with various flavors to meet more diverse customer demands, and a substantial portion of these new products were with higher gross profit margin in these categories; for instance, we launched the black beef tripe product in the hotpot category in July 2022, which became one of our popular products among end-consumers; (iii) the promotional events with franchisees to support the franchised store network expansion and build our brand awareness; and (iv) consolidating additional profits generated by production facilities we acquired.

In particular, our gross profit margin decreased slightly from 11.1% in 2020 to 9.0% in 2021, mainly attributable to the increased spending on enhanced promotional efforts to improve our brand influence, so as to support our rapid store network expansion. We conducted promotional activities for franchisees on the "517" shopping day, during which we sold products at more favorable prices to franchisees. In 2021, we also offered discounts to the sales of our products to eligible franchisees who opened new stores for their first purchase orders. Subsequently, our gross profit margin improved from 9.0% in 2021 to 17.4% in 2022, mainly attributable to (i) products of higher margin, such as black beef tripe and thinly sliced lamb for hotpot and pork belly and skewers for barbecue; (ii) improved procurement cost-effectiveness of raw materials and food products due to economies of scale and brand awareness (for instance, the procured volume of beef products increased from approximately 9,800 tons in 2021 and further to 17,000 tons in 2022); and (iii) improved manufacturing costs due to the acquisition of our self-operated production facilities.

Our overall revenue decreased slightly from RMB2,159.6 million to RMB2,078.2 million, primarily because the sales of hotpot products were higher in the first four months of 2022, which was partially attributable to that people dined out more frequently after the pandemic subsided. Such slight decrease in revenue was offset by the improved gross profit margin. Our gross profit margin improved from 13.8% in the four months ended April 30, 2022 to 21.1% in the four months ended April 30, 2023, primarily due to (i) the decrease in cost of sales; and (ii) the launch of new or upgraded hotpot and barbecue products with relatively higher margins; for instance, we launched the black beef tripe product in the hotpot category in July 2022, which became one of our popular products among end-consumers.

As our brand awareness is enhanced and our procurement volumes increased from the expanding store network, our bargaining power with suppliers was strengthened and we obtained more favorable terms. To further cement our control over supply chain and manage the costs of inventories sold, we acquired three production plants, namely Heyi Plant, Wanlai Wanqu Plant and Chengming Plant, to process beef, and produce meatballs and hotpot soup base. As a result of self-producing a portion of our main products, we enjoyed lower unit costs as compared to procuring from third-party suppliers.

With regard to the gross profit generated by different sales channels, we primarily generated our gross profit from the sale of our products to franchisees, and our gross profit from other sales channels accounted for an insignificant portion of our gross profit in 2021. However, in 2020, 2022 and the four months ended April 30, 2023, we recorded a gross loss of RMB45.0 thousands, RMB21.4 million and RMB2.4 million from other sales channels, respectively, which slightly offset the gross profit growth from sales to franchisees. The gross loss from other sales channels in 2020 was mainly from the direct-to-consumer sales. The gross loss from other sales channels in 2022 and the four months ended April 30, 2023 were primarily due to the new business relating to the supply of certain imported food ingredients to our suppliers and certain food wholesalers, which we launched in late 2021. See "Business — Our Sales Channels and Store Network — Our Customers."

## Selling and Distribution Expenses

Our selling and distribution expenses primarily comprise (i) employee benefit expenses, (ii) storage charges, (iii) advertising and promotion expenses, and (iv) traveling expenses. Our selling and distribution expenses amounted to RMB220.1 million, RMB629.4 million, RMB624.6 million and RMB184.7 million, accounting for 7.4%, 15.9%, 8.7% and 8.9% of our revenue in 2020, 2021 and 2022, and the four months ended April 30, 2023, respectively.

The table below sets forth a breakdown of the components of our selling and distribution expenses for the periods indicated:

| | Year ended December 31, | | | | | | Four Months ended April 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | | 2021 | | 2022 | | 2022 | | 2023 | |
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % |
| | *(RMB in thousands, except for percentages)* | | | | | | *(Unaudited)* | | | |
| Employee benefit expenses | 69,835 | 31.7 | 215,262 | 34.2 | 224,462 | 35.9 | 86,935 | 39.6 | 69,570 | 37.7 |
| Storage charges | 86,716 | 39.4 | 131,118 | 20.8 | 189,025 | 30.3 | 57,072 | 26.0 | 51,610 | 27.9 |
| Advertising and promotion expenses | 39,921 | 18.1 | 185,094 | 29.4 | 137,566 | 22.0 | 49,191 | 22.4 | 38,311 | 20.7 |

| | Year ended December 31, | | | | | | Four Months ended April 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | | 2021 | | 2022 | | 2022 | | 2023 | |
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % |
| | *(RMB in thousands, except for percentages)* | | | | | | | | | |
| | | | | | | | *(Unaudited)* | | | |
| Traveling expenses | 14,016 | 6.4 | 36,224 | 5.8 | 25,568 | 4.1 | 10,170 | 4.7 | 7,478 | 4.1 |
| Others[1] | 9,646 | 4.4 | 61,742 | 9.8 | 47,956 | 7.7 | 16,053 | 7.3 | 17,739 | 9.6 |
| **Total** | **220,134** | **100.0** | **629,440** | **100.0** | **624,577** | **100.0** | **219,421** | **100.0** | **184,708** | **100.0** |

*Note:*

(1) Others primarily include service fees, depreciation and office expenses.

Our selling and distribution expenses increased from 2020 to 2021 in line with our business growth, primarily due to (i) the increase in the number of operation staff to support our expanding business; (ii) marketing activities such as CCTV advertising, online branding and marketing, celebrity endorsements, and offline promotion and advertisement placements to enhance our brand recognition; and (iii) the increase in storage charges largely corresponding to our business expansion.

In particular, the overall storage charges incurred as a percentage of our revenue increased from 3.0% in 2020 to 3.4% in 2021 and subsequently decreased to 2.7% in 2022. While the storage charges incurred as a percentage of our sales revenue to franchisees remained relatively stable during the Track Record Period, the overall fluctuation was mainly attributable to the fluctuation of the storage charges incurred related to other sales channels as a percentage of our sales revenue to other sales channels during the Track Record Period. The other sales channels include sales to enterprise customers, sales via its self-operated stores as well as direct to end customers sales on e-commerce platforms. In 2020, whilst the storage charges as a percentage of revenue from other sales channels was high, the overall revenue contribution and storage charges of other sales channels was insignificant. The high storage charges as a percentage of revenue from other sales channels in 2021 was mainly attributable to direct sales to end customers through certain e-commerce platforms, given that (i) we engaged warehousing and logistics service providers specialized for e-commerce businesses, who charged relatively high storage rates, and (ii) we maintained a certain inventory level at the storage facilities of supply chain service providers related to e-commerce businesses in order to ensure timely delivery to end-consumers once they place orders on the e-commerce platforms. Hence, the level of inventory and the resulting storage charges may not be proportionate to the scale of its e-commerce business during the same period, and resulted in higher overall storage charge as a percentage of revenue in 2021. The storage charge as a percentage of revenue from other sales channels subsequently decreased significantly in 2022, primarily because we reduced our sales through e-commerce platforms significantly, while increasing our sales to enterprise customers, which incurred much lower storage rates.

We strive to make continuous improvement to our selling and distribution efficiency by improving and utilizing our digitalized management system. As a result, the selling and distribution expenses decreased from RMB629.4 million in 2021 to RMB624.6 million in 2022, and such expenses as a percentage of our revenue decreased from 15.9% in 2021 to 8.7% in 2022. The selling and distribution expenses also decreased from RMB219.4 million in the four months ended April 30, 2022 to RMB184.7 million in the four months ended April 30, 2023, and such expenses as a percentage of our revenue also decreased from 10.2% to 8.9% for the same periods as a result of continuous improvement to our selling and distribution efficiency.

**Administrative Expenses**

Our administrative expenses primarily comprise (i) employee benefit expenses (including share-based payment expenses); (ii) IT maintenance and support fees relating to our digitalized management system, (iii) depreciation and amortization mainly relating to our office equipment and production facilities, (iv) bank charges representing the POS transaction fees, and (v) legal, professional and consulting fees incurred from business and financing activities, among others. Our administrative expenses amounted to RMB161.4 million, RMB355.7 million, RMB403.7 million and RMB142.8 million, accounting for 5.4%, 9.0%, 5.6% and 6.9% of our revenue in 2020, 2021 and 2022 and the four months ended April 30, 2023, respectively.

The table below sets forth a breakdown of the components of our administrative expenses for the periods indicated:

| | Year ended December 31, | | | | | | Four Months ended April 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | | 2021 | | 2022 | | 2022 | | 2023 | |
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % |
| | *(RMB in thousands, except for percentages)* | | | | | | | | | |
| | | | | | | | *(Unaudited)* | | | |
| Employee benefit expenses | 87,342 | 54.1 | 215,083 | 60.5 | 244,114 | 60.5 | 86,803 | 69.6 | 76,992 | 54.1 |
| IT maintenance and support fees | 1,172 | 0.7 | 14,061 | 4.0 | 38,168 | 9.5 | 3,688 | 3.0 | 4,753 | 3.3 |
| Depreciation and amortization | 12,449 | 7.7 | 22,522 | 6.3 | 31,414 | 7.8 | 8,917 | 7.1 | 13,519 | 9.5 |
| Bank charges | 6,909 | 4.3 | 10,774 | 3.0 | 15,452 | 3.8 | 5,370 | 4.3 | 5,767 | 4.0 |
| Legal, professional and consulting fees | 24,141 | 15.0 | 53,731 | 15.1 | 13,107 | 3.2 | 8,622 | 6.9 | 7,610 | 5.3 |
| [**REDACTED**] expenses | — | — | — | — | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| Research and development costs | 235 | 0.1 | 3,487 | 1.0 | 9,981 | 2.5 | 1,381 | 1.1 | 2,482 | 1.7 |
| Expense related to short-term leases | 5,879 | 3.6 | 5,975 | 1.7 | 7,344 | 1.8 | 2,367 | 1.9 | 2,014 | 1.4 |
| Office expenses | 7,820 | 4.8 | 8,074 | 2.3 | 5,959 | 1.5 | 1,851 | 1.5 | 3,999 | 2.8 |
| Others[1] | 15,494 | 9.7 | 21,969 | 6.1 | 26,948 | 6.6 | 5,745 | 4.6 | 14,058 | 9.8 |
| **Total** | **161,441** | **100.0** | **355,676** | **100.0** | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

*Note:*

(1) Others mainly include business development expenses and insurance expenses.

## Other Expenses

Our other expenses amounted to RMB0.1 million, RMB2.1 million, RMB3.0 million and RMB1.8 million for the years ended December 31, 2020, 2021 and 2022 and the four months ended April 30, 2023, respectively.

## Finance Costs

Finance costs primarily comprise finance costs of interest on lease liabilities, and interest on bank loans and other borrowings. Our finance costs remained relatively stable for the years ended December 31, 2020, 2021 and 2022, and the four months ended April 30, 2023 being RMB2.0 million, RMB2.8 million, RMB2.6 million and RMB2.1 million, respectively.

