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OVERVIEW

Who We Are

We are an unmanned retail operator in mainland China with a 7.4% market share in terms of GMV in 2022, according to Frost & Sullivan. According to the same source, we are a vending machine operator in mainland China with a 7.6% market share in terms of GMV in 2022. According to Frost & Sullivan, we ranked first in terms of both total transaction GMV and network scale in the unmanned retail industry in mainland China for each of 2019, 2020, 2021 and 2022. For over a decade since our founding, we have endeavored to cultivate the unmanned retail industry, a sub-segment of the retail industry, in mainland China and developed robust digitalization and operation capabilities, covering merchandise procurement, logistics and inventory management. Leveraging these core capabilities, we have rapidly established an extensive point-of-sale, or POS, network covering a wide range of core consumption scenarios, including schools, factories, office premises, public venues, transportation hubs and restaurants. Through our expansive POS network, we are able to provide services to a variety of participants along the unmanned retail industry value chain. As of June 30, 2023, we had a network of 61,888 Ubox POSs for vending machines across 157 cities and 28 provincial-level administrative regions in mainland China, 87.3% of which were concentrated in tier one, new tier one and tier two cities.

Our Revenue Model

We strive to refine the traditional retail industry with technology and to further digitalize and automate businesses along the retail value chain. We generated revenue during the Track Record Period from the following business segments:

- *Unmanned retail business.* We leverage our nation-wide POS network and data-driven operation system to digitalize and automate retail sales of FMCG in a wide range of consumption scenarios. We derive revenue from this segment primarily from retail sales of merchandise, including bottled beverages, snacks, freshly brewed coffee and other beverages, through vending machines at Ubox POSs. Our vending machines primarily include pick-and-go cabinets, beverage vending machines, beverage and snack vending machines and freshly brewed beverage vending machines;
- *Advertising and system support services.* We leverage our extensive and unique consumer touch points to offer advertisers with digital advertising services that drive consumer traffic and sales, primarily consisting of (i) display screen advertising services, (ii) after-payment advertising services, (iii) merchandise display advertising services and (iv) machine body advertising services. We derive revenue from service fees charged to our advertising customers for digital advertising services. In addition, we also provide operation system support to Non-Ubox POS operators by allowing them to connect their machines to our operation system, which enable them to access a range of functionalities, including monitoring their machines’ operating status in real time and receiving restocking alerts, restocking routes and schedule recommendations. We derive revenue from fees charged to our Non-Ubox POS operators for using our operation system;

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- *Merchandise wholesale.* We offer merchandise wholesale primarily to merchandise wholesale customers and certain Non-Ubox POS operators. We derive revenue from this segment primarily from wholesale of merchandise;
- *Vending machine sales and leases.* We sell, lease and/or provide hardware support services for vending machine to our Non-Ubox POS operators. We provide hardware support services including machine installation and maintenance services. We derive revenue from this segment primarily from sales and leases of vending machine and/or fee charged for related hardware support services; and
- *Others.* We also offer other services, which mainly comprise mobile device distribution services, karaoke booth services, karaoke booth sales and leases and karaoke booth operation system support across mainland China.

Our Market Opportunity

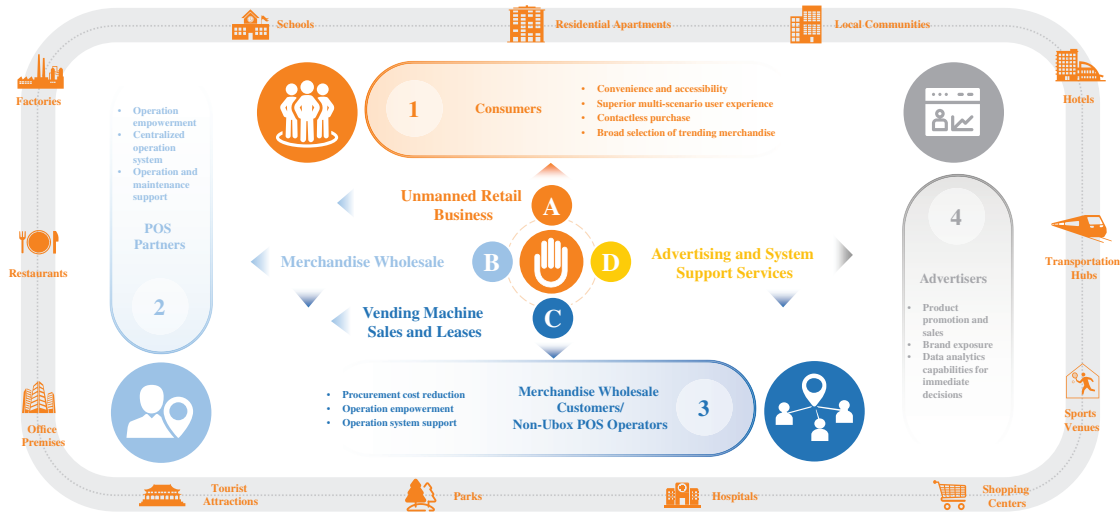
We are well-positioned to capture the massive market opportunity driven by the fast growth of the under-penetrated unmanned retail market in mainland China. According to Frost & Sullivan, vending machines can effectively address the pain points of the traditional fast-moving consumer goods, or FMCG, retail market, including high start-up costs and escalating operation costs, and also provide consumers with convenient consumption experiences. However, the unmanned retail market in mainland China is underpenetrated, with an average of 0.8 vending machine per thousand population in 2022 as compared to 20.8 in the United States, 22.5 in Japan and 6.0 in Europe. As of December 31, 2022, vending machines in mainland China covered only 8.8% of the country’s potentially available offline sites, and such penetration rate is expected to increase to 15.6% by 2027, indicating a vast development prospect for vending machines in offline retail scenarios. Accordingly, the size of the vending machine retail market in mainland China is expected to grow from RMB28.9 billion in 2022 to RMB73.9 billion in 2027, with a CAGR of 20.7%.

Our Platform for Participants along the Industry Value Chain

We seek to capture this market opportunity as a core player by leveraging our strong capabilities in digitalization and operation. We have created a platform where we provide value to, and nurture symbiotic relationships among, a variety of participants along the unmanned retail industry value chain. For consumers, we offer convenience, accessibility, excellent multi-scenario user experiences, contactless purchase and a broad selection of trending merchandise. For those who wish to start a vending machine business, we offer them an opportunity to join us as POS partners, thereby allowing them to capitalize on their POS resources and local expertise and tap into our digitalization and operation capabilities. The POS partners are typically entitled to a share of the POSs’ transaction GMV subject to deduction of their responsible fees and costs. For those who already operate vending machines, we welcome them as our merchandise wholesale customers or Non-Ubox POS operators and empower them to improve operational efficiency by providing them with access to our digitalization and operation capabilities. For advertisers, we offer a vast and inter-connected platform to reach consumers.

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The diagram below illustrates our platform and the interactions among its major participants:



Notes: Others include offering (i) mobile device distribution services to mobile device resellers and (ii) karaoke booth services, karaoke booth sales and leases and karaoke booth operation system support to karaoke booth franchisees.

Digitalized Operation

We have been dedicated to digitalized operation since our inception. Based on industry insights into and operational know-how of the unmanned retail industry that we have accumulated over the years, we have continually upgraded vending machines and digitalized our operation system to improve operational performance of our POSs and our operating efficiency. We utilize massive multi-dimensional transaction data and our proprietary digital management platform to digitalize, automate and refine core components across the retail value chain. We use data analytics to select POS sites, determine and continuously optimize the merchandise mixes tailored for each vending machine, and automatically generate recommendations on restocking schedules and route plannings. Our algorithm and data analytical capabilities coupled with the wealth of transaction data generated from our retail platform bring insights to our operation, which in turn fuels our expansion and further accelerates our accumulation of transaction data, forming a virtuous cycle. Leveraging our strong digitalization capabilities, we have created a retail network for diversified consumption scenarios, a nation-wide operation network and a data-driven operation system. It empowers and optimizes various aspects of our operation, including:

- *Merchandise mix optimization and procurement.* Our operation system collects and analyzes transaction data from our POS network to facilitate merchandise mix optimization and procurement decision-making for each machine under different consumption scenarios, maximizing potential sales of each POS.
- *Vending machine restocking and maintenance.* Our operation system uses algorithms to enable centralized restocking scheduling and route planning, recommending optimized restocking routes and schedules, ensuring efficient utilization of our

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transportation capacity, minimizing transportation and labor costs and maximizing potential sales. Our operation system also closely tracks and monitors our vending machines in real time, and automatically notifies responsible operation staff if any malfunctioning is identified.

- *POS site selection and optimization.* We leverage our wealth of data and strong analytical ability to select consumption scenarios and, within these scenarios, pinpoint specific POS sites. Our operation system enables us to continuously monitor and evaluate the performance of existing vending machines to guide our future POS site selection.
- *Inter-connected POS network with real-time data transmission.* Equipped with advanced telecommunication technology, each of our machines is connected to our centralized operation system over the cloud operated by third-party cloud service providers in mainland China, which enables our machines to instantly transmit data across our system, and allows operators to constantly monitor its operating status in real time to ensure optimal performance.

Operation Empowerment

Our strong operation capabilities have laid the foundation for our business expansion, and have become one of our core competitive edges. Our bulk purchase has also given us a cost advantage. We have built a nation-wide operation network and a data-driven operation system that allow us to efficiently support our POS network, our POS partners and merchandise wholesale customers. As of June 30, 2023, we operated 106 warehouses and 212 sorting centers, covering 121 cities and 28 provincial-level administrative regions across mainland China, and had entered into strategic cooperation with 13 well-known international FMCG brands.

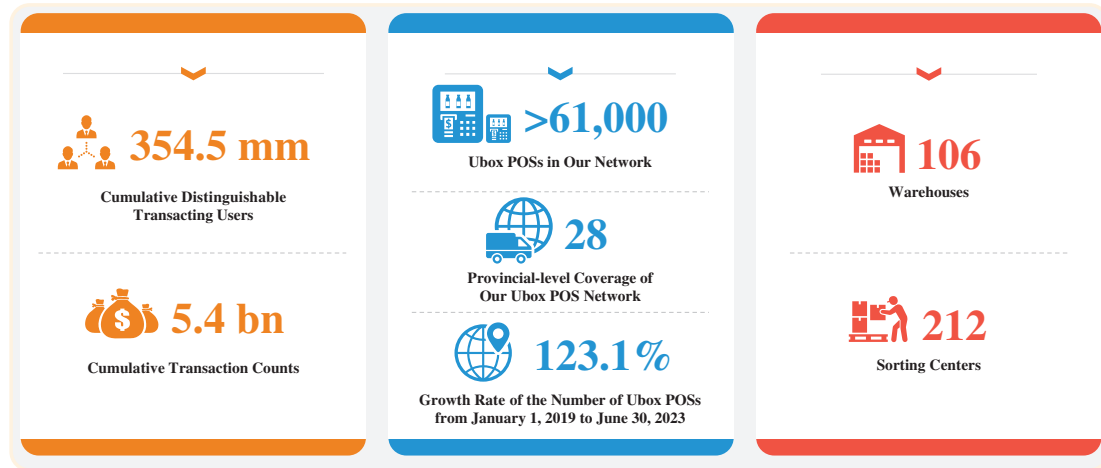
Flexible POS Management under Different Consumption Scenarios

For different consumption scenarios, we have strategically adopted different POS management and expansion strategies to achieve efficient and rapid business expansion. We generally adopt a direct operation model for POSs at strategically important sites, such as transportation hubs and premises of key accounts (“KAs”), including Deppon Logistics and Xiaomi, which tend to have a large number of potential POS locations at a single site. By directly operating POSs in such premium locations, we not only achieve a stable source of income, but also promote our brand awareness and presence. In other locations, we engage POS partners to assist with sourcing and establishing POSs. This facilitates the expansion of our POS network at relatively low costs and risks associated with establishment and development of POSs, and better aligns our interest with those of the POS partners by incentivizing them to capitalize on their expertise to source and establish more and better POSs. In addition, our outstanding digitalization capability and unique business expansion model together forge our “platform” capability, which allows us to transform from operating a network of vending machines to a platform that provides services under a wide range of consumption scenarios. See “Financial Information — Overview” for the revenue, costs and expenses recognition of our direct operation and partner models.