## Impairment Losses on Financial Assets

Impairment losses on financial assets primarily represent provisions of impairment of trade receivables, which mainly relate to the amounts due from enterprise customers. We recorded impairment losses on financial assets of nil, RMB0.4 million and RMB4.6 million in 2020, 2021 and 2022, respectively. We also recorded impairment losses on financial assets of RMB1.9 million and RMB6.5 million in the four months ended April 30, 2022 and 2023, respectively. Such increases in the impairment losses on financial assets were primarily due to the increase in our impairment losses on trade receivables driven by the increase of trade receivables balance due from our enterprise customers. See "— Discussion of Key Items of Consolidated Statements of Financial Position — Trade Receivables."

## Other Income and Gains, Net

### *Other Income*

Our other income primarily consists of government grants related to income and assets, interest income and others. The table below sets forth a breakdown of our other income for the periods indicated:

| | Year ended December 31, | | | | | | Four Months ended April 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | | 2021 | | 2022 | | 2022 | | 2023 | |
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % |
| | *(RMB in thousands, except for percentages)* | | | | | | | | | |
| | | | | | | | *(Unaudited)* | | | |
| **Other income** | | | | | | | | | | |
| Government grants related to | | | | | | | | | | |
| Income | 2,580 | 21.8 | 8,557 | 30.8 | 28,187 | 47.1 | 882 | 9.9 | 31,986 | 76.9 |
| Assets | — | — | — | — | 336 | 0.6 | — | — | 203 | 0.5 |
| Interest income | 2,235 | 18.9 | 16,583 | 59.7 | 23,024 | 38.5 | 6,595 | 74.0 | 8,551 | 20.6 |
| Others[(1)] | 7,007 | 59.3 | 2,636 | 9.5 | 8,276 | 13.8 | 1,438 | 16.1 | 829 | 2.0 |
| **Total** | **11,822** | **100.0** | **27,776** | **100.0** | **59,823** | **100.0** | **8,915** | **100.0** | **41,569** | **100.0** |

*Note:*

(1) Others mainly include penalties for franchisees and lease income.

During the Track Record Period, we received government grants related to income as rewards for our contribution to the local economic growth, as well as government grants received related to assets, mainly representing subsidies for our investment in production capacity expansion.

***Other Gains/(Losses), Net***

Our net other gains/(losses) primarily comprise (i) net foreign exchange gains/(losses), (ii) realized fair value gains on financial assets at fair value through profit or loss, which were mainly our wealth management products, and (iii) unrealized fair value gains on financial assets at fair value through profit or loss, mainly representing our wealth management products and [**REDACTED**] convertible redeemable preferred shares.

The following table sets forth a breakdown of the components of our net other gains/(losses) for the periods indicated:

| | Year ended December 31, | | | Four Months ended April 30, | |
|---|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2022** | **2023** |
| | *(RMB in thousands)* | | | | |
| | | | | *(Unaudited)* | |
| **Gains/(losses), net** | | | | | |
| Foreign exchange gains/(losses), net | (2,790) | 1,843 | (77) | — | — |
| Realized fair value gains on financial assets at fair value through profit or loss | 2,192 | 8,596 | 4,655 | 2,646 | 794 |
| Unrealized fair value gains on financial assets at fair value through profit or loss: | | | | | |
| — Wealth management products | — | 334 | (267) | 314 | 190 |
| — [**REDACTED**] convertible redeemable preferred shares | — | — | 58,167 | 4,975 | 19,226 |
| Other gains and losses | 50 | 176 | (841) | (1) | 317 |
| **Total** | **(548)** | **10,949** | **61,637** | **7,934** | **20,527** |

## Income Tax Expense

Our subsidiaries in China are subject to EIT on the taxable income as reported in their respective statutory financial statements adjusted in accordance with the EIT Law. Pursuant to the EIT Law, our subsidiaries in China are generally subject to EIT at the statutory rate of 25%, while certain of our subsidiaries are qualified as small- and micro-enterprises and are entitled to a preferential corporate income tax rate of 20% during the Track Record Period.

During the Track Record Period and up to the Latest Practicable Date, we had paid all relevant taxes in accordance with tax regulations and did not have any disputes or unresolved tax issues with the relevant tax authorities.

## PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

### Four Months Ended April 30, 2023 Compared with Four Months Ended April 30, 2022

***Revenue***

Our total revenue remained relatively stable at RMB2,159.6 million and RMB2,078.2 million in the four months ended April 30, 2022 and 2023, respectively.

*Sales of home meal products and related products*

Our revenue from sales of home meal products and related products remained relatively stable at RMB2,127.2 million and RMB2,030.0 million in the four months ended April 30, 2022 and 2023, respectively. In particular, the revenue from sales of hotpot products decrease from RMB1,670.1 million in four months ended April 30, 2022 to RMB1,518.3 million in the four months ended April 30, 2023, which is partially attributable to that people dined out more frequently after the pandemic subsided. The decrease was partially offset by the increase in the revenue from sales of barbecue products and others from RMB457.0 million in the four months ended April 30, 2022 to RMB511.7 million in the four months ended April 30, 2023. We strategically focused on promoting barbecue products and others catering to the increased popularity of such products in light of the change of season since February 2023.

*Operational support services*

Our revenue from operational support services increased by 48.6% from RMB32.4 million in the four months ended April 30, 2022 to RMB48.2 million in the four months ended April 30, 2023, primarily due to the increase in the number of franchisees and franchised stores in our store network.

***Cost of Sales***

Our cost of sales decreased by 12.0% from RMB1,862.2 million in the four months ended April 30, 2022 to RMB1,639.0 million in the four months ended April 30, 2023, mainly attributable to the acquisition of our production facilities and the decrease in the sales of hotpot products. We enjoyed lower unit costs from self-producing certain products as compared to procuring from third-party suppliers.

***Gross Profit and Gross Profit Margin***

As a result of the foregoing, our overall gross profit increased by 47.7% from RMB297.5 million in the four months ended April 30, 2022 to RMB439.3 million in the four months ended April 30, 2023. Our gross profit margin improved from 13.8% in the four months ended April

30, 2022 to 21.1% in the four months ended April 30, 2023, primarily due to (i) the decrease in cost of sales; and, (ii) the launch of new or upgraded hotpot and barbecue products with relatively higher margins; for instance, we launched the black beef tripe product in the hotpot category in July 2022, which became one of our popular products among end-consumers.

***Selling and Distribution Expenses***

Our selling and distribution expenses decreased by 15.8% from RMB219.4 million in the four months ended April 30, 2022 to RMB184.7 million in the four months ended April 30, 2023, primarily due to (i) the decrease in employee benefit expenses which was mainly attributable to our efforts to improve operational efficiencies by digitalizing our store management system, and (ii) the decrease in advertising and promotion expenses as a result of reduced advertisements and promotional activities in the first four months of 2023, as we have established considerable brand influence from prior investment in advertising and promotion activities, and (iii) the decrease in storage charges mainly attributable to the decreased inventories of hotpot products during the first four months of 2023.

***Administrative Expenses***

Our administrative expenses increased by 14.5% from RMB124.7 million in the four months ended April 30, 2022 to RMB142.8 million in the four months ended April 30, 2023, primarily due to (i) the increase in business development expenses which was mainly attributable to the increased business development activities, (ii) the [**REDACTED**] expenses incurred in the first four months of 2023 and (iii) the increase in depreciation and amortization expenses in relation to the purchase of new office equipment.

***Other Expenses***

Our other expenses amounted to RMB2.4 million and RMB1.8 million in the four months ended April 30, 2022 and 2023 respectively.

***Finance Costs***

Our finance costs increased by 209.1% from RMB0.7 million in the four months ended April 30, 2022 to RMB2.1 million in the four months ended April 30, 2023, primarily due to the interests incurred in relation to bank and other borrowings.

***Impairment Losses on Financial Assets***

Our impairment losses on financial assets increased from RMB1.9 million in the four months ended April 30, 2022 to RMB6.5 million in the four months ended April 30, 2023, primarily due to the increase in our impairment losses on trade receivables from RMB5.0 million as of December 31, 2022 to RMB11.5 million as of April 30, 2023.

### *Other Income and Gains, Net*

We recorded an increase in other income and gains from RMB16.8 million in the four months ended April 30, 2022 to RMB62.1 million in the four months ended April 30, 2023. In particular, our other income increased by 366.3% from RMB8.9 million in the four months ended April 30, 2022 to RMB41.6 million in the four months ended April 30, 2023, primarily due to (i) the government grants of RMB32.2 million related to income and assets, mainly reflecting our revenue growth and contribution to the local economy, as well as (ii) an increase in the interest income from RMB6.6 million in the four months ended April 30, 2022 to RMB8.6 million in the four months ended April 30, 2023. Our net other gains increased by 158.7% from RMB7.9 million in the four months ended April 30, 2022 to RMB20.5 million in the four months ended April 30, 2023, primarily due to our unrealized fair value changes on financial assets at fair value through profit or loss, mainly representing our equity investments.

### *Income Tax (Expenses)/Credit*

We recognized income tax expenses of RMB43.9 million in the four months ended April 30, 2023 as compared to income tax credit of RMB9.9 million in the four months ended April 30, 2022 as a result of the change in our profitability.

### *Profit for the Period*

As a result of the foregoing, we recorded a profit of RMB119.6 million in the four months ended April 30, 2023, compared to a loss of RMB25.0 million in the four months ended April 30, 2022.

## Year Ended December 31, 2022 Compared with Year Ended December 31, 2021

### *Revenue*

Our total revenue significantly increased by 81.2% from RMB3,957.8 million in 2021 to RMB7,173.5 million in 2022. The increase was primarily due to the revenue increase from sales of home meal products and related products, and to a lesser extent, the operational support services.

*Sales of home meal products and related products*

Our revenue from sales of home meal products and related products increased by 81.9% from RMB3,880.2 million in 2021 to RMB7,058.8 million in 2022, primarily driven by (i) our fast expansion of store network with the number of stores growing from 6,868 as of December 31, 2021 to 9,221 as of December 31, 2022; in particular, our expansion strategy for the franchised store network has been primarily centered around penetrating provincial capitals and municipalities initially, leveraging these economically vibrant regions to augment brand awareness, drive sales growth and further penetrate to cities with lower administrative level in these regions. The total number of our stores in municipalities and provincial capitals increased from 1,705 as of December 31, 2021 to 2,646 as of December 31, 2022. Driven by the increased number of stores, the revenue contribution from stores in municipalities and provincial capitals increased from RMB1,129.1 million in 2021 to RMB2,172.4 million. Moreover, our revenue contribution from franchised stores increased from RMB3,727.9 million in 2021 to RMB6,476.7 million, primarily due to the increase in revenue contribution from franchised stores opened in 2020 and 2021 from RMB2,453.2 million in 2021 to RMB4,040.1 million in 2022; and (ii) our continuous efforts to launch new products and upgrade existing ones, allowing us to satisfy the diverse needs of a wider group of consumers. For example, the revenue from barbecue products increased by 142.8% from RMB294.2 million in 2021 to RMB714.2 million in 2022; meanwhile, we had been promoting a variety of product categories ranging from beverages to ready-to-cook meal kits, together driving the sustainable growth of our revenue.

*Operational support services*

Our revenue from operational support services increased by 47.8% from RMB77.6 million in 2021 to RMB114.7 million in 2022, primarily due to the increase in the number of franchisees and franchised stores.