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OUR ACHIEVEMENTS

Highlights of our major achievements as of June 30, 2023 are set forth as follows:



Due to the COVID-19 pandemic, our revenue decreased from RMB2.7 billion in 2019 to RMB1.9 billion in 2020. As the impact of COVID-19 relented and our new business operations developed, our revenue in 2021 rebounded to RMB2.7 billion. Our revenue decreased from RMB2.7 billion in 2021 to RMB2.5 billion in 2022 primarily due to the regional resurgence of COVID-19 in mainland China. Despite that our revenue of vending machine sales and leases in 2022 was adversely affected by the regional resurgences of COVID-19 in mainland China, our revenue of unmanned retail business increased from RMB1,915.1 million in 2021 to RMB1,974.7 million in 2022 primarily due to the expansion of our POS network driven by the partner model. Our revenue from unmanned retail business increased by 8.0% from RMB913.4 million for the six months ended June 30, 2022 to RMB986.8 million for the six months ended June 30, 2023, primarily due to the increase in our sales of FMCG through our POS network as a result of the overall recovery of consumer traffic and business activities following the relaxation of COVID-19 policies since December 2022.

OUR STRENGTHS

Well-positioned to capture the massive market opportunity in mainland China’s Underpenetrated Unmanned Retail Industry with Significant Growth Potential

We are an unmanned retail operator in mainland China, with strong operation and digitalization capabilities. According to Frost & Sullivan, we ranked first in terms of both total transaction GMV and network scale in the unmanned retail industry in mainland China for each of 2019, 2020, 2021 and 2022. The total transaction GMV from our unmanned retail business amounted to approximately RMB1,724 million, RMB1,529 million, RMB2,142 million, RMB2,210 million, RMB1,020 million and RMB1,126 million in 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively. During the Track Record Period, the number of POSs in our network increased from 27,744 as of January 1, 2019 to 61,888 as of June 30, 2023, representing a growth rate of 123.1%. The cumulative number of our distinguishable transacting users reached 354.5 million as of June 30, 2023.

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According to Frost & Sullivan, vending machines provide a significant channel for offline FMCG retail, as they can effectively address the pain points of the industry’s traditional business model, including high start-up costs and escalating operating costs. However, the unmanned retail market in mainland China is underpenetrated, with an average of 0.8 vending machine per thousand population in 2022 as compared to 20.8 in the United States, 22.5 in Japan and 6.0 in Europe. As of December 31, 2022, the vending machines in mainland China covered only 8.8% of the country’s potentially available sites, and such penetration rate is expected to increase to 15.6% by 2027, indicating a vast development prospect for vending machines in offline retail scenarios. Accordingly, the size of the vending machine retail market in mainland China is expected to grow from RMB27.1 billion in 2021 to RMB79.9 billion in 2026, with a CAGR of 24.0%. We believe our industry-leading position and strong ability to digitalize operations will enable us to further increase our market penetration and to expand into new consumption scenarios.

In addition to capturing market opportunities to expand our business scale, we have led the industry in innovation and developed numerous novel operation models, such as customized sales and marketing strategies based on real-time data. We collaborate with internet companies to build a diversified payment infrastructure supporting a wide variety of payment methods including major payment methods such as Alipay and WeChat Pay, advanced technologies such as biometric authentication payment, and customized scenario-specific payment methods such as student card and staff card payment. We pay transaction fees to the internet companies for the different payment methods. According to Frost & Sullivan, we developed mainland China’s first vending machine that enables payment through biometric authentication.

Powerful Digitalization Capabilities Driving Operational Excellence and Empowering Customers and Business Partners

We have been dedicated to digital operations since our inception. As of June 30, 2023, we had cumulatively 354.5 million distinguishable transacting users, with approximately 5.4 billion transactions completed. Leveraging our scale and IoT technology, we have enabled automatic collection of a massive amount of transaction data in multiple dimensions, including transaction frequency, location, timing and consumption preference.

We analyze these valuable transaction data with our proprietary data algorithms, and use the insights we gain from the analytics to optimize economics of POSs and achieve operational excellence on a continual basis. In any particular scenario, data analytics of, for example, historical sales by SKU, sales speed and stock value informs our decisions in initial merchandise mix and subsequent restocking strategies. We also continuously optimize the accuracy of our algorithms and recommend the most popular and profitable merchandise for any given vending machine in real time. In addition, our operation system allows us to conduct optimized logistics operations by efficiently arranging regional restocking frequency and routes, and merchandise redeployment. Our data-driven network is instrumental to enhancing our merchandise turnover rate, gross margin and operating cash flows.

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Furthermore, our powerful digitalization capabilities based on massive transaction data allow us to empower the other participants along the industry value chain on our platform, including POS partners and Non-Ubox POS operators by streamlining their operations with valuable insights into consumer behavior. We also provide advertisers with sales reports before placing advertisements, and subsequent analytics reports on the effect of their advertisements, allowing them to improve marketing efficiency.

Strong Operation Capabilities Underpinning Our Business Growth

We have built a nation-wide operation network and a data-driven operation system, which underpin our business growth. Highlights of our operation capabilities include:

- *Cost advantage.* We purchase a large amount of merchandise and have strong bargaining power. Our nation-wide POS network also presents an effective way for merchandise suppliers to distribute and showcase their products, which further increases our leverage to lower procurement costs.
- *Nation-wide operation network.* As of June 30, 2023, we operated 106 warehouses and 212 sorting centers across 121 cities and 28 provincial-level administrative regions in mainland China, covering a total of 61,888 Ubox POSs, and had entered into strategic cooperation with 13 well-known international FMCG brands. As of the same date, we had a fleet comprising 372 self-owned vehicles and approximately 900 operation personnel, among whom approximately 190 were our employees and 710 were third-party contractors. Our nation-wide operation network can effectively support our rapid expansion of POS network across the country. Relying on our data-driven operation network, we can realize efficient restocking, reduce stock-out losses, and deliver merchandise to our customers timely, thereby reducing transportation costs. In 2021, we introduced a shared warehouse initiative leveraging our existing warehouses, which uses a high-density and low-inventory “small warehouse” model to provide more efficient and flexible services to our merchandise wholesale customers and help them reduce warehousing costs. Leveraging our strong operation capabilities, our shared warehouse initiative targets to reduce the merchandise wholesale customers’ staff costs and capital investment in warehouse facilities through the provision of more comprehensive services, including warehousing, operation system management, and hardware and software support services, to the merchandise wholesale customers on top of merchandise wholesale. Such services can be used by our merchandise wholesale customers who participate in our shared warehouse initiative at no extra charge. We do not charge our merchandise wholesale customers any rental fee for using the shared warehouse. We believe this new initiative can help us attract new merchandise wholesale customers and convert many of them into our POS partners.

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- *Digitalized management and know-how.* Our data-driven operation system can predict demand from a specific POS for specific merchandise. Additionally, by monitoring the status of our vending machines in real time, the system can automatically propose restocking needs to operators as well as generate relevant restocking schedules and route plans, reducing stock-out losses, minimizing sales loss due to late restocking, and achieving operational and management efficiency. The stock-out rate of our pick-and-go cabinets, being the number of SKUs sold out before restocking as a percentage of the total number of SKUs after restocking, decreased from 27.5% in 2019 to 8.6% for the six months ended June 30, 2023.
- *Just-in-time capability.* Our data-driven operation system allows us to predict demand and timely arrange for procurement and logistics. For the six months ended June 30, 2023, the average inventory retention days of our warehouses were approximately 12 days. Through our shared warehouses, we further enable merchandise wholesale customers to adopt a just-in-time inventory model by tapping into our operation system, optimizing their inventory levels and increasing their inventory turnover rates. In particular, for shared warehouses, we generally only procure merchandise upon receiving orders from merchandise wholesale customers, with an order-to-delivery time of approximately three days for the six months ended June 30, 2023.

Flexible POS Management and Development Strategies Tailored to Different Consumption Scenarios Fueling Rapid Expansion of POS Network

For different scenarios, we have strategically adopted different POS management and development strategies to achieve efficient and rapid expansion. Currently, we predominantly pursue the following models:

Direct Operation Model: We generally source, establish and manage POSs ourselves at strategically important locations, such as schools and premises of KAs, which tend to have a large number of potential POS sites at a single location. By directly operating POSs in such premium locations, we not only achieve a stable source of income, but also promote our brand awareness and presence. In addition, we had entered into strategic cooperation with various leading internet companies, logistics service providers, automobile manufacturers and companies from other industries, including Deppon Logistics and Xiaomi, with over 6,100 POSs deployed to their premises nationally as of June 30, 2023.

Partner Model: In other locations, we have actively enhanced the use of POS partners since 2020 to maintain the flexibility to engage POS partners to assist with sourcing and establishing, while we manage the operation of POSs. The partner model has transformed traditional offline vending machine operation and revenue distribution models, which allows us to rapidly expand our POS network at relatively low costs and risks associated with establishment and operation of POSs. As a result, our POS operation and development expenses as a percentage of revenue from unmanned retail business decreased from 37.3% in 2019 to 26.5% for the six months ended June 30, 2023. This partner model aligns our interest

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with those of our POS partners, who are typically entitled to a share of the POSs’ transaction GMV subject to deduction of their responsible fees and costs, and therefore incentivized to mobilize resources to set up vending machines at the best POSs. Our POS partners are generally responsible for sourcing potential sites, the costs for developing POSs, occupancy fees and utility costs. Since 2020, we have actively enhanced the use of POS partners to assist us with sourcing and establishing POSs. At the same time, relying on our highly replicable “platform” capability in unmanned retail operations, we have continuously sought to penetrate into different consumption scenarios to fuel our growth.

Our POS management is flexible given that (i) our operation system allows the POS partners to monitor the sales data and performance of the POSs in real time and provides them with monthly reports in respect of their share of transaction GMV and the fees to be charged; (ii) the POS partners can relocate or remove any of their POSs at any time with our technical support; and (iii) the POS partners can give suggestions as to the merchandise mix in their POSs, which will be taken into account by us in our decision to adjust and optimize the merchandise mix when we arrange restocking for the vending machines.

Large POS Network in mainland China Creating Economies of Scale and Competitive Edge

For more than a decade since our founding, we have endeavored to cultivate the unmanned retail industry in mainland China, and built a large vending machine POS network, occupying a large number of premium POSs with high foot traffic. According to Frost & Sullivan, existing vending machine operators with long operating history have well-established POS networks, which are difficult for new entrants to replicate within a short period of time. As such, we believe our extensive POS network has formed a high competitive barrier and cannot be easily replicated. According to Frost & Sullivan, we ranked first in terms of network scale in the unmanned retail industry in mainland China for each of 2019, 2020, 2021 and 2022. As of June 30, 2023, we had a network of 61,888 Ubox POSs across 157 cities and 28 provincial-level administrative regions in mainland China, 87.3% of which were concentrated in tier one, new tier one and tier two cities, where populations are denser and residents have higher levels of income and greater mobility.

Our POS network covers a wide range of consumption scenarios, including schools, factories, restaurants, office premises, public venues and transportation hubs. According to Frost & Sullivan, as of December 31, 2022, our POS network covered 45% of mainland China’s top 40 airports by passenger traffic, 22% of all university and college campuses, and 29% of top 80 shopping malls in terms of sales. As of June 30, 2023, we had entered into strategic cooperation with various leading companies, with over 6,100 POSs deployed to their premises nationally. During the Track Record Period, the number of POSs in our network increased from 27,744 as of January 1, 2019 to 61,888 as of June 30, 2023, representing a growth rate of 123.1%.

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We believe that the breadth and depth of our nation-wide POS network benefit us with significant economies of scale, as they enable us to significantly increase our operational efficiency and profitability. Coupled with our deep understanding of different consumption scenarios and first-mover advantage, we are well-positioned to continuously increase our market share and to expand into new consumption scenarios.

Outstanding R&D Capabilities with Deep Industry Insights

We have continuously invested in research and development to further improve our technological capabilities, and have acquired deep industry insights by collecting and analyzing the massive amount of transaction data generated from our operations. We put technologies including data analytics, visual recognition and IoT technologies into industry applications, digitalizing, automating and refining our operation, and thereby significantly enhancing our operational efficiency. We led the technological developments of the industry. As early as 2015, we obtained the first patent of “Method for Communication between Vending Machines and Industrial Computers,” which set the ground for the development of our vending machines. We have since then leveraged real-time communication and data transmission technologies to develop a set of systems, including remote control, information display, advertising management and payment management on vending machines. Building upon these systems, we further utilized data algorithm models to continuously enhance our operational efficiency. As of the Latest Practicable Date, we had 204 registered patents in areas such as structural designs and components in relation to vending machines, modules and components for digital payment on vending machines and communication and restocking methods for vending machines. As of June 30, 2023, our research and development team consisted of 75 personnel, the majority of whom had joined our Group for more than three years and held a bachelor’s degree or above. Some of the key R&D innovations in various aspects of our operations include:

- *Application of advanced technologies on vending machines:* We have continuously enhanced our vending machines with technologies to meet the specific needs of a diverse range of consumption scenarios. For example, we have developed a vending machine payment system, which is able to accept a wide range of payment methods and allows centrally controlled adjustment of payment methods accepted at each machine. We have also developed pick-and-go cabinets, our generation 2.0 vending machines. Equipped with advanced hardware technologies, structural design and lighting, and the combined use of biometric authentication, credit assessment algorithm and IoT technologies, these pick-and-go cabinets poise to revolutionize unmanned retail by allowing consumers to open the door with biometric authentication and simply pick up merchandise and leave, leaving authentication and payment to technology and thereby creating a new, hassle-free consumption experience.

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- *Robust data analytical capability driving operational excellence.* We have developed algorithm models for determining the optimal POS sites, merchandise mix and inventory level at each of our machines, as well as restocking routes and schedules. We have also continuously trained and enhanced the accuracy of our algorithms with the massive volume of transaction data generated from our operation. Leveraging our data processing capabilities, our operation system is able to precisely guide the operation of each of our machines. For the six months ended June 30, 2023, each of our logistics staff restocked a monthly average of approximately 41,200 units of merchandise.
- *An inter-connected network of POSs forming superb advertising media.* With the inter-connectivity of our nation-wide multi-scenario POS network, we have been able to customize each machine with individualized features (千機千面). By harvesting transaction data accumulated from our POS network, we are able to devise and implement targeted marketing campaigns through each of our machines. For example, through our operation system, we can centrally adjust the display of, and offer promotional discounts, at each machine during any designated period to appeal to target demographics. This allows our advertising customers to precisely, flexibly and timely implement a wide variety of marketing initiatives across the nation, including product launches and promotional campaigns.

Visionary Management Team with Rich Industry Experience and Backed by Renowned Strategic Investors

Our management team introduced the concept of data-driven unmanned retail to the vending machine retail industry in mainland China. Our founder, Mr. Wang, is experienced in the field of research and development of software and unmanned retail platforms. With an “explorer’s spirit,” he followed his vision to apply the power of the internet to traditional retail and transformed it into an inter-connected and data-driven process with our centralized operation system connecting our vending machines through the cloud operated by third-party cloud service providers. Prior to establishing our Group, Mr. Wang served as a senior vice president of SINA.com Technology (China) Co., Ltd., and had invested in a number of industry-leading companies as an independent angel investor.

We have a core management team that is stable, innovative and deeply committed to the industry. As of June 30, 2023, the majority of our core management team members had more than ten years of experience in the unmanned retail industry, and had been with our Group for more than five years. Our middle and senior management teams also have extensive experience in a variety of industries, including information and technology, logistics services and business management, bringing a wealth of knowledge and insights into our operation. Our management team guides our strategic development with innovative ideas and their unique and profound insights into the industry. The team continuously cultivates breakthroughs in various aspects including business models, payment channels, advertising and system support services and operation management, with a view to achieving differentiated development.

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Renowned strategic investors have invested in and supported our business development, creating strong synergies with our business with respect to technology and business development, and have played an important role in boosting our influence in the industry.

- *Technological cooperation.* We cooperate with our strategic investors to apply AI, payment and other advanced technologies to facilitate our development and enhance the feasibility of some of our business initiatives. For example, we have leveraged the technological strengths of our strategic investors, such as biometric authentication technology, AI technology and motion sensing technology, to boost the development of unmanned retail such as pick-and-go cabinets.
- *Business development cooperation.* We cooperate with our strategic investors to gain access to potentially available sites at their commercial properties and tap into their consumer traffic. While this allows us to rapidly expand our POS network, it also enriches consumer experience and add value to the properties, creating a win-win scenario.

OUR STRATEGIES

Further Expand Our POS Network

We plan to further increase our POS penetration in tier one, new tier one and tier two cities. According to Frost & Sullivan, operation of vending machines is well suited for the relatively fragmented spaces in these cities, as land is becoming increasingly scarce and rent increasingly high. In addition, we plan to gradually tap into tier three cities and below with higher economic growth rates. According to Frost & Sullivan, the number of vending machines per thousand population in mainland China is still much lower than that of developed countries and regions such as the United States, Japan and Europe, demonstrating significant growth potential.

The total capital expenditure for the above strategy in the two financial years ending December 31, 2024 is expected to be approximately HK\$[442.5] million (equivalent to approximately RMB[405.1] million), of which HK\$[295.4] million (equivalent to approximately RMB[270.4] million) is expected to be applied to new POSs of pick-and-go cabinets, approximately HK\$[42.6] million (equivalent to approximately RMB[39.0] million) is expected to be applied to new POSs of beverage vending machines, approximately HK\$[19.7] million (equivalent to approximately RMB[18.0] million) is expected to be applied to new POSs of beverage and snack vending machines, and approximately HK\$[84.9] million (equivalent to approximately RMB[77.7] million) is expected to be applied to new POSs of freshly brewed beverage vending machines. The total capital expenditure is estimated based on the expected number of new POSs to be opened and the estimated costs of setting up new POSs of different types of vending machines. We intend to apply approximately [REDACTED]% or [REDACTED] (equivalent to approximately [REDACTED]) of the net [REDACTED] from the [REDACTED] to finance this strategy. The remainder will be funded by our internal resources and/or bank borrowings. See “Future Plans and Use of [REDACTED] — Use of [REDACTED]” for details.

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As we expand the scale of our POS network coverage and penetration, we believe we will be able to further enhance economies of scale and improve operational efficiency and optimize profitability.

Continuously Invest in and Enhance Our Services Related Technologies

We will continue to invest in R&D to enhance our technologies relating to our services. For example, we will focus our resources on furthering data analytics capability, optimizing algorithms, and expanding the application of data in our operations. We will endeavor to develop and introduce AI recognition technology and back-end algorithms related to unmanned retailing with vending machines to improve customer experience and fuel our business expansion.

Further, we will continuously upgrade our vending machines. For example, we will further enhance the structural design of our vending machines to increase their durability, versatility, usability and energy efficiency. We will also continue to customize our vending machines to cater to a wider range of consumption scenarios, tailored to varying needs from consumers, and further enhancing the breadth and depth of our POS network.

We also plan to continuously optimize our operation systems for our business partners, and further increase our overall operational efficiency through hardware and software upgrades.

The total capital expenditure for this strategy in the two financial years ending December 31, 2024 is expected to be approximately HK\$[22.2] million (equivalent to approximately RMB[20.3] million), of which approximately HK\$[5.6] million (equivalent to approximately RMB[5.1] million) is expected to be applied to hardware upgrade and approximately HK\$[16.6] million (equivalent to approximately RMB[15.2] million) is expected to be applied to software enhancement. The total capital expenditure is estimated based on the expected development of the Group’s R&D projects. We intend to apply approximately [REDACTED]% or [REDACTED] (equivalent to approximately [REDACTED]) of the net [REDACTED] from the [REDACTED] to finance this strategy. The remainder will be funded by our internal resources and/or bank borrowings. See “Future Plans and Use of [REDACTED] — Use of [REDACTED]” for details.

Further Improve Operation Infrastructure and Enhance Operational Efficiency

We plan to further improve the efficiency of our operations to save costs and to improve consumer experience. We believe that expansion in scale will further enhance our bargaining power and allow us to develop relationships with a wider variety of suppliers to improve our procurement efficiency in the supply chain. With the further expansion and enhancement of our POS coverage and penetration rate, we will further upgrade our warehousing system and equipment and therefore the overall management of our inventory. We will continue to enhance our operation capability by promoting shared warehouses. We expect our shared warehouses to attract more merchandise wholesale customers, who may become our POS partners. More

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shared warehouses can also enhance the economies of scale by enabling more flexible storage and transportation of merchandise. We will also continuously increase the level of digitalization and automation of shared warehouses to enable more unmanned operation, including automatic placing of procurement orders.