***Cost of Sales***

Our cost of sales increased by 64.5% from RMB3,602.5 million in 2021 to RMB5,924.5 million in 2022, primarily attributable to the increase in (i) the cost of inventories sold from RMB3,438.9 million in 2021 to RMB5,620.8 million in 2022, and (ii) the delivery charges from RMB155.0 million in 2021 to RMB257.2 million in 2022, as we expanded our sales of home meal products and related products.

***Gross Profit and Gross Profit Margin***

As a result of the foregoing, our overall gross profit increased by 251.5% from RMB355.3 million in 2021 to RMB1,249.0 million in 2022, primarily due to the increase in our total revenue from 2021 to 2022, particularly due to the increase in our sales to franchisees, which was slightly offset by the gross loss from other sales channels in 2022. The gross loss from our other channels was primarily due to the sales of certain imported food ingredients to our suppliers and certain food wholesalers and the prices of which were subject to market volatility and fluctuations of the market prices for those products. We continued to adjust our business strategy in such sales of imported food ingredients. See "Business — Production, Procurement, And Suppliers — Procurement" and "Business — Our Sales Channels and Store Network — Our Customers."

Our gross profit margin rate increased from 9.0% in 2021 to 17.4% in 2022, primarily because (i) we upgraded the existing products and released new hotpot and barbecue products with relatively higher margin within each of the categories; for instance, we launched the black beef tripe product in the hotpot category in July 2022, which became one of our popular products among end-consumers; (ii) we maintained strong cost control capabilities benefiting from our growing procurement volumes and enhanced economies of scale; for instance, the procurement volume of beef products increased from approximately 9,800 tons in 2021 to approximately 17,000 tons in 2022, with the average procurement cost decreasing from RMB52.6 per kg in 2021 to RMB51.2 per kg in 2022; and there was a significant increase in the number of suppliers who provided purchase rebates to us from 29 in 2021 to 143 in 2022; (iii) we sourced our main products including beef, meatball and hotpot soup base from our self-operated production facilities; for example, the costs of self-producing our beef tripe and beef ball products are approximately 5% lower than procuring from third-party suppliers; 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; and (iv) as we had established a mature sales network and strengthened our brand awareness, we provided fewer promotional events to our franchisees in 2022. For instance, in 2021, we offered promotional discounts to franchisees which amounted to RMB145.3 million, which was significantly reduced to RMB49.2 million in 2022.

***Selling and Distribution Expenses***

Our selling and distribution expenses decreased from RMB629.4 million in 2021 to RMB624.6 million in 2022 despite our strong revenue growth. As we had established considerable brand influence from previous investment in advertising and promotion activities, we decreased such investments in 2022, in particular our online branding and marketing as well as offline promotion and advertisement placement, leading to a 25.7% decrease in our advertising and promotion expenses. This was partially offset by (i) the slight increase in our employee benefit expenses from RMB215.3 million in 2021 to RMB224.5 million in 2022, as we maintained a reasonable size of sales team. Meanwhile, we substantially improved our operational efficiencies in terms of selling and distribution, thanks to the digitalized store management system including video supervision of stores and digitalized store opening process, which allowed us to run the expanding store network in a highly efficient manner; and (ii) an increase in the storage charges largely corresponding to the expanding business scale, while at a slower pace attributable to the increase in the proportion of revenue generated from other sales channels, which enjoyed much lower storage charges rates in 2022 as compared with 2021. The overall rates of storage charges in relation to the sales of products via other sales channels decreased from 17.6% in 2021 to 2.2% in 2022, primarily due to (i) the decreased sales through e-commerce platforms with higher rates of storage charges in 2021, and (ii) the increased sales to enterprise customers in 2022 with significantly lower rates of storage charges. As such, our selling and distribution expenses as a percentage of our revenue decreased significantly from 15.9% in 2021 to 8.7% in 2022.

### *Administrative Expenses*

Our administrative expenses increased by 13.5% from RMB355.7 million in 2021 to RMB403.7 million in 2022, primarily due to (i) an increase in the employee benefit expenses resulting from the increased level of compensation for administrative staff, (ii) an increase in the IT maintenance and support fees as we invested in our digitalized management system, and (iii) the [**REDACTED**] expenses, partially offset by a decrease in the legal, professional and consulting fees.

### *Other Expenses*

Our other expenses increased from RMB2.1 million in 2021 to RMB3.0 million in 2022. Such expenses mainly represented our donations made during the COVID-19 resurgence in Shanghai.

### *Finance Costs*

Our finance costs remained relatively stable in 2021 and 2022, amounting to RMB2.8 million and RMB2.6 million.

### *Impairment Losses on Financial Assets*

Our impairment losses on financial assets increased from RMB0.4 million in 2021 to RMB4.6 million in 2022, primarily due to the increase in our impairment losses on trade receivables, as our trade receivables increased from RMB14.9 million as of December 31, 2021 to RMB134.3 million as of December 31, 2022.

### *Other Income and Gains, Net*

We recorded an increase in other income and gains from RMB38.7 million in 2021 to RMB121.5 million in 2022. Our other income increased from RMB27.8 million in 2021 to RMB59.8 million in 2022, primarily relating to (i) the government grants of RMB28.5 million related to income and assets, mainly reflecting our growth of revenue and contribution to the local economy, as well as (ii) an increase in the interest income from RMB16.6 million in 2021 to RMB23.0 million in 2022.

We recognized other gains of RMB61.6 million in 2022 as compared to other gains of RMB10.9 million in 2021. The increase was primarily attributable to our unrealized fair value gains on financial assets at fair value through profit or loss, mainly representing our equity investment.

### *Income Tax (Expenses)/Credit*

We recognized income tax expenses of RMB91.1 million in 2022 as compared to income tax credit of RMB135.6 million in 2021.

***Profit/(Loss) for the Year***

As a result of the foregoing, we recorded a profit of RMB241.0 million in 2022, compared to a loss of RMB460.9 million in 2021.

Specifically, we were able to achieve net profit in 2022 because of (i) the significant increase in revenue from the fast expansion of our store network from 6,868 as of December 31, 2021 to 9,221 as of December 31, 2022; (ii) the increase of our gross profit margin from 9.0% in 2021 to 17.4% in 2022 primarily attributed to (a) economies of scale from our store network expansion which further enhanced our brand awareness and led to larger procurement volumes which resulted in strong bargaining power with suppliers, thereby achieving better procurement cost control; (b) upgrading existing products and releasing new products with relatively higher margin; (c) providing fewer promotional events to our franchisees in 2022 than in 2021 as we had established a mature sales network and strengthened our brand awareness, and (d) sourcing some of our main products such as beef tripe and beef balls from our self-operated production facilities at lower prices compared to third-party suppliers (iii) decrease in our selling and distribution expenses as a percentage of revenue from 15.9% in 2021 to 8.7% in 2022, primarily due to (a) the decrease of our advertising and promotion expenses as a result of reduced advertisements and promotional events in 2022 as our sales network matured and brand awareness strengthened and (b) the decrease in employee benefit expenses as a percentage of revenue partly attributed to our digitalization efforts including video supervision of stores and digitalized store opening process resulting in the average number of stores managed by each staff of our store operations team increasing from 3.2 as of December 31, 2020 to 10.7 as of December 31, 2022; (iv) decreased administrative expenses as a percentage of revenue from 9.0% in 2021 to 5.6% in 2022 partly attributing to decreased employee benefit expenses as a percentage of revenue due to enhanced digitalized management and operational efficiency; and (vii) consolidating additional profits generated by our acquired production facilities.

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

***Revenue***

Our total revenue increased by 33.5% from RMB2,964.7 million in 2020 to RMB3,957.8 million in 2021, primarily due to the revenue increase from the sales of home meal products and related products, and to a lesser extent, the operational support services.

*Sales of home meal products and related products*

Our revenue from sales of home meal products and related products increased by 33.0% from RMB2,917.9 million in 2020 to RMB3,880.2 million in 2021, primarily due to an increase in the number of stores from 4,300 as of December 31, 2020 to 6,868 as of December 31, 2021. In particular, the total number of our stores in municipalities and provincial capitals increased from 1,008 in 2020 to 1,705 in 2021. Driven by the increased number of stores, the revenue contribution from stores in municipalities and provincial capitals increased from RMB795.8

million in 2020 to RMB1,129.1 million in 2021. Moreover, our revenue contribution from franchised stores increased from RMB2,910.1 million in 2020 to RMB3,727.9 million in 2021, primarily due to the increase in revenue contribution from franchised stores opened in 2020 and 2021 from RMB1,323.7 million to RMB2,453.2 million in 2021. To a lesser extent, our continuous efforts to diversify our product offerings also contribute to our revenue growth. For example, the revenue from barbecue products increased by 72.5% from RMB170.5 million in 2020 to RMB294.2 million in 2021.

*Operational support services*

Our revenue from operational support services increased by 65.8% from RMB46.8 million in 2020 to RMB77.6 million in 2021, primarily due to the increase in the number of franchisees and franchised stores. We achieved rapid growth in the revenue from operational support services in 2021 compared to 2020, primarily from revenue recognized in relation to the franchised stores engaged in the second half of 2020 and the year of 2021.

***Cost of Sales***

Our cost of sales increased by 36.7% from RMB2,635.5 million in 2020 to RMB3,602.5 million in 2021, mainly representing an increase of cost of inventories sold from RMB2,514.1 million in 2020 to RMB3,438.9 million in 2021, which was generally in line with our business growth and sales of home meal products and related products.

***Gross Profit and Gross Profit Margin***

As a result of the foregoing, our overall gross profit increased by 7.9% from RMB329.3 million in 2020 to RMB355.3 million in 2021, primarily due to the increase in our total revenue from 2020 to 2021. Our gross profit margin slightly decreased from 11.1% in 2020 to 9.0% in 2021, primarily attributable to the intensified promotional events to our franchisees to improve our brand influence, which was in accordance with our rapid store network expansion. We sold our products at lower prices to eligible franchisees who opened new stores and purchased from us for the first time. Additionally, we conducted promotional activities for franchisees during the "517" shopping day, during which we sold products at more favorable prices to franchisees.

***Selling and Distribution Expenses***

Our selling and distribution expenses increased by 186.0% from RMB220.1 million in 2020 to RMB629.4 million in 2021, primarily due to (i) the expansion of our personnel involved in selling and distribution from 1,223 as of December 31, 2020 to 1,741 as of December 31, 2021, to support our growing business and enhanced marketing efforts; and (ii) our substantial increase in advertising and promotion activities, such as CCTV advertising, online marketing, celebrity endorsements and offline advertisement placements, among others. In particular, we did not engage in CCTV advertising in 2020 but began to do so in 2021. In addition, we also substantially increased our offline advertisement placements in 2021 such as in buildings, subway stations, among others, to further our reach and penetrate deeper into communities. As such, our selling and distribution expenses as a percentage of our revenue increased significantly from 7.4% in 2020 to 15.9% in 2021.

***Administrative Expenses***

Our administrative expenses increased by 120.4% from RMB161.4 million in 2020 to RMB355.7 million in 2021, primarily due to (i) increased employee benefits driven by the expansion of our administrative force; (ii) legal, professional and consulting fees in relation to business and financing activities; and (iii) depreciation and amortization in relation to our office equipment.

***Other Expenses***

Our other expenses increased from RMB0.1 million in 2020 to RMB2.1 million in 2021, primarily consisting of our donations to support the flood relief efforts in Henan.