We will further improve our inventory turnover rates. At the same time, we will constantly adjust our restocking routes planning according to fluctuations of demand, inventory levels, and location of our warehouses. We will expand our logistics team and enhance our restocking efficiency through unified scheduling. In addition, we will continue to increase the level of automation of our shared warehouses and thereby offer more efficient and flexible services to merchandise wholesale customers. By fostering deep integration of the operation of our merchandise wholesale customers with our operation system, we will strive to convert more merchandise wholesale customers into our POS partners.

The total capital expenditure for the above strategy in the two financial years ending December 31, 2024 is expected to be approximately HK\$[20.9] million (equivalent to approximately RMB[19.2] million), of which approximately HK\$[14.5] million (equivalent to approximately RMB[13.3] million) is expected to be applied to rental expenses, approximately HK\$[2.1] million (equivalent to approximately RMB[1.9] million) is expected to be applied to renovation costs, and approximately HK\$[4.3] million (equivalent to approximately RMB[3.9] million) is expected to be applied to staff costs. The total capital expenditure is estimated with reference to the prevailing market rates. We intend to apply approximately [REDACTED]% or [REDACTED] (equivalent to approximately [REDACTED]) of the net [REDACTED] from the [REDACTED] to finance this strategy. The remainder will be funded by our internal resources and/or bank borrowings. See “Future Plans and Use of [REDACTED] — Use of [REDACTED]” for details.

Attract, Nurture and Retain Talent

In order to support future expansion, we intend to continue to attract, nurture and retain talent. We plan to attract talent with our competitive remuneration and vibrant corporate culture. In particular, we target to recruit talent from the internet and innovative economy sectors to aid our innovation and development. The total capital expenditure for this strategy in the two financial years ending December 31, 2024 is expected to be approximately HK\$[5.6] million (equivalent to approximately RMB[5.2] million), which is expected to be applied to recruitment of talents in algorithm, software and hardware development. The total capital expenditure is estimated with reference to the prevailing market rates. We intend to apply approximately [REDACTED]% or [REDACTED] (equivalent to approximately [REDACTED]) of the net [REDACTED] from the [REDACTED] to finance this strategy. The remainder will be funded by our internal resources and/or bank borrowings. See “Future Plans and Use of [REDACTED] — Use of [REDACTED]” for details. In addition, we plan to further improve our employee training programs through both in-house training as well as external resources to upskill our employees and help realize their personal growth and professional advancements.

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We will also continue to provide career advancement opportunities to our employees. We believe that our internet consciousness, innovative spirit and flat management structure will continue to drive our growth. Our competitive remuneration and employee benefits, and smooth promotion mechanism will stimulate the productivity of our employees, allowing us to maintain our position in the industry.

OUR BUSINESS MODEL

Leveraging our digitalization and operation capabilities, we have created a platform where we provide value to, and nurture symbiotic relationships among, a variety of participants along the unmanned retail value chain. We offer consumers with easy access to a broad selection of merchandise, and empower POS partners, merchandise wholesale customers, Non-Ubox POS operators, advertisers and other participants of our unmanned retail platform. As of June 30, 2023, we had a network of 61,888 Ubox POSs. Leveraging our vast network of POSs and data analytical capabilities, we strive to refine the traditional retail industry by establishing a technology-based retail platform, which digitalizes and automates core components across the retail value chain.

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The table below sets forth our revenue, gross profit and gross profit margin by business segment during the Track Record Period:

	For the year ended December 31,						For the six months ended June 30,																	
	2019		2020		2021		2022		2022		2023													
	Revenue	Gross profit margin	Revenue	Gross profit margin	Revenue	Gross profit margin	Revenue	Gross profit margin	Revenue	Gross profit margin	Revenue	Gross profit margin												
RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%													
Unmanned retail business	1,539,891	56.5	1,336,763	70.3	557,516	41.7	1,915,116	71.6	888,056	46.4	1,974,657	78.4	891,398	45.1	913,388	79.9	413,543	45.3	986,795	78.8	444,458	45.0		
Advertising and system support services	540,600	19.8	488,280	90.3	219,561	11.5	218,812	99.7	243,120	9.1	184,411	75.9	194,271	7.7	160,225	82.5	100,074	8.8	87,918	87.9	56,450	4.5	55,769	98.8
Digital advertising services	518,874	19.0	466,634	89.9	203,095	10.6	202,365	99.6	224,706	8.4	166,431	74.1	176,216	7.0	142,233	80.7	91,314	8.0	79,180	86.7	50,415	4.0	49,764	98.7
Operation system support	21,726	0.8	21,646	99.6	16,466	0.9	16,447	99.9	18,414	0.7	17,980	97.6	18,055	0.7	17,992	99.7	8,760	0.8	8,738	99.7	6,035	0.5	6,005	99.5
Merchandise wholesale	297,900	10.9	14,669	4.9	115,485	6.1	4,029	3.5	40,516	1.5	2,965	7.3	131,795	5.2	5,225	4.0	54,103	4.7	2,834	5.2	110,685	8.8	3,990	3.6
Vending machine sales and leases	91,485	3.4	15,147	16.6	47,040	2.5	(32,224)	(68.5)	44,241	1.7	13,887	31.4	33,840	1.3	10,792	31.9	16,149	1.4	2,981	18.5	11,712	0.9	3,165	27.0
Others	257,585	9.4	127,633	49.5	183,161	9.6	(189,572)	(103.5)	433,244	16.2	11,805	2.7	184,661	7.4	9,096	4.9	59,376	5.2	2,961	5.0	87,036	7.0	10,594	12.2
Total	2,727,461	100.0	1,329,196	48.7	1,902,010	100.0	588,561	29.4	2,676,237	100.0	1,101,124	41.1	2,519,224	100.0	1,076,736	42.7	1,143,090	100.0	510,237	44.6	1,252,678	100.0	517,976	41.3

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Value Propositions to Key Participants of Our Unmanned Retail Platform

Leveraging our technology-based retail platform, we provide consumers with excellent consumption experience and empower POS partners, merchandise wholesale customers or Non-Ubox POS operators, advertisers and other participants of our unmanned retail platform.

Value Propositions to Consumers

- *Convenience and accessibility.* Our expansive POS network covers a wide range of consumption scenarios, including schools, factories, restaurants, office premises, public venues and transportation hubs. Our POSs are also strategically located at easily accessible locations. With its wide coverage and high accessibility, our POS network allows consumers easy access to our broad selection of merchandise. See “— Our POS Network.”
- *Excellent consumption experience.* Our vending machines significantly reduce manual efforts in purchasing. For instance, our vending machines support popular payment methods including biometric authentication to allow swift and frictionless transactions. Most of our vending machines are equipped with touch screens that support interactive content, thereby elevating the overall consumption experience. In particular, our pick-and-go cabinet allows consumers to open the door with biometric authentication and just pick up the merchandise and leave, thereby reforming traditional automated retailing mechanism which requires consumers to pay before they collect the merchandise. See “— Our Product and Service Offerings — Unmanned Retail Business — Our Vending Machines — Pick-and-go Cabinet.”
- *Contactless purchase.* Our vending machines offer consumers with contactless purchase. With no human interaction required in the process, it significantly increases the efficiency and availability in terms of service time and location. Moreover, by reducing face-to-face contact, it also represents a safer and more hygienic way of purchasing, which helps it gain an advantage at the time of the COVID-19 pandemic.
- *Broad selection of trending products.* As of June 30, 2023, we offered over 64,000 SKUs of quality products, including beverages, instant meals and casual snacks, through our unmanned retail business. We regularly update our product offerings to satisfy consumers’ changing demands.

Value Propositions to POS Partners

Under our partner model, we provide our POS partners with an opportunity and resources to start a POS operation business. Our POS partners are responsible for sourcing potential sites, bear the costs for developing POSs, occupancy fees and utility costs, and are generally entitled to a share of the transaction GMV generated from the vending machines, subject to deduction of their responsible costs and expenses. Our model allows POS partners to capitalize on their POS resources and local expertise while tapping into our digitalization and operation capabilities. See “— Our POS Network — Our POS Partners.”

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Value Propositions to Merchandise Wholesale Customers/Non-Ubox POS Operators

We empower merchandise wholesale customers with our robust digitalization and operation capabilities. Due to the relatively small scale of operation, it is not cost-efficient for our merchandise wholesale customers to establish and maintain their own operation network. Utilizing our nation-wide data-driven operation network, bulk purchase, and warehouses and storage facilities across mainland China, our merchandise wholesale customers are able to enjoy cost-efficient and flexible procurement. We also streamline the operation of our merchandise wholesale customers who are also Non-Ubox POS operators, providing them with our vending machines, access to our operation system, and hardware supports. See “— Our Product and Service Offerings — Advertising and System Support Services”, “— Our Product and Service Offerings — Merchandise Wholesale” and “— Our Product and Service Offerings — Vending Machine Sales and Leases.”

Value Propositions to Advertisers

We create value for advertisers by providing them with a vast and engaging platform to reach consumers. Our extensive POS network allows advertisers to physically interact with consumers across mainland China. With our deep insights into consumers’ behavior and data analytical capabilities, we can help advertisers improve accuracy and efficiency in reaching their target consumers by precisely placing their advertisements on POSs at specific consumption scenarios that are most relevant to the target consumers. See “— Our Product and Service Offerings — Advertising and System Support Services.”

OUR TECHNOLOGY-BASED RETAIL PLATFORM

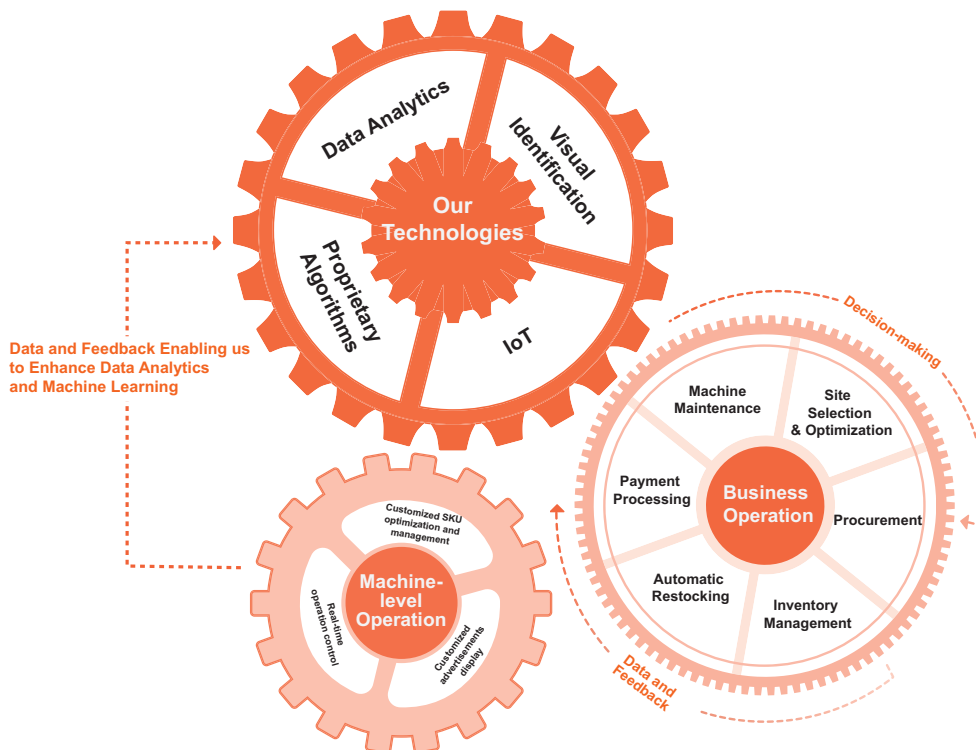
Leveraging our digitalization capabilities, we strive to construct a technology-based retail platform. We digitalize, automate and refine each component of our operation with technologies, including data analytics, visual identification and IoT technologies, and have constructed a centralized operation system, which significantly enhances our operational efficiency. We also “platformize” our business model by allowing a wide range of participants in the vending machine industry to tap into our operation system, thereby digitalizing and streamlining workflows across the retail value chain.

Vending machines at our POSs are the bedrock of our retail platform. Utilizing a range of technologies, we design and develop, and engage third-party manufacturers to produce, a range of vending machines. We applied communication technology in vending machines and developed the first prototype vending machine in 2011. This innovation enables us to realize remote and real-time management of our vending machines, which essentially transforms traditional vending machines into an inter-connected network of automated retail outlets. Since then, we have developed a comprehensive line up of vending machines, including the pick-and-go cabinet (即選即取貨櫃), the beverage vending machine (飲料售貨機), the beverage and snack vending machine (飲料及零食售貨機) and the freshly brewed beverage vending machine (現製飲料售貨機), each of which is customized to meet consumers’ diverse needs under different consumption scenarios. Our vending machines are characterized by the

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ability to connect and share operational data with a back-end operation system. This would enable the use of a wide range of technologies to streamline operation. Our operation system and vending machines have formed an inter-connected network that is able to operate without manual intervention or reconciliation in certain material aspects. For example, coupled with visual recognition technologies applied in our vending machines, our operation system can monitor the machine inventory level in real time. Further, by utilizing data analytics and proprietary algorithms, our operation system can make use of the transaction data collected by our vending machines, such as sales and inventory levels of merchandise, to monitor and evaluate the performance of vending machines, identify optimal sites for Ubox POSs, recommend the most popular and profitable merchandise at each machine in real time, constantly adjust merchandise mix recommendation, generate restocking alerts, formulate restocking schedules and routing plans, and generate maintenance requests to our operation staff. As of the Latest Practicable Date, all of our self-operated machines under our direct operation model and partner model were connected to our operation system. For details, see “— Our Product and Service Offerings — Unmanned Retail Business — Our Vending Machines.”

With our centralized operation system, we streamline our operation into standardized components, and significantly digitalize and automate each component. Our technologies and algorithms can guide and streamline human decision-making in various aspects of our operations, including site selection, merchandise mix optimization and procurement, warehouse inventory management, vending machine restocking, payment processing and machine maintenance. The following diagram illustrates how advanced technologies empower our business operations:



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Our Technologies

Our digitalization capabilities lay the foundation of our business, and distinguish us from our competitors. The following technologies assist us in creating our business model:

- *Data analytics and proprietary algorithms.* We utilize our extensive data and proprietary algorithms throughout our entire business process, from site selection and merchandise mix optimization and procurement to vending machine restocking and maintenance. Leveraging data analytics and proprietary algorithms, our operation system can automatically evaluate the performance of vending machines, identify optimal sites for Ubox POSs, recommend the most popular and profitable merchandise at each machine in real time, constantly adjust merchandise mix recommendation, monitor machine inventory level, generating restocking alerts, generate maintenance requests to our operation staff, formulate the optimal restocking schedules and routing plans, enabling efficient restocking without manual intervention or reconciliation, and reducing our overall operation cost, in particular, stock-out losses and labor cost.
- *Visual recognition.* We use built-in visual recognition cameras in our pick-and-go cabinets to detect the movement of merchandise, and enable uniform and standardized management of machine inventory. Our visual recognition function also enables consumers to open the door of our pick-and-go cabinets with biometric authentication and simply pick up merchandise and leave, creating a new, hassle-free consumption experience.
- *IoT technologies.* We utilize IoT technologies, which enable our machines to connect and exchange data with other machines and our system, to create an inter-connected network of our vending machines. Each of our vending machines is embedded with sensors and software for the purpose of connecting with our centralized operation system over the internet. Our IoT network can connect up to a million POSs and support up to 1,000 consumer requests per second. The inter-connection among machines allows us to monitor and manage multiple machines at the same time.

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Our Business Operation

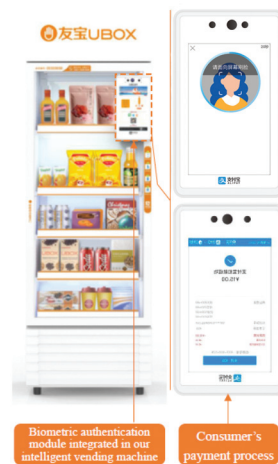
We employ various technologies to empower key components of our business operations:

- *POS Site Selection and Optimization.* We use our proprietary site selection algorithm to aid strategic site selection for Ubox POSs. We leverage our wealth of data and strong analytical ability to select consumption scenarios and, within these scenarios, pinpoint specific POS sites. Our operation system enables us to continuously monitor and evaluate the performance of existing vending machines in different consumption scenarios and identify the optimal sites for Ubox POSs. The algorithm takes into account parameters such as availability of consumption scenarios, features of different types of machines, foot traffic, consumers’ spending power, operating results at similar sites and distance from our warehouses and other POSs. We also use smart heat maps offered by third-party service providers to visualize foot traffic, facilitating more intuitive decision-making. See “— Our POS Network” for our site selection criteria. We continuously evaluate the effectiveness of our site selection strategy by analyzing the operational performance of existing vending machines.
- *Merchandise Mix Optimization and Procurement.* Our centralized operation system collects and analyzes transaction data from our POS network to facilitate merchandise mix optimization and procurement decision-making. Leveraging our wealth of data, our system designs the initial merchandise mix for the specific consumption scenarios. By utilizing multi-dimensional data, our centralized operation system can recommend the most popular and profitable merchandise at each machine in real time, and constantly adjust the merchandise mix recommendation accordingly. Our system is also able to monitor the inventory level of each POS and automatically generate restocking alerts without manual intervention or reconciliation of transaction data at the operation system level, facilitating the optimization of restocking scheduling and operational efficiency. The screenshot below sets forth an example of real-time data and analytics of a given item of merchandise on our operation system:



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- Payment Processing.** Our vending machines are also equipped with payment devices that can accept a wide variety of payment methods, including major payment methods such as Alipay and WeChat Pay, advanced technologies such as biometric authentication payment, and customized scenario-specific payment methods such as student card, staff card payment and cash. Electronic payment and biometric authentication are widely used in mainland China. In the rare cases where customers do not have electronic wallets and/or registration of biometric authentication, they can pay with cash at some of our vending machines. As of June 30, 2023, approximately 1.9% of our vending machines supported cash payment. Below is a picture of our pick-and-go cabinet supporting biometric authentication:



- Vending Machine Restocking.** With data collected from each vending machine in our network, our operation system uses algorithms to enable centralized restocking scheduling and route planning, recommending the optimized time and sequence for restocking and most efficient route for delivery. It takes into account parameters including stock level, road traffic, type of merchandise and delivery capacity. It then sends notifications to our operation team to ensure efficient utilization of our transportation capacity, thereby minimizing transportation and labor costs and maximizing potential sales. The screenshots below set forth an example of restocking schedule and route recommendation generated by our operation system:



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- *Warehouse Inventory Management.* Our centralized operation system allows us to establish our nation-wide warehouse network. Our operation system facilitates seamless communications across the retail platform, and in real time feeds restocking requests from the POSs to the warehouse inventory management module, which in turn arranges for procurement and restocking via our operation network. For details, see “— Logistics and Inventory Management — Inventory Management.” The screenshot below sets forth an example of real-time warehouse inventory information on our operation system:



- *Machine Maintenance.* We leverage our centralized operation system to closely track and monitor the operation status of our vending machines in real time. In case any malfunction is identified, our operation system will send notifications to the responsible operation staff, who will timely repair the vending machines. This is able to reduce sales loss during the malfunction hours by accelerating maintenance. The screenshot below sets forth a maintenance request generated on our operation system:

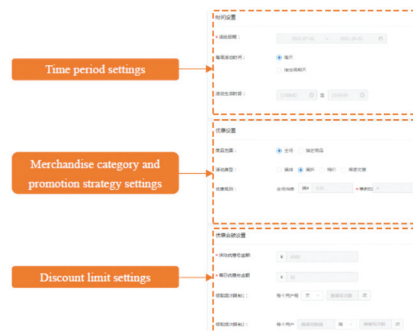


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Machine-level Operation

Premised on data analytics and IoT technologies, we have established a data-driven machine-level operation and management module. Leveraging our wealth of data and deep understanding of consumer behavior, we create the initial merchandise mix by categorizing consumption scenarios into finer subsets through multi-level classification. Based on the initial merchandise mix, our centralized operation system then constantly uses multi-dimensional data collected from the vending machines to optimize the accuracy of our algorithms, SKU recommendation algorithm and SKU replacement algorithm, and recommend the most popular and profitable merchandise for the vending machines in real time.

We further develop customized promotion strategies for different vending machines. For example, based on specific needs of a particular scenario, our centralized operation system allows swift configuration of the relevant vending machines to apply discounts to certain categories of merchandise. The screenshot below sets forth the interface for customizing promotion strategy on our operation system:



Our operation system customizes each machine with individualized features (千機千面). We constantly upgrade our system and adjust technical parameters so that our system is adaptable to all vending machines in our network.

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We monitor the sales and stock level status of each POS in real time. We actively analyze these operating data and have developed multi-dimensional standards to evaluate the performance of each machine. The screenshot below sets forth real-time status of a POS as shown in our operation system:



OUR POS NETWORK

Our vast network of POSs is the bedrock of our retail platform. It comprises the following:

- Ubox POSs, which are POSs operated by us under the direct operation and the partner models. We source and establish POSs ourselves under the direct operation model, and engage POS partners to do so under the partner model. Through Ubox POSs, we sell merchandise to consumers in our unmanned retail business. See “— Our Product and Service Offerings — Unmanned Retail Business.”
- Non-Ubox POSs, which are POSs connected to our operation system and operated by Non-Ubox POS operators. We provide our vending machines, the related hardware support services and operation system support to Non-Ubox POS operators. We also supply vending merchandise to some of them on a wholesale basis. See “— Our Product and Service Offerings — Merchandise Wholesale”, “— Our Product and Service Offerings — Vending Machine Sales and Leases” and “— Our Product and Service Offerings — Advertising and System Support Services — Operation System Support.”