***Finance Costs***

Our finance costs increased from RMB2.0 million in 2020 to RMB2.8 million in 2021, primarily in relation to an increase in interest on lease liabilities for our leased offices.

***Impairment Losses on Financial Assets***

Our impairment losses on financial assets increased from nil in 2020 to RMB0.4 million in 2021, primarily due to the increase in our impairment losses on trade receivables, as our trade receivables increased from nil as of December 31, 2020 to RMB14.9 million as of December 31, 2021.

***Other Income and Gains, Net***

We recorded an increase in other income and gains from RMB11.3 million in 2020 to RMB38.7 million in 2021. Our other income increased from RMB11.8 million in 2020 to RMB27.8 million in 2021, primarily due to (i) an increase in the interest income from RMB2.2 million in 2020 to RMB16.6 million in 2021; and (ii) an increase in the government grants as rewards for our contribution to the local economic growth.

We recognized other gains of RMB10.9 million in 2021 as compared to other losses of RMB0.5 million in 2020, primarily arising from (i) our net foreign exchange gains in 2021 compared to net foreign exchange losses in 2020 in relation to the settlement of USD-denominated financing, due to fluctuations in the exchange rate of RMB against USD; and (ii) fair value gains on financial assets at fair value through profit or loss.

### *Income Tax (Expenses)/Credit*

We recorded income tax credit of RMB135.6 million in 2021 compared to income tax expenses of RMB0.1 million in 2020.

### *Loss for the Year*

As a result of the foregoing, we recorded a loss of RMB460.9 million in 2021, compared to a loss of RMB43.3 million in 2020.

## DISCUSSION OF KEY ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

### Non-Current Assets and Liabilities

The following table sets out a breakdown of our non-current assets and liabilities as of the dates indicated:

| | As of December 31, | | | As of April 30, |
|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2023** |
| | *(RMB in thousands)* | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 21,656 | 76,979 | 357,826 | 380,447 |
| Right-of-use assets | 33,607 | 80,415 | 152,330 | 149,700 |
| Goodwill | — | — | 138,010 | 138,010 |
| Other intangible assets | 3,847 | 6,063 | 61,064 | 60,396 |
| Investment in an associate | — | — | 2,000 | 2,000 |
| Equity investments designated at fair value through other comprehensive income | 6,250 | 95,750 | 98,838 | 93,094 |
| Other non-current assets | 5,467 | 18,115 | 30,957 | 26,567 |
| Financial assets at fair value through profit or loss | — | 129,708 | 187,875 | 207,101 |
| Long-term bank deposits | — | 181,223 | 526,208 | 500,698 |
| Deferred tax assets | 35,846 | 174,303 | 116,534 | 78,792 |
| **Total non-current assets** | **106,673** | **762,556** | **1,671,642** | **1,638,805** |

| | As of December 31, | | | As of April 30, |
|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2023** |
| | *(RMB in thousands)* | | | |
| **Non-current liabilities** | | | | |
| Deferred income | — | — | 7,335 | 7,132 |
| Interest-bearing bank and other borrowings | — | — | 191 | 10,173 |
| Lease liabilities | 16,872 | 20,452 | 19,215 | 17,646 |
| Deferred tax liabilities | — | 1,212 | 61,361 | 64,511 |
| **Total non-current liabilities** | **16,872** | **21,664** | **88,102** | **99,462** |

**Property, Plant and Equipment**

Our property, plant and equipment mainly consist of construction in progress, office equipment, motor vehicles, machinery equipment and leasehold improvements. Our property, plant and equipment amounted to RMB21.7 million, RMB77.0 million, RMB357.8 million and RMB380.4 million as of December 31, 2020, 2021 and 2022 and April 30, 2023, respectively. The overall increase throughout the Track Record Period was mainly due to (i) our investment in production plants including Heyi Plant, Wanlai Wanqu Plant and Chengming Plant, and (ii) the procurement of office equipment and decoration for local offices.

**Right-of-use Assets**

Our right-of-use assets mainly consist of our leasehold land and office premises and plant. Our right-of-use assets amounted to RMB33.6 million, RMB80.4 million, RMB152.3 million and RMB149.7 million as of December 31, 2020, 2021 and 2022 and April 30, 2023, respectively. Such increase was primarily in relation to our acquisition of production plants and the lease of additional office premises to support our business expansion.

**Goodwill**

We recognized goodwill of nil, nil, RMB138.0 million and RMB138.0 million as of December 31, 2020, 2021 and 2022 and April 30, 2023, respectively. The goodwill mainly relates to our acquisition of Luyi Chengming in 2022. We perform an annual impairment test of goodwill by December 31 each year. See "— Critical Accounting Policies, Judgments and Estimates — Business combinations and goodwill" and Note 16 to the Accountants' Report in Appendix I to this document.

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

| | **As of April 30, 2023** |
|---|---|
| Period of financial budgets | Five years |
| Average annual growth rate | 13.9% |
| Long-term growth rate | 2.3% |
| Average gross margin | 19.3% |
| Pre-tax discount rate | 20.1% |

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

**Impairment testing of goodwill**

Goodwill acquired through business combinations is allocated to CGU of Luyi Chengming for impairment testing.

The recoverable amount of the Luyi Chengming's CGU has been determined based on a VIU calculation using cash flow projections based on financial budgets or forecasts approved by senior management covering a five-year period. The long-term growth rate used to extrapolate the cash flows beyond the period is based on the estimated growth rate of the unit taking into account the industry growth rate, past experience and the medium or long-term growth target of the CGU.

The following table sets forth the pre-tax discount rate applied to the cash flow projections, the forecasted average sales growth rate and gross profit margin used to prepare cash flow projections and long-term growth rate used for the dates indicated:

| | Average sales growth rates (during the five-year period) | Average gross profit margin (during the five-year period) | Long-term growth rate | Pre-tax discount rate |
|---|---|---|---|---|
| December 31, 2022 | 15.3% | 19.3% | 2.3% | 20.1% |
| April 30, 2023 | 13.9% | 19.3% | 2.3% | 20.1% |

Assumptions were used in the VIU calculation of Luyi Chengming's CGU as of December 31, 2022 and April 30, 2023. The following describes each key assumption on which management has based on to undertake impairment testing of goodwill of Luyi Chengming's CGU:

*Budgeted sales amounts* — The budgeted sales amounts are based on the historical sales data and market outlook perceived by management.

*Budgeted gross margins* — The bases used to determine the values assigned to the budgeted gross margins are the average gross margins achieved in the year immediately before the budget year, adjusted for expected efficiency gains and expected market development.

*Pre-tax discount rates* — The discount rates reflect specific risks relating to the CGU.

The values assigned to the key assumptions on market development of the Luyi Chengming's CGU and discount rates are consistent with external information sources.

In the opinion of our Directors, any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the Luyi Chengming's CGU to exceed its recoverable amount.

**Sensitivity analysis**

The recoverable amounts of Luyi Chengming are estimated to exceed the carrying amounts by RMB27.9 million and RMB45.1 million as of December 31, 2022 and April 30, 2023, respectively. No impairment was recognised accordingly.

The changes in the following table to assumptions used in the impairment testing review would have, in isolation, led to the Luyi Chengming's recoverable amount to be equal to its carrying value as of December 31, 2022 and April 30, 2023:

| | As of December 31, 2022 | | As of April 30, 2023 | |
|---|---|---|---|---|
| | From | To | From | To |
| Average sales growth rates (during the five-year period) | 15.3% | 14.2% | 13.9% | 12.4% |
| Average gross profit margin (during the five-year period) | 19.3% | 18.3% | 19.3% | 17.9% |
| Long-term growth rate | 2.3% | 1.1% | 2.3% | 0.03% |
| Pre-tax discount rate | 20.1% | 21.5% | 20.1% | 22.4% |

**Other Intangible Assets**

Our other intangible assets mainly consist of software and trademark eligible for capitalization. Our other intangible assets increased from RMB3.8 million as of December 31, 2020 to RMB6.1 million as of December 31, 2021, mainly attributable to our procurement of software for upgrade of the internal IT system. Our other intangible assets further increased to RMB61.1 million as of December 31, 2022, mainly due to the fair value of the Luyi Chengming trademark we recognized during the acquisition in 2022. Our other intangible assets subsequently remained relatively stable at RMB61.1 million and RMB60.4 million as of December 31, 2022 and April 30, 2023, respectively. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end, and intangible assets of trademark are stated at cost and amortized on the straight-line basis over their estimated useful lives of ten years.

**Financial Assets at Fair Value through Profit or Loss**

Our financial assets at fair value through profit or loss recorded as non-current assets mainly represented our [**REDACTED**] convertible redeemable preferred shares in Dmall Inc. We invest in Dmall Inc., which provided us with consulting and co-development services for digital systems. As of the Latest Practicable Date, we did not channel back the pre-[**REDACTED**] proceeds received from Dmall Inc. to them or vice versa. Our financial assets at fair value through profit or loss recorded as current assets represent wealth management products without guaranteed returns and, to a lesser extent, structured deposits with principal guaranteed. Such products are purchased from reputable commercial banks in the PRC, namely, China CITIC Bank, China Construction Bank and Shanghai Pudong Development Bank. See Note 40 to the Accountants' Report in Appendix I to this document.

The breakdown of investments is listed below:

| | As of December 31, | | | As of April 30, |
|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | | |
| **Non-current assets** | | | | |
| [REDACTED] convertible redeemable preferred shares | – | 129,708 | 187,875 | 207,101 |
| **Current assets** | | | | |
| Wealth management products | – | 200,334 | 50,067 | 210,257 |
| | **–** | **330,042** | **237,942** | **417,358** |

The following table sets out the fair value balances of our wealth management products as of the dates indicated:

| | As of December 31, | | | As of April 30, |
|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | | |
| Wealth management products without guaranteed returns | – | 120,165 | – | – |
| Structured deposits | – | 80,169 | 50,067 | 210,257 |
| **Total** | **–** | **200,334** | **50,067** | **210,257** |

During the Track Record Period, we purchased structured deposits with an annual interest rate ranging from 1.3% to 3.8%. As of the Latest Practicable Date, 100.0% of our wealth management products as of the above dates had been redeemed and realized relevant investment returns.

Under our investment policy with respect to the purchase of such financial assets, we monitor our levels of idle cash and bank balances and use this idle cash to increase our returns based on our working capital requirements at the relevant time. In addition, we employ a comprehensive set of internal policies and guidelines to manage our investments in order to monitor the investment risks associated with our portfolio of wealth management products. Our finance department is responsible for proposing, analyzing and evaluating potential investment in such products. Our management, including our finance department, has extensive experience in managing the financial aspects of enterprise's operations. Our Board determines our investment strategies. Prior to making any material investments in financial products or modifying our existing investment portfolio, the proposal shall be reviewed and approved by chairman of the board.

Our investment strategy related to such products focuses on minimizing the financial risks by reasonably matching the maturities of the portfolio to anticipated operating cash needs, while generating desirable investment returns. To control our risk exposure, we make investment decisions related to financial products after thoroughly considering a number of factors, including but not limited to macro-economic environment, general market conditions, risk control and credit of issuing financial institutions, our own working capital conditions, and the expected profit or potential loss of the investment.