In addition, we provide digital advertising services through both Ubox POSs and Non-Ubox POSs. See “— Our Product and Service Offerings — Advertising and System Support Services — Digital Advertising Services.”

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During the Track Record Period, our POSs were mainly located in relatively developed regions in mainland China, including the Yangtze River Delta Region, Pearl River Delta Region, Beijing-Tianjin-Hebei Region and provincial capitals. In particular, as of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, 26.2%, 27.1%, 25.3%, 30.1% and 31.7% of our POSs were located in tier one cities, and 33.8%, 30.3%, 35.9%, 34.8% and 34.5% were located in new tier one cities, respectively. With denser population, higher level of income and greater mobility, cities of higher tiers generally generate higher sales per vending machine. Also, due to the higher density of POSs in cities of higher tiers, we are able to conduct more efficient restocking and therefore achieve higher operating efficiency.

Our POS network covers a wide range of consumption scenarios. The following table sets forth the distribution of our Ubox POSs by consumption scenario as of the dates indicated:

	As of December 31,								As of June 30,		
	2019		2020		2021		2022		2023		
	%	%	%	%	%	%	%	%	%	%	
Ubox POS by consumption scenario											
Schools	14,611	23.0	18,195	31.1	19,738	23.2	18,706	28.2	17,572	28.4	
Factories	16,197	25.5	13,528	23.1	17,695	20.8	16,998	25.7	16,493	26.6	
Office premises	12,797	20.2	11,059	18.9	14,113	16.6	13,876	21.0	13,342	21.6	
Public venues ⁽¹⁾	11,321	17.8	9,063	15.5	9,877	11.6	8,751	13.2	8,122	13.1	
Transportation hubs	3,884	6.1	3,773	6.5	3,587	4.2	2,265	3.4	2,281	3.7	
Restaurants ⁽²⁾	183	0.3	129	0.2	16,490	19.4	1,636	2.5	829	1.3	
Others ⁽³⁾	4,458	7.0	2,720	4.7	3,639	4.3	4,000	6.0	3,249	5.2	
Total	63,451	100.0	58,467	100.0	85,139	100.0	66,232	100.0	61,888	100.0	

Notes:

- Public venues include, among others, tourist attractions, parks, hospitals, shopping centers and sports venues.
- We actively enhanced our collaborations with restaurant model partners to deploy pick-and-go cabinets to restaurant premises in 2021 and achieved substantial scale during that year. The number of POSs in restaurants decreased in 2022 primarily due to the regional resurgence of COVID-19 in mainland China in the same period that affected consumer traffic in certain consumption scenarios, especially restaurants.
- Others primarily include hotels, local communities and residential apartments.

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Substantially all of our POSs are located at high foot traffic sites including schools, factories, restaurants, office premises, public venues and transportation hubs. We deploy different machines based on the requirements and characteristics of the specific consumption scenarios. For instance, our pick-and-go cabinet can accommodate merchandise of various dimensions, and is designed for indoor locations with more diversified consumption scenarios. Similarly, we typically place our vending machines, which are designed to be more robust and durable, at sites with high demand for beverages and high transaction frequency. Also, most of our freshly brewed beverage vending machines are placed on office premises where there is higher demand for freshly brewed coffee or other freshly brewed beverages.

The table below sets forth the movement of our Ubox POSs for the periods indicated:

	For the year ended December 31,				For the six months ended June 30,
	2019	2020	2021	2022	2023
Number of Ubox POSs at the beginning of the period (A)					
<i>Ubox POS</i>	27,744	63,451	58,467	85,139	66,232
– Direct operation model	26,931	52,562	18,393	13,659	12,472
– Partner model	813	10,889	40,074	71,480	53,760
Number of Ubox POSs opened during the period (B1)					
<i>Ubox POS</i>	41,413	10,629	40,847	17,460	7,262
– Direct operation model	34,226	6,822	3,329	2,387	903
– Partner model	7,187	3,807	37,518	15,073	6,359
Number of Ubox POSs closed during the period (B2)					
<i>Ubox POS</i>	(8,897)	(15,784)	(14,040)	(36,035)	(11,252)
– Direct operation model	(8,754)	(12,350)	(5,099)	(4,041)	(2,293)
– Partner model	(143)	(3,434)	(8,941)	(31,994)	(8,959)
Net increase/(decrease) in the number of Ubox POSs during the period (B1+B2)					
<i>Ubox POS</i>	32,516	(5,155)	26,807	(18,575)	(3,990)
– Direct operation model	25,472	(5,528)	(1,770)	(1,654)	(1,390)
– Partner model	7,044	373	28,577	(16,921)	(2,600)

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	For the year ended December 31,				For the six months ended June 30,
	2019	2020	2021	2022	2023
	Net increase/(decrease) in the number of Ubox POSs due to change in operation model (C)				
<i>Ubox POS</i>	3,191	171	(135)	(332)	(354)
– Direct operation model	159	(28,641)	(2,964)	467	107
– Partner model	3,032	28,812	2,829	(799)	(461)
Number of Ubox POSs at the end of the period (A+B1+B2+C)					
<i>Ubox POS</i>	63,451	58,467	85,139	66,232	61,888
– Direct operation model	52,562	18,393	13,659	12,472	11,189
– Partner model	10,889	40,074	71,480	53,760	50,699

Our POS network rapidly expanded in 2019, and slightly shrank in 2020 primarily as a result of the COVID-19 pandemic. Our POS network resumed rapid expansion in 2021 primarily due to the increase in the number of POSs placed at restaurants in the second half of 2021. Since 2020, we have shifted our focus from the direct operation model to the partner model, which led to the net decrease in the number of POSs under the direct operation model and net increase in the number of POSs under the partner model for 2020 and 2021. The number of POSs, especially those under the partner model, decreased in 2022 primarily due to the regional resurgence of COVID-19 in mainland China in the same period that affected consumer traffic and sales activities in certain consumption scenarios. In particular, the restrictive measures taken by local governments significantly reduced opening hours and consumer traffic of restaurants. Despite that most travel restrictions and quarantine requirements were lifted in December 2022 which has led to the overall recovery of consumer traffic and business activities in the first half of 2023, the number of our Ubox POSs slightly decreased during the same period. This was mainly because the Company, POS partners and some other business partners such as site owners adopted a prudent approach towards the pace of recovery in the macro-environment under the prolonged impact of the pandemic and slowed down the expansion of the POS network in the same period.

We continuously monitor the performance, and adjust the location, of our Ubox POSs to optimize operational efficiency. In particular, we identify Ubox POSs that require optimization, and consider improving or redeploying these POSs by taking into account a range of factors. See “Our Product and Service Offerings — Unmanned Retail Business — Our Vending Machines” for details.

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In addition, to increase the flexibility in POS operation management, commencing from 2020, we have actively increased the use of the partner model. During the Track Record Period, we increased the use of POS partners to source and establish new POSs. For better business efficiency, we converted certain POSs under the direct operation model to the partner model, as these POSs were historically sourced and managed by POS partners who used to be our employees. See “— Our POS Partners” for details of our arrangement with POS partners.

Sourcing and Establishing Ubox POSs

We source Ubox POS sites directly from site owners under our direct operation model, and we source POS sites through POS partners under our partner model. Some of our POS partners, such as restaurant model partners, also own the sites. Where our POS partners do not own the sites, we or our POS partners enter into cooperation with the site owners to place our vending machines on their premises, typically for a monthly occupancy fee plus utility cost. Cooperation agreements with site owners generally have terms that range from one year to three years, and are generally automatically renewable unless either party objects. Such cooperation does not constitute property leasing under the PRC Law.

Under the direct operation model, we enter into cooperation agreements with site owners, under which we are responsible for the provision and daily operation of vending machines, including restocking and maintenance, for terms of one to two years in general. We are entitled to the revenue generated by the machines. We pay site owners a fixed or variable occupancy fee per POS and utility cost on a monthly, quarterly or yearly basis. Variable occupancy fee is generally calculated with reference to the transaction GMV of the POSs. In general, we pay occupancy fees of approximately RMB8,000-RMB20,000 per year for each POS at schools, RMB6,000-RMB15,000 per year for each POS at factories, RMB1,200-RMB3,000 per year for each POS at office premises, RMB1,200-RMB3,000 per year for each POS at public venues, and RMB20,000-RMB50,000 per year for each POS at transportation hubs, respectively. We are generally not required to pay occupancy fee for POSs at restaurants. Subject to the agreements with the site owners, the occupancy fees are typically settled on a monthly, quarterly or yearly basis. The occupancy fees and utility costs were recognized as our selling and marketing expenses. The cooperation agreements can generally be terminated upon mutual agreement or unilaterally when any site owner is in material breach of the agreement.

Under the partner model, regardless of whether we or our POS partners enter into cooperation agreements with the site owners, the POS partners are responsible for the occupancy fee plus utility cost. As of June 30, 2023, we had entered into approximately 16,800 cooperation agreements with site owners for the use of POS sites for all the POSs under the direct operation model and a part of the POSs under the partner model (excluding restaurant model partners, who we directly engage as our POS partners). Some of the POSs under the cooperation agreements signed by us were operated under the partner model. In the event that we decide to change a POS from direct operation model to partner model, we generally allow our POS partner to maintain that POS and bear the occupancy fees and utility costs without terminating the existing cooperation agreement with the site owner. We monitor the expiry dates of the agreements and arrange communication and negotiation for renewal in advance. Upon expiration of the cooperation agreements between us and site owners, we usually renew the agreements with the site owners even if the POSs have been changed from direct operation model to partner model, subject to any specific requirement of the site owners. We continue to sign cooperation agreements with site owners for POSs that have been shifted from direct operation model to partner model and do not actively terminate the same primarily because (i) such POSs were developed with our resources, brand influence and qualifications, (ii) some of

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the site owners adopt stringent selection criteria for their business partners, where our established brand recognition and presence in the market have made us a preferred signing party in their cooperation agreements, and (iii) the operation risks of such POSs in respect of deployment of machines and restocking of merchandise remain with the Group. For the POSs operated under the partner model with the cooperation agreements signed by us, the occupancy fees for such POSs are settled either by the POS partners themselves or by us with the site owners directly where we deduct such amounts in the POS partners’ share of transaction GMV. We have not entered into tripartite agreement with our POS partners and the respective site owners in such circumstances. If the cooperation agreements with site owners are entered into by the POS partners, they will settle the occupancy fees directly with site owners.

We generally consider types of consumption scenarios, background of site owners and concentration level of potential POSs in the locations in determining whether the POSs will be directly operated by us or by our POS partners. Direct operation model is generally adopted for POSs at sites which we consider strategically important, such as certain schools and premises of KAs, which tend to have a large number of potential POS locations at a single site.

The table below sets forth the number of POSs by type of vending machines under the direct operation model as of the dates indicated:

	As of December 31,				As of June 30,
	2019	2020	2021	2022	2023
Type of vending machines					
Direct operation model					
Pick-and-go cabinets	27,420	8,122	6,430	6,992	6,233
Beverage vending machines	21,258	8,142	5,548	4,028	3,525
Beverage and snack vending machines	1,327	748	615	415	396
Freshly brewed beverage vending machines	2,201	1,228	954	972	972
Others ⁽¹⁾	356	153	112	65	63
Total	52,562	18,393	13,659	12,472	11,189

Note:

(1) Others include other types of machines such as orange juice machines and coconut juice machines.

During the Track Record Period, there was an overall decreasing trend of the number of POSs under the direct operation model due to our shift of business focus from the direct operation model to the partner model. The number of POSs of pick-and-go cabinets under the direct operation model increased in 2022 primarily due to the expansion our POS network in office premises of KAs primarily involving pick-and-go cabinets.

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The table below sets forth the average monthly GMV per POS of each type of our vending machines under the direct operation model for the periods indicated:

	For the year ended December 31,				For the six months ended June 30,	
	2019	2020	2021	2022	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Average monthly GMV per POS by type of vending machines under the direct operation model						
Pick-and-go cabinets	1,366	1,014	2,122	2,375	2,122	2,754
Beverage vending machines	4,265	2,521	3,592	2,875	2,476	3,962
Beverage and snack vending machines	3,296	4,227	6,035	4,297	3,735	8,096
Freshly brewed beverage vending machines	903	806	1,431	898	719	1,103
Others ⁽¹⁾	1,255	130	99	58	83	11
Overall	3,310	1,723	2,902	2,506	2,211	3,162

Note:

(1) Others include other types of machines such as orange juice machines and coconut juice machines.

The average monthly GMV per POS under the direct operation model decreased in 2020 as compared to 2019 primarily due to the impact of COVID-19 in 2020. During a partial recovery from COVID-19 in 2021, the average monthly GMV per POS under the direct operation model increased in 2021. The average monthly GMV per POS under the direct operation model was lower in 2022 as compared to 2021 primarily due to the regional resurgence of COVID-19 in mainland China in 2022 which affected our sales. The average monthly GMV per POS of beverage and snack vending machines under the direct operation model was lower in 2022 as compared to 2021 primarily because beverage and snack vending machines were mainly deployed at transportation hubs, which were heavily affected by the resurgence of COVID-19. The average monthly GMV per POS of beverage vending machines and freshly brewed beverage vending machines under the direct operation model decreased in 2022 as compared to 2021, primarily due to the reduction of sales activities amid the regional resurgence of COVID-19. The average monthly GMV per POS of pick-and-go cabinets under the direct operation model was higher in 2022 as compared to 2021 primarily due to (i) the relatively higher GMV generated by the newly developed POSs of pick-and-go cabinets, and (ii) the optimization of the POSs of pick-and-go cabinets including the removal or relocation of some of such POSs that were heavily affected by the regional resurgence of COVID-19. The average monthly GMV per POS under the direct operation model, in particular, the POSs of beverage and snack vending machines, which were mainly deployed at transportation hubs, was higher in the first half of 2023 as compared to the same period in 2022 primarily due to the recovery of consumer traffic and sales in the first half of 2023 following the relaxation of COVID-19 policies.

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Our POS Partners

To efficiently expand our footprint nation-wide, we have actively enhanced the use of POS partners since 2020 to form an extensive and effective network to help us expand more efficiently. We engage POS partners to assist with sourcing and establishing, while we manage the operation, of POSs. The partner model aligns our interest with those of our POS partners. While we remain entitled to the revenue generated by the machines, the POS partners are typically entitled to a share of the transaction GMV, subject to deduction of their responsible fees and costs. Under the partner model, the POS partners are primarily responsible for sourcing, establishing and bearing the costs in relation to POSs, such as the costs for development of POSs, occupancy fees and utility costs, which are typically borne by us under the direct operation model. With the POS partners being responsible for the costs in relation to POSs, they are motivated to actively negotiate with the site owners on the occupancy fees to better manage their costs and expenses associated with the POS sites. As such, we are insulated, to a certain extent and as compared to the direct operation model, from the risk that revenue from POSs is insufficient to cover such costs and expenses. By leveraging the resources of POS partners, who have more local sources to develop POSs and maintain the relationship with site owners, and sharing the POSs’ transaction GMV with the POS partners, we can relatively stabilize our profitability at machine level and incentivize our partners to generate more sales at the POSs.

The POS partners are not required to bear the daily operation costs of POSs, such as costs of procurement, restocking and maintenance. They are not responsible for the capital expenditure in relation to purchase of vending machines. The POS partners are incentivized to cooperate with us as they have the opportunity to tap into the unmanned retail business without incurring substantial upfront costs, capitalize on their POS resources and local expertise while reaping the benefits of our digitalization and operation capabilities. Being responsible for the occupancy fees and entitled to a share of transaction GMV, some of the POS partners had successfully negotiated with the site owners for reduction of occupancy fees to lower their costs and/or better locations to place the vending machines to increase sales as well as their share of transaction GMV. As of June 30, 2023, for unmanned retail business, we had a total of 14,892 POS partners, including 1,922 POS partners (excluding restaurant model partners) assisting with the operation of 49,350 POSs and 12,970 restaurant model partners assisting with the operation of 1,349 POSs^(Note 1). Revenue from POSs operated under the partner model amounted to 9.2%, 40.1%, 55.3%, 64.0%, 66.0% and 64.1% of our total revenue in 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively.

Note:

1. The number of our POS partners was greater than the number of our POSs because some restaurant model partners had contracted with us to become our POS partners but had not yet deployed any vending machines on their premises. In particular, in 2022 and early 2023, the deployment of vending machines at restaurants was generally postponed due to the regional resurgence of COVID-19 in mainland China that reduced consumer traffic and opening hours of certain consumption scenarios, including restaurants. In the same period, some POSs in restaurants that were heavily affected by COVID-19 were removed without terminating the cooperation agreements with the respective restaurant model partners for potential cooperation in the future.

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The table below sets forth the number of POSs by type of vending machines under the partner model as of the dates indicated:

	As of December 31,				As of June 30,
	2019	2020	2021	2022	2023
Type of vending machines					
Partner model					
Pick-and-go cabinets	1,023	21,719	45,503	30,668	29,148
Beverage vending machines	8,634	16,552	23,210	19,732	16,850
Beverage and snack vending machines	1,072	953	1,331	1,641	2,917
Freshly brewed beverage vending machines	–	603	1,100	1,381	1,449
Others ⁽¹⁾	160	247	336	338	335
Total	10,889	40,074	71,480	53,760	50,699

Note:

(1) Others include other types of machines such as orange juice machines and coconut juice machines.

During the Track Record Period, there was an overall increasing trend of the number of POSs under the partner model due to our shift of business focus from the direct operation model to the partner model. The number of POSs under the partner model decreased in 2022 primarily due to the regional resurgence of COVID-19 in mainland China in the same period as consumer traffic of certain consumption scenarios including restaurants were heavily affected by COVID-19. Despite that most travel restrictions and quarantine requirements were lifted in December 2022, which has led to the overall recovery of consumer traffic and business activities in the first half of 2023, the number of our Ubox POSs slightly decreased during the same period. This was mainly because the Company, POS partners and some other business partners such as site owners adopted a prudent approach towards the pace of recovery in the macro-environment under the prolonged impact of the pandemic and slowed down the expansion of the POS network in the same period.

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The table below sets forth our POS partners’ (excluding restaurant model partners) average monthly GMV per POS of each type of our vending machines for the periods indicated:

	For the year ended December 31,				For the six months ended June 30,	
	2019	2020	2021	2022	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
POS partners’ average monthly GMV per POS by type of vending machines						
Pick-and-go cabinets	2,159	1,872	2,048	2,146	1,885	2,600
Beverage vending machines	4,152	3,624	4,344	3,772	3,505	3,817
Beverage and snack vending machines	1,592	1,502	1,956	1,642	1,380	2,166
Freshly brewed beverage vending machines	–	2,107	1,330	963	998	798
Others ⁽¹⁾	590	– ⁽²⁾	– ⁽²⁾	– ⁽²⁾	– ⁽²⁾	– ⁽²⁾
Overall	3,850	2,729	2,933	2,749	2,512	2,953

Notes:

- (1) Others include other types of machines such as orange juice machines and coconut juice machines.
- (2) The average monthly GMV for the years ended December 31, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023 of other machines under the partner model were nil because the machines were used for free distribution of samples products, mainly infant products.

Our POS partners’ (excluding restaurant model partners) average monthly GMV per POS decreased in 2020 as compared to 2019 primarily due to the impact of COVID-19. During a partial recovery from COVID-19 in 2021, their average monthly GMV per POS increased in 2021. Our POS partners’ (excluding restaurant model partners) average monthly GMV per POS was lower in 2022 as compared to 2021 primarily due to the regional resurgence of COVID-19 in mainland China in 2022 which affected consumer traffic and sales. Our POS partners’ (excluding restaurant model partners) average monthly GMV per POS of pick-and-go cabinets was higher in 2022 as compared to 2021 primarily due to (i) the relatively higher GMV generated by the newly developed POSs of pick-and-go cabinets, and (ii) the optimization of the POSs of pick-and-go cabinets including the removal or relocation of some of such POSs that were heavily affected by the regional resurgence of COVID-19. Our POS partners’ (excluding restaurant model partners) average monthly GMV per POS increased in the first half of 2023 as compared to the same period in 2022 primarily due to the recovery of consumer traffic and sales in the first half of 2023 following the relaxation of COVID-19 policies.

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The number of POS partners (excluding restaurant model partners) increased in 2021, 2022 and the six months ended June 30, 2023 primarily due to our focus on the partner model since 2020. The table below sets forth the movement in the number of our POS partners (excluding restaurant model partners) for the periods indicated:

	For the year ended December 31,				For the six months ended June 30,
	2019	2020	2021	2022	2023
	Number of POS partners				
At the beginning of the period	222	993	1,089	1,684	1,875
Joined during the period	803	379	817	651	115
Terminated during the period	(32)	(283)	(222)	(460) ⁽¹⁾	(68)
At the end of the period	993	1,089	1,684	1,875⁽²⁾	1,922

Notes:

- (1) There was an increasing trend of the number of POS partners terminated during the Track Record Period primarily due to the reduction of such POS partners’ revenue as a result of lockdowns, standstills and other restrictive measures adopted by PRC government authorities in containing COVID-19 since 2020. The number of POS partners terminated during 2022 was higher as compared to 2021 primarily because some of the POS partners did not renew the cooperation agreements with us upon expiry. For example, some of the POS partners were unable to renew their cooperation agreements with the site owners upon expiry primarily because the site owners changed their business plans and use of the premises or the POS partners lost their POSs to other successful bidders; some of them closed their unmanned retail business amid the resurgence of COVID-19; and some of them changed their business development plans. The termination of the 460 POS partners during 2022 did not materially nor adversely affect our business operations as there were only 1,436 POSs operated under such POS partners as of December 31, 2021.
- (2) There was a decrease in the number of POSs under the partner model in 2022 despite the increase in the number of our POS partners (excluding restaurant model partners) in the same period primarily because the existing and new POS partners’ development and maintenance of POSs was adversely affected by the resurgence of COVID-19, during which their expansion of POS network was limited and some of their POSs were closed.