Upon the [**REDACTED**], we intend to continue our investments, such as structured deposits and wealth management products, strictly in accordance with our internal control policy, Articles of Association and, to the extent that such investment is a notifiable transaction under Chapter 14 of the Listing Rules, the Company will comply with the relevant requirements under Chapter 14 of the Listing Rules, including the announcement, reporting and/or shareholders' approval requirements (if applicable).

Our internal control policy requires that we submit applications for purchasing financial products, which shall set out the details and risks of such products, before making any purchases and obtain approval from our management, who have expertise in business and financial advisory. Approval from the head of the finance department, the chief financial officer, and the chairman of the board of directors is required for purchasing financial products. And the purchase of financial products without guaranteed return requires approval from the board of directors. Additionally, our finance team assesses each financial product against our business development needs and potential risks, in adherence to our internal control policies.

Our internal control measures include checking relevant rates of return, investment risks, terms of the investment, and whether the payment of principal and estimated return are guaranteed. We also examine whether the purchase amounts are within approved limits, and obtain proper approval prior to purchasing any financial products. In general, the principal and returns of wealth management products are not protected or guaranteed by the issuing bank. We primarily invest in structured deposits and wealth management products from major commercial banks in China with relatively low risks for a short- to mid-term. The wealth management products we invest in principally involve low risk and liquid fixed-income instruments that are quoted on the interbank market or exchanges in China.

After making a purchase, we closely monitor the risks of our financial products by following economic trends, interest rate changes, credit standing of the banks, and other factors. We also actively follow up with banks to ensure we receive our returns on a timely basis, in accordance with the agreements entered.

### Equity Investments Designated at Fair Value Through Other Comprehensive Income

Our equity investments designated at fair value through other comprehensive income mainly represented our [**REDACTED**] equity investments at fair value in Luyi Chengming, Daixiaji and Lekou Xiamen Technology Co., Ltd ("Lekou Xiamen"). In November 2021, we made an initial investment of RMB50.0 million in the form of capital increase in Daixiaji, a business primarily engaged in the production and sales of food products, mainly specializing in shrimp paste products. In August 2021, we made an initial investment in Lekou Xiamen, a business primarily engaged in catering and supply chain management and the production of food products. The total amount of our initial investment in Lekou Xiamen was RMB37.5 million, which comprised (i) RMB22.5 million as capital increase and (ii) RMB15.0 million as the consideration for the 1.5% equity interest that we acquired from a seller which was a limited partnership. The consideration was determined with reference to the business valuation of Lekou Xiamen considering its estimated future performance.

We adopted the market approach method to determine the fair values of our investments in Daixiaji and Lekou Xiamen. Specifically, the value of Daixiaji and Lekou Xiamen was independently analyzed by an external valuer using the market multiples of comparable listed companies, such as Price-to-Sales (P/S) multiple, after deducting the lack of marketability discount to derive the total equity value of Daixiaji and Lekou Xiamen. As of December 31, 2020, 2021, 2022 and April 30, 2023, the fair value of our investment in Daixiaji was nil, RMB50.0 million, RMB57.3 million and RMB56.7 million, respectively; and, the fair value of our investment in Lekou Xiamen was nil, RMB37.5 million, RMB41.6 million and RMB36.4 million, respectively. The increase in the fair value of our investments in Daixiaji and Lekou Xiamen as of December 31, 2022 was mainly attributable to the increase in revenue of these two companies in 2022, and the subsequent decrease in the fair value of our investments in Daixiaji and Lekou Xiamen as of April 30, 2023 was mainly attributable to the overall downward trend in the market.

Our equity investments designated at fair value through other comprehensive income amounted to RMB6.3 million, RMB95.8 million, RMB98.8 million and RMB93.1 million as of December 31, 2020, 2021 and 2022 and April 30, 2023, respectively. The changes were primarily due to the overall valuation change of the investee companies and new investments measured at Level 3 in the fair value hierarchy. Further details are set forth in Note 19 to the Accountants' Report included in Appendix I to this document.

## Net Current Assets

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

| | As of December 31, | | | As of April 30, | As of August 31, |
|---|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2023** | **2023** |
| | *(RMB in thousands)* | | | | |
| | | | | | *(Unaudited)* |
| **Current assets** | | | | | |
| Inventories | 646,588 | 601,616 | 1,047,404 | 550,628 | 498,572 |
| Trades receivables | — | 14,890 | 134,325 | 130,228 | 63,429 |
| Prepayments, other receivables and other assets | 294,062 | 479,305 | 440,114 | 511,896 | 512,083 |
| Restricted cash | 27,123 | 33,474 | 42,164 | 45,639 | 47,971 |
| Financial assets at fair value through profit or loss | — | 200,334 | 50,067 | 210,257 | 421,438 |
| Cash and bank balances | 100,821 | 627,573 | 694,954 | 623,148 | 395,989 |
| **Total current assets** | **1,068,594** | **1,957,192** | **2,409,028** | **2,071,796** | **1,939,482** |
| **Current liabilities** | | | | | |
| Trade payables | 97,405 | 180,993 | 577,481 | 195,686 | 207,083 |
| Other payables and accruals | 275,011 | 380,930 | 589,519 | 476,119 | 496,436 |
| Interest-bearing bank and other borrowings | 88,244 | — | 95,438 | 95,503 | 71,219 |
| Lease liabilities | 14,079 | 20,355 | 19,938 | 22,919 | 21,203 |
| Tax payables | 13,277 | 1,080 | 20,641 | 13,911 | 6,854 |
| **Total current liabilities** | **488,016** | **583,358** | **1,303,017** | **804,138** | **802,795** |
| **Net current assets** | **580,578** | **1,373,834** | **1,106,011** | **1,267,658** | **1,136,687** |

Our net current assets decreased from RMB1,267.7 million as of April 30, 2023 to RMB1,136.7 million as of August 31, 2023, primarily due to (i) a decrease of RMB227.2 million in cash and bank balances; (ii) a decrease of RMB66.8 million in trades receivables; and (iii) a decrease of RMB52.1 million in inventories. This was partially offset by an increase of RMB211.2 million in financial assets at fair value through profit or loss which was attributable to the purchase of structured deposits with principal guaranteed from reputable commercial banks in the PRC.

Our net current assets increased from RMB1,106.0 million as of December 31, 2022 to RMB1,267.7 million as of April 30, 2023, primarily due to (i) a decrease of RMB381.8 million in trade payables arising from our settlement of the trade payables that were related to the procurement of raw materials and food products that typically prepared for our peak season from October to February next year; (ii) a decrease of RMB113.4 million in other payables and accruals attributable to the payment of the year-end bonuses to our employees and the settlement of accrued expenses, other tax payables and other payables for property plant and equipment; and (iii) an increase of RMB160.2 million in financial assets at fair value through profit or loss; partially offset by a decrease of RMB496.8 million in inventories.

Our net current assets decreased from RMB1,373.8 million as of December 31, 2021 to RMB1,106.0 million as of December 31, 2022, primarily due to (i) an increase of RMB396.5 million in trade payables; and (ii) an increase of RMB208.6 million in other payable and accruals. This was partially offset by (i) an increase of RMB445.8 million in inventories; and (ii) an increase of RMB119.4 million in trade receivables.

Our net current assets increased from RMB580.6 million as of December 31, 2020 to RMB1,373.8 million as of December 31, 2021, primarily due to (i) an increase of RMB526.8 million in cash and bank balances; (ii) an increase of RMB200.3 million in financial assets at fair value through profit or loss; and (iii) an increase of RMB185.2 million in prepayments, other receivables and other assets. This was partially offset by (i) a decrease of RMB45.0 million in inventories; (ii) an increase of RMB105.9 million in other payables and accruals; and (iii) an increase of RMB83.6 million in trade payables.

## Inventories

Our inventories primarily comprise (i) raw materials for food production, and (ii) finished goods. The following table sets forth a breakdown of our inventories as of the dates indicated:

| | As of December 31, | | | As of April 30, |
|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2023** |
| | *(RMB in thousands)* | | | |
| Raw materials | — | 33,544 | 94,774 | 124,730 |
| Finished goods | 646,588 | 568,072 | 956,528 | 432,119 |
| Provision for impairment of inventories | — | — | (3,898) | (6,221) |
| **Total** | 646,588 | 601,616 | 1,047,404 | 550,628 |

Our inventories decreased from RMB646.6 million as of December 31, 2020 to RMB601.6 million as of December 31, 2021, as we increased purchase of finished goods in late 2020 in anticipation of supply chain disruptions induced by the COVID-19 pandemic. We reduced the level of inventories for finished goods in 2021 as we improved our operational efficiency. The decrease in inventories was partially offset by the increase of RMB33.5 million in raw materials, arising from the acquisition of two food production plants in 2021.

Our inventories increased to RMB1,047.4 million as of December 31, 2022, primarily due to an increase in the level of inventories for finished goods, as a result of (i) the growing number of our franchised stores; (ii) our increased purchase of finished goods in preparation of the relatively early spring festival in mid-January 2023; and (iii) our increased level of inventories in the second half of 2022 in preparation of the supply chain disruptions resulted from the COVID-19 pandemic. In addition, we had an increase of RMB61.2 million in raw materials, as two of our production facilities, Heyi Plant and Wanlai Wanqu Plant, were fully put into operation, along with the acquisition of Luyi Chengming in 2022.

Our inventories subsequently decreased from RMB1,047.4 million as of December 31, 2022 to RMB550.6 million as of April 30, 2023, primarily due to a strategic stock up of hotpot products during the end of 2022 and the subsequent sales of such products during our peak season in the first two months of 2023.

We assess impairment to inventories from time to time during the Track Record Period, and may make provision to write down our inventories to the net realizable value if the inventories become expired or damaged, or their prices went down, and their net realizable value substantially decreases. During the Track Record Period, we recognized provision for impairment of inventories of nil, nil, RMB3.9 million and RMB6.2 million, as of December 31, 2020, 2021 and 2022 and April 30, 2023, respectively.

All of our inventories aged within one year throughout the Track Record Period. The following table sets forth our inventory turnover days for the Track Record Period:

| | Year ended December 31, | | | Four Months ended April 30, |
|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2023** |
| Inventory turnover days[(1)] | 56.3 | 63.2 | 50.8 | 58.5 |

*Note:*

(1) Calculated using the average of opening balance and closing balance of the inventories for such period divided by cost of sales for the relevant period and multiplied by the number of days during such period.

Our inventory turnover days increased in 2020 and 2021, being 56.3 days and 63.2 days, respectively, and decreased to 50.8 days in 2022, which reflects our increase in sales as well as improved operational efficiency in supply chain management. Our inventory turnover days subsequently increased from 50.8 days in 2022 to 58.5 in the four months ended April 30, 2023, primarily due to a strategic stock up of raw materials for food production.

As of August 31, 2023, RMB457.7 million, or approximately 82.2% of our inventories as of April 30, 2023 had been subsequently consumed or sold.

**Trade Receivables**

Our trade receivables mainly relate to the amounts due from food wholesalers, and other customers including restaurants, supermarkets and other enterprises. The following table sets forth a breakdown of our trade receivables as of the dates indicated:

| | As of December 31, | | | As of April 30, |
|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 |
| | *(RMB in thousands)* | | | |
| Trade receivables | — | 15,316 | 139,335 | 141,700 |
| – Not past due | — | 10,239 | 51,808 | 10,507 |
| – Past due less than 90 days | — | 5,077 | 84,032 | 51,978 |
| – Past due more than 90 days | — | — | 3,495 | 79,215 |
| Impairment | — | (426) | (5,010) | (11,472) |
| **Total** | — | 14,890 | 134,325 | 130,228 |

We typically set forth the trading terms with our customers in the relevant sales contracts. During the Track Record Period, we believe that we have implemented effective credit management system and policies. We generally require our franchisees to pay in advance before we deliver the products. We provide certain enterprise customers with a credit term of generally one month, extending up to six months, subject to the creditworthiness of the relevant customers, according to our customer credit management system. We assess the creditworthiness of our customers by taking into account their historical transactions, past experience and historical settlement pattern and adjustment for forward looking. In addition, we arranged designated sales personnel and personnel from our finance team to actively follow up with these enterprise customers and discuss the repayment plans with them when needed. We arranged designated sales personnel and personnel from our finance team to actively follow up on overdue invoices. As of the Latest Practicable Date, the five customers with the largest trade receivables balance aging over 90 days as of April 30, 2023 had fully settled their respective outstanding trade receivables as of April 30, 2023. Based on these factors, we consider the risk of default to be limited. Our management considers that there was no significant concentration of credit risk with any single customer as of April 30, 2023. There has been no material change in counterparty credit risk since April 30, 2023, and the amount of trade receivables that have been settled as of April 30, 2023 was in line with our management's expectations, having taken into consideration of the enterprise customers' ongoing business activities, market conditions, as well as their financial strength and shareholder background. Based on the actual repayment pattern exhibited by our customers in late 2022 and first half of 2023, the recoverability of the trade receivables was in line with the management's expectation and there was no material deviation that indicates an adjustment in expected credit loss rate for trade receivables. We did not have material collection issues with our customers during the Track Record Period and up to the Latest Practicable Date.

We use a provision matrix to calculate expected credit losses (the "**ECLs**") for trade receivables. The provision matrix is initially based on age-based migration rates of past due trade receivables. We calibrated the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the retail sector, the historical default rates are adjusted. The determination of loss rates takes into account migration rate of past due trade receivables, historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date. See Note 23 to the Accountants' Report in Appendix I to this document. As of December 31, 2020, 2021 and 2022 and April 30, 2023, we recorded impairment of trade receivables of nil, RMB0.4 million, RMB5.0 million and RMB11.5 million, respectively.

In view of the sound collection history of trade receivables, our management believes that the credit risk inherent in our outstanding trade receivable balances due from the customers is not significant and the general provision made is sufficient.

Our trade receivables increased from nil as of December 31, 2020 to RMB14.9 million as of December 31, 2021, primarily because (i) we strategically diversified sales channels in 2021 and sold home meal products and related products directly to restaurants and supermarkets; and (ii) we had additional receivables due from enterprise customers as we acquired two food production plants, Heyi Plant and Wanlai Wanqu Plant, in 2021, and took on the trade receivables primarily owed by their enterprise customers, such as restaurants and supermarkets. The trade receivables relating to these two plants amounted to RMB6.5 million as of December 31, 2021. Our trade receivables amounted to RMB134.3 million and RMB130.2 million as of December 31, 2022 and April 30, 2023, respectively, mainly representing an increase in our transactions with, and receivables due from, (i) our suppliers of food products and food wholesalers to whom we sold ingredients we purchased in bulk, see "Business — Our Sales Channels and Store Network — Our Customers," (ii) enterprise customers who directly purchased from our production plants, with trade receivables relating to these plants amounting to RMB22.8 million as of December 30, 2022, and RMB13.0 million as of April 30, 2023, and (iii) supermarkets. Such increase was primarily attributable to our expanding production capacity.

The following table sets forth an aging analysis of our trade receivables as of the dates indicated:

| | As of December 31, | | | As of April 30, |
|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | | |
| Trade receivable | | | | |
| Within 1 month | — | 10,118 | 51,494 | 10,432 |
| 1 to 3 months | — | 4,198 | 80,681 | 35,364 |
| 3 to 6 months | — | 574 | 684 | 78,373 |
| 6 to 12 months | — | — | 1,182 | 6,048 |
| 1 to 2 years | — | — | 284 | 11 |
| **Total** | — | 14,890 | 134,325 | 130,228 |

The following table sets forth an aging analysis of our trade receivables of food wholesalers, supermarkets, restaurants and others as of the dates indicated:

| | As of December 31, | | | As of April 30, |
|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | | |
| **Food wholesalers** | | | | |
| Within 1 month | – | 6,706 | 45,693 | 9,148 |
| 1 to 3 months | – | 2,357 | 78,453 | 34,623 |
| 3 to 6 months | – | – | 510 | 76,072 |
| 6 to 12 months | – | – | 1,039 | 5,310 |
| 1 to 2 years | – | – | 276 | 10 |
| **Subtotal** | **–** | **9,063** | **125,971** | **125,163** |
| **Supermarkets, restaurants and others** | | | | |
| Within 1 month | – | 3,412 | 5,801 | 1,284 |
| 1 to 3 months | – | 1,841 | 2,228 | 741 |
| 3 to 6 months | – | 574 | 174 | 2,301 |
| 6 to 12 months | – | – | 143 | 738 |
| 1 to 2 years | – | – | 8 | 1 |
| **Subtotal** | **–** | **5,827** | **8,354** | **5,065** |
| **Total** | **–** | **14,890** | **134,325** | **130,228** |

The following table sets forth our trade receivables turnover days for the Track Record Period:

| | Year ended December 31, | | | Four Months ended April 30, |
|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2023** |
| Trade receivables turnover days[1] | — | 0.7 | 3.9 | 8.1 |

*Note:*

(1) Trade receivables turnover days for a period are calculated using the average of opening balance and closing balance of the trade receivables (excluding provision for impairment) for such period divided by revenue for the relevant period and multiplied by the number of days during such period.

Our trade receivables turnover days were nil , 0.7 days, 3.9 days and 8.1 days in 2020, 2021 and 2022 and the four months ended April 30, 2023 respectively. The overall increase throughout the Track Record Period was primarily due to the increase in the trade receivables as we expanded sales channels, where we grant credit terms to eligible customers up to 180 days.

As of August 31, 2023, RMB79.4 million, or approximately 56.0% of our trade receivables as of April 30, 2023 had been subsequently collected.

**Prepayments, Other Receivables and Other Assets**

Prepayments, other receivables and other assets primarily comprise prepayments, deposits to our suppliers for products procurement, VAT recoverable and others. The following table sets forth a breakdown of our prepayments, other receivables and other assets as of the dates indicated:

| | As of December 31, | | | As of April 30, |
|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2023** |
| | *(RMB in thousands)* | | | |
| Prepayments | 170,601 | 297,949 | 230,092 | 331,378 |
| Deposits | 39,872 | 37,515 | 28,124 | 28,810 |
| Receivable due from online payment platforms | — | 16,957 | 61,455 | 3,531 |
| Recoverable VAT | 46,592 | 60,478 | 61,800 | 69,929 |
| Amounts due from related parties[1] | 19,236 | 49,734 | 22,063 | 20,605 |
| Others | 17,761 | 16,672 | 36,580 | 57,643 |
| **Total** | **294,062** | **479,305** | **440,114** | **511,896** |

*Note:*

(1) Representing the prepayments and deposits paid to the suppliers who were our related parties, and were trade in nature. See Note 39 to the Accountants' Report in Appendix I to this document.

Our prepayments, other receivables and other assets increased from RMB294.1 million as of December 31, 2020 to RMB479.3 million as of December 31, 2021, primarily representing an increase in the prepayments to our major suppliers. Our prepayments, other receivables and other assets decreased from RMB479.3 million as of December 31, 2021 to RMB440.1 million as of December 31, 2022, primarily due to a decrease in prepayments as we were granted more favorable payment terms by our major suppliers. Our prepayments, other receivables and other assets increased from RMB440.1 million as of December 31, 2022 to RMB511.9 million as of April 30, 2023, primarily due to an increase in prepayments in relation to the inventories for sales of home meal products, including certain imported food ingredients, which was partially offset by a decrease in receivables due from online payment platforms as we settled with such platforms.

As of August 31, 2023, RMB257.0 million, or approximately 50.2% of our prepayments, other receivables and other assets as of April 30, 2023 had been subsequently settled.

### Trade Payables

Our trade payables represent our obligation to pay for goods or services that have been purchased from suppliers in the ordinary course of business.

Our trade payables increased from RMB97.4 million as of December 31, 2020 to RMB181.0 million as of December 31, 2021, primarily attributable to our expansion of business, which resulted in an increase in purchase of goods. Our trade payables increased from RMB181.0 million as of December 31, 2021 to RMB577.5 million as of December 31, 2022, primarily due to (i) our increased procurement in preparation of peak season from October to February next year; (ii) our business expansion; and (iii) the more favorable payment terms our suppliers granted us. In 2022, certain suppliers that previously required prepayments began to grant us credit terms for the raw materials and products we procured. Our trade payables decreased from RMB577.5 million as of December 31, 2022 to RMB195.7 million as of April 30, 2023, primarily due to the settlement of trade payables in relation to the raw materials and food products procured towards the end of 2022.

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

| | As of December 31, | | | As of April 30, |
|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2023** |
| | *(RMB in thousands)* | | | |
| Within 1 month | 87,756 | 175,777 | 531,637 | 126,734 |
| 1 to 3 months | 8,655 | 3,087 | 40,629 | 44,428 |
| 3 to 6 months | 667 | 470 | 1,891 | 20,817 |
| 6 months to 1 year | 83 | 1,631 | 1,362 | 760 |
| Over 1 year | 244 | 28 | 1,962 | 2,947 |
| **Total** | **97,405** | **180,993** | **577,481** | **195,686** |

The following table sets forth our trade payables turnover days for the Track Record Period:

| | Year ended December 31 | | | Four Months ended April 30, |
|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 |
| Trade payable turnover days[(1)] | 10.8 | 14.1 | 23.4 | 28.3 |

(1) Trade payable turnover days for a period are calculated using the average of opening balance and closing balance of the trade payables for such period divided by cost of sales for the relevant period and multiplied by the number of days during such period.

Our trade payable turnover days increased from 10.8 days in 2020 to 14.1 days in 2021, and further to 23.4 days in 2022 and 28.3 days in the four months ended April 30, 2023, representing our enhanced bargaining power with our suppliers.

As of August 31, 2023, RMB173.3 million, or approximately 88.6% of our trade payables as of April 30, 2023 had been subsequently settled.

**Other Payables and Accruals**

Our other payables and accruals primarily comprise (i) receipt on behalf of franchisees for prepaid cards, (ii) staff salaries, bonuses and welfare payables, (iii) deposits and (iv) contract liabilities. The following table sets forth a breakdown of our other payables and accruals as of the dates indicated:

| | As of December 31, | | | As of April 30, |
|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 |
| | *(RMB in thousands)* | | | |
| Receipt on behalf of franchisees for prepaid cards | 67,808 | 83,687 | 118,223 | 114,048 |
| Staff salaries, bonuses and welfare payables | 47,486 | 88,597 | 115,829 | 84,196 |
| Deposits | 46,822 | 72,803 | 111,525 | 117,901 |
| Contract liabilities | 54,663 | 61,398 | 91,140 | 76,006 |
| Accrued expenses | 14,276 | 29,354 | 54,320 | 26,297 |
| Other tax payables | 18,594 | 23,037 | 40,550 | 15,372 |
| Other payables for property, plant and equipment | — | 6,727 | 39,104 | 24,021 |
| Other payables[(1)] | 25,362 | 15,327 | 18,828 | 18,278 |
| **Total** | **275,011** | **380,930** | **589,519** | **476,119** |

*Note:*

(1) Other payables mainly include other tax payables relating to our contract liabilities and collection of franchised store sales on behalf of franchisees.

Our other payables and accruals increased from RMB275.0 million as of December 31, 2020 to RMB380.9 million as of December 31, 2021, and further increased to RMB589.5 million as of December 31, 2022, primarily due to the increase in (i) the receipt on behalf of franchisees for prepaid cards, representing the amounts prepaid but not yet consumed in the prepaid cards we issued; (ii) the staff salaries, bonuses and welfare payables in line with our expansion of workforce; (iii) the deposits received from franchisees due to our expansion of franchised store network; (iv) the other payables for property, plant and equipment in relation to the acquisition of production plants; and (v) the contract liabilities. Our other payables and accruals decreased from RMB589.5 million as of December 31, 2022 to RMB476.1 million as of April 30, 2023, primarily due to (i) the decrease in staff salaries, bonuses and welfare payables attributable to the payment of year-end bonus with our employees; (ii) the settlement of accrued expenses in relation to promotion activities; and (iii) the decrease in other tax payables as in line with the seasonality of our business.

Our contract liabilities primarily represent our obligation to provide products or services to franchisees from whom we have received consideration (or an amount of consideration is due), primarily consisting of (i) advanced payments for home meal products and related products, which are in delivery and have not yet been accepted by the franchisees, and (ii) operational support service fees to be recognized as revenue.

| | As of December 31, | | | As of April 30, |
|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2023** |
| | *(RMB in thousands)* | | | |
| Short-term advances received from customers: | | | | |
| Sales of home meal products and related products | 23,422 | 20,920 | 22,190 | 15,954 |
| Operational support service fees | 31,241 | 40,478 | 68,950 | 60,052 |
| **Total Contract liabilities** | **54,663** | **61,398** | **91,140** | **76,006** |

Our contract liabilities increased from RMB54.7 million as of December 31, 2020 to RMB61.4 million as of December 31, 2021, and further increased significantly to RMB91.1 million as of December 31, 2022, primarily arising from our expansion of franchisee network. Our contract liabilities subsequently decreased from RMB91.1 million as of December 31, 2022 to RMB76.0 million as of April 30, 2023, primarily due to the decrease in advanced payments received in relation to (i) home meal products and related products before delivery and (ii) operational support service fees. Such advanced payments are not recognized as revenue.

As of August 31, 2023, RMB45.3 million, or approximately 59.6% of our contract liabilities as of April 30, 2023 had been subsequently recognized as revenue.

## LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our cash requirements principally from proceeds from our business operations and capital contribution from shareholders. After the [**REDACTED**], we intend to finance our future capital requirements through cash generated from our business operations and the net [**REDACTED**] from the [**REDACTED**]. We do not anticipate any changes to the availability of financing to fund our operations in the future.

The following table sets forth a summary of our cash flows for the periods indicated:

| | **Year ended December 31,** | | | **Four Months ended April 30,** | |
|---|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2022** | **2023** |
| | *(RMB in thousands)* | | | | |
| | | | | *(Unaudited)* | |
| Operating profit/(loss) before changes in working capital | (12,628) | (575,919) | 322,028 | 27,724 | 171,831 |
| Working capital changes | (516,496) | (16,811) | (41,105) | 71,978 | (61,615) |
| Income tax paid | (14,613) | (14,066) | (709) | (637) | (8,348) |
| Interest received | 2,235 | 8,769 | 5,069 | 1,733 | 2,371 |
| **Net cash (used in)/generated from operating activities** | **(541,502)** | **(598,027)** | **285,283** | **45,350** | **104,239** |
| Net cash used in investing activities | (32,040) | (864,443) | (40,399) | 329,426 | (256,970) |
| Net cash from financing activities | 576,839 | 1,777,147 | 32,529 | (8,440) | 925 |
| Net increase in cash and cash equivalents | 3,297 | 314,677 | 277,413 | (292,516) | (151,806) |
| Cash and cash equivalents at the beginning of the year | 100,346 | 100,821 | 417,573 | 417,573 | 694,954 |

| | Year ended December 31, | | | Four Months ended April 30, | |
|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2022 | 2023 |
| | *(RMB in thousands)* | | | | |
| | | | | *(Unaudited)* | |
| Effect of foreign exchange differences, net | (2,822) | 2,075 | (32) | — | — |
| Cash and cash equivalents at the end of the year/period | 100,821 | 417,573 | 694,954 | 125,057 | 543,148 |

**Net Cash Flows (Used in)/Generated from Operating Activities**

In the four months ended April 30, 2023, our net cash generated from operating activities was RMB104.2 million, which is calculated by adjusting our profit before income tax of RMB163.5 million by non-cash and other items to arrive at an operating profit before working capital changes of RMB171.8 million, further adjusted by working capital changes mainly comprising a decrease in inventories of RMB494.5 million, partially offset by a decrease in trade payables of RMB381.8 million and a decrease in other payables and accruals of RMB98.3 million.

In 2022, our net cash generated from operating activities was RMB285.3 million. Our net cash generated from operating activities is calculated by adjusting our profit before income tax of RMB332.0 million by non-cash and other items to arrive at an operating profit before working capital changes of RMB322.0 million, further adjusted by working capital changes mainly comprising an increase in trade payables of RMB320.2 million and an increase in other payables and accruals of RMB121.8 million, partially offset by an increase in inventories of RMB411.4 million and an increase in trade receivables of RMB113.9 million.

In 2021, our net cash used in operating activities was RMB598.0 million. Our net cash used in operating activities is calculated by adjusting our loss before income tax of RMB596.5 million by non-cash and other items to arrive at an operating loss before working capital changes of RMB575.9 million, further adjusted by working capital changes mainly comprising an increase in prepayments, other receivables and other assets of RMB159.0 million, partially offset by an increase in trade payables of RMB74.6 million.

In 2020, our net cash used in operating activities was RMB541.5 million. Our net cash used in operating activities is calculated by adjusting our loss before income tax of RMB43.2 million by non-cash and other items to arrive at an operating loss before working capital changes of RMB12.6 million, further adjusted by working capital changes mainly comprising (i) an increase in inventories of RMB480.4 million and (ii) an increase in prepayments, other receivables and other assets of RMB188.5 million, partially offset by an increase in other payables and accruals of RMB124.3 million.

### Net Cash Flows Used in Investing Activities

In the four months ended April 30, 2023, our net cash used in investing activities was RMB257.0 million, which was mainly attributable to the purchase of financial assets at fair value through profit or loss of RMB340.0 million, partially offset by the proceeds from disposal of financial assets at fair value through profit or loss of RMB180.8 million.

In 2022, our net cash used in investing activities was RMB40.4 million, which was mainly attributable to the purchase of financial assets at fair value through profit or loss of RMB805.1 million and the increase in bank deposits with original maturity of more than three months when acquired of RMB330.0 million, partially offset by the proceeds from disposal of financial assets at fair value through profit or loss of RMB959.8 million.

In 2021, our net cash used in investing activities was RMB864.4 million, which was mainly attributable to the purchase of financial assets at fair value through profit or loss of RMB839.7 million and the increase in bank deposits with original maturity of more than three months when acquired of RMB710.0 million, partially offset by the proceeds from disposal of financial assets at fair value through profit or loss of RMB518.6 million.

In 2020, our net cash used in investing activities was RMB32.0 million, which was mainly attributable to the purchase of financial assets at fair value through profit or loss of RMB891.0 million and the purchase of items of property, plant and equipment of RMB25.8 million, partially offset by proceeds from disposal of financial assets at fair value through profit or loss of RMB893.2 million.

### Net Cash Flows Generated from Financing Activities

In the four months ended April 30, 2023, our net cash generated from financing activities was RMB0.9 million, which was mainly attributable to the proceeds from interest-bearing bank and other borrowings of RMB100.0 million and the capital injection from non-controlling equity holders of RMB2.5 million, partially offset by the repayment of interest-bearing bank and other borrowings of RMB90.0 million, the payment of lease liabilities of RMB7.9 million, the dividends paid to non-controlling equity holders of RMB2.3 million and the interest paid for interest-bearing bank and other borrowings of RMB1.4 million.

In 2022, our net cash generated from financing activities was RMB32.5 million, which was mainly attributable to the proceeds from interest-bearing bank and other borrowings of RMB40.5 million, partially offset by the repayment of lease liabilities of RMB27.0 million.

In 2021, our net cash generated from financing activities was RMB1,777.1 million, which was mainly attributable to the capital injection from investors of RMB1,869.1 million, partially offset by the repayment of interest-bearing bank and other borrowings of RMB107.9 million.

In 2020, our net cash generated from financing activities was RMB576.8 million, which was mainly attributable to the capital injection from investors of RMB618.2 million and the proceeds from interest-bearing bank and other borrowings of RMB107.8 million, partially offset by the repayment of interest-bearing bank and other borrowings of RMB136.9 million.

## INDEBTEDNESS

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

| | As of December 31, | | | As of April 30, | As of August 31, |
|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 | 2023 |
| | *(RMB in thousands)* | | | | |
| | | | | | *(Unaudited)* |
| Borrowings | 88,244 | – | 95,629 | 105,676 | 80,375 |
| Lease Liabilities | 30,951 | 40,807 | 39,153 | 40,565 | 34,512 |
| **Total** | **119,195** | **40,807** | **134,782** | **146,241** | **114,887** |

### Borrowings

We had interest-bearing bank and other borrowings of RMB88.2 million as of December 31, 2020, nil as of December 31, 2021, RMB95.6 million as of December 31, 2022, RMB105.7 million as of April 30, 2023, and RMB80.4 million as of August 31, 2023, being the indebtedness date for the purpose of the indebtedness statement. The effective interest rates per annum of our bank and other borrowings were 3.95%-5.88%, nil, 4.50%-6.90%, 4.50%-6.90% and 4.50%-6.90% in 2020, 2021 and 2022, the four months ended April 30, 2023, and the eight months ended August 31, 2023, respectively.

| | As of December 31, | | | As of April 30, | As of August 31, |
|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 | 2023 |
| | *(RMB in thousands)* | | | | |
| | | | | | *(Unaudited)* |
| **Current** | | | | | |
| Bank loans — secured | 30,182 | — | 55,076 | 55,159 | 51,167 |
| Bank loans — unsecured | 10,037 | — | 40,309 | 40,293 | 20,000 |
| Other borrowings — secured | 275 | — | 53 | 51 | — |
| Other borrowings — unsecured | 47,750 | — | — | — | 52 |
| Subtotal | 88,244 | — | 95,438 | 95,503 | 71,219 |

| | As of December 31, | | | As of April 30, | As of August 31, |
|---|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2023** | **2023** |
| | *(RMB in thousands)* | | | | |
| | | | | | *(Unaudited)* |
| **Non-current** | | | | | |
| Bank loans — secured | — | — | — | 10,000 | 9,000 |
| Other borrowings — secured | — | — | 191 | 173 | 156 |
| Subtotal | — | — | 191 | 10,173 | 9,156 |
| **Total** | **88,244** | **—** | **95,629** | **105,676** | **80,375** |

Our borrowings were primarily used to finance our increased working capital requirements driven by our business expansion during the Track Record Period. Our secured bank loans were primarily guaranteed by certain related party or certain property, plant and equipment and right-of-use assets. The guarantees by related parties were subsequently released during the Track Record Period and up to the Latest Practicable Date. See Note 27 to the Accountants' Report in Appendix I to this document. As of the Latest Practicable Date, there was no material restrictive covenant in our indebtedness which could significantly limit our ability to undertake additional debt or equity financing, nor was there any breach of covenant during the Track Record Period and up to the Latest Practicable Date. As of August 31, 2023, we had unutilized banking facilities of RMB100.0 million, of which RMB60.0 million was secured by certain right-of-use assets and property and plant and equipment. We do not anticipate any changes to the availability of bank financing to finance our operations in the future. However, we cannot guarantee that we will be able to access bank financing on favorable terms, or at all.

### Lease Liabilities

We recognized lease liabilities of RMB31.0 million, RMB40.8 million, RMB39.2 million, RMB40.6 million and RMB34.5 million as of December 31, 2020, 2021 and 2022, April 30, 2023 and August 31, 2023, respectively, primarily attributable to our increased number of leased properties.

### Contingent Liabilities

We did not have any material contingent liabilities as of December 31, 2020, 2021 and 2022, April 30, 2023, and August 31, 2023, respectively.

### Indebtedness Statement

Except as disclosed above, as of August 31, 2023, being the latest practicable date for determining our indebtedness, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, hire purchase commitments, guarantees or other material contingent liabilities. Our Directors have confirmed that there is no material change in our indebtedness since August 31, 2023 and up to the Latest Practicable Date.

## KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as of the dates indicated, or for the periods indicated:

| | As of/Year ended December 31, | | | As of/Four Months ended April 30, |
|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 |
| Revenue growth | N/A | 33.5% | 81.2% | (3.8%) |
| Gross profit margin(1) | 11.1% | 9.0% | 17.4% | 21.1% |
| Net profit/(loss) margin(2) | (1.5%) | (11.6%) | 3.4% | 5.8% |
| Adjusted net profit/(loss) margin (non-IFRS measure)(3) | (0.9%) | (11.4%) | 3.6% | 6.3% |
| Current ratio(4) | 2.2 | 3.4 | 1.8 | 2.6 |
| Quick ratio(5) | 0.9 | 2.3 | 1.0 | 1.9 |
| Gearing ratio(6) | 15.1% | 1.9% | 4.9% | 5.1% |
| Inventory turnover days(7) | 56.3 | 63.2 | 50.8 | 58.5 |

*Notes:*

(1) Gross profit margin is calculated by dividing gross profit by our revenue.

(2) Calculated using net profit for the period divided by total revenue for the period.

(3) Calculated as adjusted net profit/(loss) (non-IFRS measure) for the period divided by total revenue for the period.

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

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

(6) Calculated using the total of interest-bearing borrowings and lease liabilities divided by the total of interest-bearing borrowings, lease liabilities and equity attributable to owners of the parent and multiplied by 100%.

(7) Calculated using the average of opening balance and closing balance of the inventories for such period divided by cost of sales for the relevant period and multiplied by the number of days during such period.

Our current ratio increased from 1.8 as of December 31, 2022 to 2.6 as of April 30, 2023, and our quick ratio increased from 1.0 as of December 31, 2022 to 1.9 as of April 30, 2023, primarily representing the decrease in our current liabilities, which was attributable to a decrease of RMB381.8 million in trade payables and a decrease of RMB113.4 million in other payables and accruals. Our current ratio decreased from 3.4 as of December 31, 2021 to 1.8 as of December 31, 2022, and our quick ratio decreased from 2.3 as of December 31, 2021 to 1.0 as of December 31, 2022, primarily representing an increase in our current liabilities attributable to an increase of RMB396.5 million in trade payables, which resulted from our increased procurement and business expansion, as well as an increase of RMB208.6 million in other payable and accruals. Our current ratio increased from 2.2 as of December 31, 2020 to 3.4 as of December 31, 2021, and our quick ratio increased from 0.9 as of December 31, 2020 to 2.3 as of December 31, 2021, primarily due to an increase in our current assets attributable to an increase of RMB526.8 million in cash and bank balances and an increase of RMB200.3 million in financial assets at fair value through profit or loss.

Our gearing ratio increased from 4.9% as of December 31, 2022 to 5.1% as of April 30, 2023, primarily due to the increase of interest-bearing bank and other borrowings from RMB95.6 million as of December 31, 2022 to RMB105.7 million as of April 30, 2023. Our gearing ratio increased from 1.9% as of December 31, 2021 to 4.9% as of December 31, 2022, primarily due to the increase of interest-bearing bank and other borrowings from nil in 2021 to RMB95.6 million in 2022. Our gearing ratio decreased significantly from 15.1% as of December 31, 2020 to 1.9% as of December 31, 2021, primarily due to the decrease of interest-bearing bank and other borrowings from RMB88.2 million in 2020 to nil in 2021 and the increased amount of capital injection from investors in 2021.

## CAPITAL EXPENDITURE

During the Track Record Period, our capital expenditures primarily consisted of expenditures on property, plant and equipment such as computers, electronic equipment and office equipment, as well as purchase of other intangible assets. The table below sets forth our capital expenditure for the periods indicated:

| | Year ended December 31, | | | Four Months ended April 30, |
|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 |
| | *(RMB in thousands)* | | | |
| Purchase of property, plant and equipment | 25,849 | 63,864 | 116,317 | 48,758 |
| Purchase of other intangible assets | 2,609 | 11,382 | 1,660 | 875 |

Our capital expenditures were RMB28.5 million, RMB75.2 million, RMB118.0 million and RMB49.6 million in 2020, 2021 and 2022 and the four months ended April 30, 2023, respectively. We expect to incur additional capital expenditures in 2023 primarily for purchase of property, plant and equipment. We expect to finance such capital expenditures through operating cash flows. We may adjust our capital expenditures for any given period according to our development plans or in light of market conditions and other factors we believe to be appropriate.

## CAPITAL COMMITMENTS

The table below sets forth our capital commitments as of the dates indicated:

| | As of December 31, | | | As of April 30, |
|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2023** |
| | *(RMB in thousands)* | | | |
| Contracted but not provided for — purchase of property, plant and equipment | 8,224 | 64,719 | 25,815 | 13,000 |

## RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. To provide administrative filing, exhibition coordination and customer introduction to the entities located in the Luyi Chengming Food Industrial Zone (鹿邑澄明食品工業園), Luyi Chengming Industrial Zone Management Co., Ltd. (鹿邑縣澄明產業園管理有限公司) ("**Chengming Management**") was established in August 2022 by Ms. Yang, the daughter of Mr. Yang. Chengming Management was identified as a related party of our Group from August 2022 to May 2023 as it was controlled by Ms. Yang. Chengming Management was subsequently disposed to Independent Third Parties in May 2023 and ceased to be a related party of our Group since then. See Note 39 to the Accountants' Report in Appendix I to this document.

Our Directors are of the view that each of the related party transactions set out in Note 39 to the Accountants' Report in Appendix I was conducted in the ordinary course of business and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or cause our historical results to become non-reflective of our future performance.

## OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we did not have any material off-balance sheet commitments or arrangements.

## FINANCIAL RISKS DISCLOSURE

We have adopted risk management program focused on minimizing potential adverse effects of the unpredictability of financial markets as we are exposed to a variety of financial risks, including foreign currency risk, interest rate risk, credit risk and liquidity risk.

### Foreign Currency Risk

Our major businesses are carried out in Mainland China and most of the transactions are conducted in RMB. Most of our assets and liabilities are denominated in RMB. We do not have material foreign currency risk during the Track Record Period.

### Interest rate risk

Our bank balances, other than short-term and long-term bank deposits, expose to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate. Our directors consider our exposure to interest rate risk in respect of bank balances, long-term bank deposits and interest-bearing bank and other borrowings is not significant as most of them are at fixed interest rate.

### Credit Risk

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant. For the analysis of the credit quality and the maximum exposure to credit risk based on our credit policy, see Note 42 to the Accountants' Report in Appendix I.

### Liquidity Risk

We monitor and maintain a level of cash and bank balances deemed adequate by our management to finance the operations and mitigate the effects of fluctuations of cash flows. For the analysis of our financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date, see Note 42 to the Accountants' Report in Appendix I.

### Capital Management

The primary objectives of our capital management are to safeguard our ability to continue as a going concern and to maintain healthy capital ratios in order to support our business and maximize equity holders value.

We manage our capital structure and make adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, we may adjust the dividend payment to equity holders, return capital to equity holders or issue new shares. We are not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Track Record Period.

## DIVIDENDS AND DIVIDEND POLICY

We did not declare or distribute any dividend to our Shareholders during the Track Record Period. However, we may distribute dividends in the future by way of cash or by other means that we consider appropriate. Pursuant to our Articles of Association, our Board may declare dividends in the future after taking into account our results of operations, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents, applicable PRC laws and approval by our Shareholders. Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require that dividends should be paid only out of the profit for the year calculated according to PRC accounting principles, while the calculation of distributable profits under PRC GAAP is different from the calculation under IFRS in certain respects. PRC laws also require our subsidiaries to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses, or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

## WORKING CAPITAL CONFIRMATION

Our Directors are of the opinion that, taking into account the net [**REDACTED**] from the [**REDACTED**] and the financial resources available to us, including cash and cash equivalents, we have sufficient working capital for our present requirements, that is at least 12 months from the date of this document.

## DISTRIBUTABLE RESERVES

As of April 30, 2023, our Company had distributable reserves of RMB100.1 million.

## [REDACTED] EXPENSES

The [**REDACTED**] expenses represent professional fees, [**REDACTED**], and other fees incurred in connection with the [**REDACTED**]. We estimate that our [**REDACTED**] expenses, including [**REDACTED**] for the [**REDACTED**], will be approximately HK$[**REDACTED**] (including (i) [**REDACTED**] of approximately HK$[**REDACTED**], and (ii) [**REDACTED**] related expenses of approximately HK$[**REDACTED**], which consist of fees and expenses of legal advisors and Reporting Accountants of approximately HK$[**REDACTED**], and other fees and expenses of approximately HK$[**REDACTED**]), representing approximately [**REDACTED**]% of the gross [**REDACTED**] from the [**REDACTED**], (assuming an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**] (being the mid-point of the indicative [**REDACTED**] range) and no exercise of the [**REDACTED**]), of which approximately HK$[**REDACTED**] is directly attributable to the issue of our [**REDACTED**] to the public and will be deducted from equity, and approximately HK$[**REDACTED**] is expected to be expensed upon the [**REDACTED**].

## UNAUDITED [REDACTED] ADJUSTED NET TANGIBLE ASSETS

See Appendix II to this document for details.

## NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects since April 30, 2023, being the end date of the periods reported in the Accountants' Report set out in Appendix I, and there is no event since April 30, 2023 that would materially affect the information shown in the Accountants' Report set out in Appendix I.

## DISCLOSURE REQUIRED UNDER LISTING RULES

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