Upon expiry or termination of the cooperation agreements with the POS partners where the occupancy agreements with site owners are entered into by the Group, we will typically evaluate the quality of the POSs under such POS partners and may (i) negotiate with other POS partners and transfer such POSs to them, (ii) operate such POSs temporarily under the direct operation model pending negotiation with other POS partners for the transfer of such POSs, (iii) convert such POSs to be operated under the direct operation model, or (iv) close such POSs upon expiry of the occupancy agreements.

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As of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, we cooperated with nil, nil, 19,144, 13,882 and 12,970 restaurant model partners, respectively. The table below sets forth the movement in the number of our restaurant model partners for the periods indicated:

	For the year ended December 31,				For the six months ended June 30,
	2019	2020	2021	2022	2023
Number of restaurant model partners					
At the beginning of the period	-	-	-	19,144	13,882
Joined during the period	-	-	19,144	2,667	35
Terminated during the period	-	-	-	(7,929)	(947)
	-	-	19,144	13,882	12,970
At the end of the period	-	-	19,144	13,882	12,970

The number of our restaurant model partners decreased in 2022 primarily because some of our restaurants model partners did not renew their cooperation agreements with us upon expiry in the fourth quarter of 2022 as their POSs in restaurants that were heavily affected by the resurgence of COVID-19 in 2022 were removed. As of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, the number of “active” restaurant model partners which had POSs in their premises were nil, nil, 15,663, 1,620 and 908, respectively. The effect of the movement of restaurant model partners’ POSs was insignificant as their transaction GMV only amounted to RMB9.1 million, RMB46.2 million and RMB10.3 million, representing 0.4%, 2.1% and 0.9% of the total transaction GMV, in 2021, 2022 and the six months ended June 30, 2023, respectively. As of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, there were nil, nil, 16,962, 2,238 and 1,349 POSs operated under the restaurant model partners, respectively. As of December 31, 2021, 2022 and June 30, 2023, approximately 99.5%, 98.1% and 96.6% of the POSs operated under the restaurant model partners were located in restaurants or public venues such as gyms and cinemas, respectively.

Our POS partners primarily consist of individuals and enterprises with previous experience and industry knowledge in vending machine business and some of them are our former employees. Their business scope covers a wide range of industries, including but not limited to operation of vending machines, vending machine sales and leases, merchandise wholesale and retail, software technology, environmental protection technology, information security technology development, computer system services, information technology consulting services, supply chain management services, warehousing services, operation of restaurants, etc. Considering the business opportunity of the unmanned retail industry given its high growth rate and low market penetration rate, our POS partners of different background are willing to cooperate with us to capitalize on their POS resources and local expertise to tap into the unmanned retail industry, while leveraging our outstanding operational capabilities. Generally, our POS partners, including our former employees who typically had long service time in the Group with strong management skills and good performance records, have established business and social network in the local areas through their existing businesses, job positions and/or recommendations from acquaintances, which allow them to have access to more potential site owners and source more suitable POSs. For example, an information

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technology service provider providing software and hardware support to corporate customers typically has access to information of these customers, such as their office addresses, office settings and operation scale such as number of employees. The service provider is well-positioned to explore the possibility of placing vending machines at the office premises of its customers. Through cooperating with us under the partner model and becoming our POS partner, the service provider can strengthen its business relationship with its existing customers and further diversify its sources of income without substantial capital investment. We also have a number of individual POS partners who are able to locate potential POS sites leveraging their resources. For example, a staff member in school or hospital can also make use of his/her personal connection within his/her work place to source suitable locations and develop POSs inside or in the vicinity of his/her work place. A person who is acquainted with staff members working at locations with high consumer traffic can also get in touch with the relevant site owners through their acquaintances to consider the feasibility of setting up POSs at the premises. Our partner model allows such individuals to earn additional income with their existing connection and resources through becoming our POS partners.

The table below sets forth the respective total number of our POS partners (excluding restaurant model partners) who were individuals, sole proprietorships and corporate entities as of the dates indicated:

	As of December 31,				As of June 30,
	2019	2020	2021	2022	2023
Individuals	708	635	1,029	969	923
Sole proprietorships	42	231	343	460	522
Corporate entities	243	223	312	446	477
Total	993	1,089	1,684	1,875	1,922

The table below sets forth the respective total number of our restaurant model partners who were individuals, sole proprietorships and corporate entities as of the dates indicated:

	As of December 31,				As of June 30,
	2019	2020	2021	2022	2023
Individuals	–	–	19,036	13,803	12,909
Sole proprietorships	–	–	49	12	11
Corporate entities	–	–	59	67	50
Total	–	–	19,144	13,882	12,970

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During the Track Record Period, 198 POS partners were our former employees. Since 2020, we have invited our then employees to become POS partners with the aim of instilling a sense of ownership among the then employees through allowing them to assist with the management of and share the transaction GMV of our POSs. The majority of the former employees who became POS partners were former executive staff from the Group’s sales and marketing department with long working experience in the industry. The transition provided our former employees with stronger incentives to source and develop more and better POSs. It also optimized our management structure and reduced our staff costs, especially in light of the impact of COVID-19. There was no sharing of resources between our Group and our former employees during the operation and management of the relevant POSs. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2023, the POSs that we operated with the assistance of such POS partners who were our former employees contributed to nil, RMB595.4 million, RMB1,199.2 million, RMB1,070.6 million and RMB528.6 million (or nil, 38.9%, 56.2%, 49.5% and 47.4%) of our transaction GMV^(Note 1) generated from our unmanned retail business, respectively, and such GMV corresponded to, after deducting value-added tax, nil, RMB526.9 million, RMB1,061.2 million, RMB947.4 million and RMB467.8 million (or nil, 39.4%, 55.4%, 48.0% and 47.4%) of our revenue in the corresponding periods generated from our unmanned retail business, respectively. As of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, these POS partners assisted with the management of nil, 30,753, 33,777, 30,877 and 29,352 POSs, representing nil, 52.6%, 49.5%, 48.2% and 48.5% of our Ubox POSs^(Note 1), respectively. The proportions of these POS partners’ transaction GMV and revenue contribution in 2020 were significantly lower than the proportion of their number of POSs as of December 31, 2020 primarily because most of our then employees had become our POS partners since mid-2020 and their POSs did not contribute to our transaction GMV and revenue for the whole year. In 2021 and 2022, the increased proportions of these POS partners’ transaction GMV and revenue contribution were consistent with the proportion of their number of POSs as of December 31, 2021 and 2022, respectively. We do not expect the number of POS partners who were our former employees to increase in the future. To the best knowledge of our Directors, all of our POS partners, including our former employees, were Independent Third Parties as of the Latest Practicable Date^(Note 2).

Notes:

1. Excluding POSs of restaurant model partners, who have become our POS partners gradually since August 2021.
2. As of the Latest Practicable Date, among our over 14,000 POS partners, six of them were relatives of the directors, supervisors or chief executives of our insignificant subsidiaries. These POS partners do not constitute connected persons of our Company, and our transactions with them will not constitute continuing connected transactions under Chapter 14A of the Listing Rules. POSs managed by these individuals amounted to 366 as of the Latest Practicable Date, representing 0.6% of our Ubox POSs as of June 30, 2023, and contributed to nil, 0.5%, 0.8%, 0.6% and 0.6% of our transaction GMV in 2019, 2020, 2021, 2022 and June 30, 2023, respectively.

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Other than the POS partners who were our former employees, we generally recruit POS partners through presentations and sharing sessions in industry exhibitions and conferences, where we can be acquainted with individuals and companies in the payment services sector and local retail markets and explore opportunities of cooperation with them. For example, during the Track Record Period, we hosted the Ubox Open Day Salon (友寶開放日沙龍活動) in 2019 and attended the 2020 INCLUSION — Bund Conference & Alipay Partner Summit (2020 INCLUSION — 外灘大會暨支付寶合作夥伴峰會) in 2020, the 2021 CCLE China Education Logistics Exhibition forum (2021 CCLE 中國教育後勤展暨論壇活動), the Alipay Jiangxi Ecological Partner Development Conference (支付寶江西生態合作夥伴發展大會), and the Alipay IoT Service Provider Conference (支付寶IoT服務商大會) in 2021. Our sales and marketing team also sources POS partners through referrals. We have formed a comprehensive set of methods for sourcing suitable POS partners in the long run and engaged 115 new POS partners in the six months ended June 30, 2023 through such measures. See “Financial Information — Business Sustainability — Further Expanding Our POS Network.” To ensure the high quality of our POS partners, we have in place formalized and detailed selection criteria, which mainly include among others, value compatibility, industrial knowledge, marketing resources and credit status. We serve and manage our POS partners in various aspects including machine trainings and supports and brand management. In order to maintain the existing POS partners in the long run, we typically assist and encourage our existing POS partners to fully utilize their POS resources and expand their POS network through the provision of case studies and experience sharing. We also support the POS partners in the continuous adjustment and optimization of their POS network through the provision of machine relocation and installation services. We facilitate communication between the Group and the existing POS partners by assigning personnel in each geographical region as the contact points.

During the Track Record Period, for POS partners who were our former employees, we entered into cooperation agreements directly with site owners with respect to their initial POSs. We typically prohibit POS partners who were our former employees from cooperating with our competitors, and require them to maintain a certain number of POS sites. Save for the above, we implemented the same management measures over all of our POS partners and did not grant any preferential terms to any POS partners that were our former employees. Salient terms of our agreements with POS partners are as follows:

- *Scope of cooperation.* POS partners are primarily responsible for sourcing, establishing and bearing the costs in relation to POSs. They may help us secure sites for machines we operate and are responsible for costs for development of POSs, occupancy fees and utility costs. POS partners typically enter into cooperation agreement directly with site owners, or procure the site owners to enter into cooperation agreements with us. For POS partners who are restaurant model partners, they are generally the site owners and we enter into cooperation agreement with them directly. See “— Sourcing and Establishing Ubox POSs.”
- *Term.* The agreements we enter into with the POS partners typically have a term of one year to three years.

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- *Fees.* Regardless of whether we or POS partners enter into the cooperation agreement with site owners, POS partners are responsible for the occupancy fees and utility costs. We also generally charge POS partners a monthly rental for deploying each machine to POSs secured by them, one-off installation fee for each machine deployed and transaction fees charged by third-party payment service providers for purchases on each machine. These fees and costs are deducted from their share of transaction GMV.
- *Settlement.* We settle payments by bank transfer on a monthly basis.
- *Termination.* We have the right to unilaterally terminate the agreement when the POS partner is in material breach of the agreement, such as using the machines as debt security, and altering the system software or the machines’ payment collection settings.
- *Profit sharing and settlement.* For our unmanned retail business, POS partners, other than restaurant model partners, are typically entitled to a share of approximately 20% to 30% of the transaction GMV, depending on the type and number of machines installed and the monthly transaction GMV, subject to deductions of their responsible costs and expenses, which typically include, among others, rent for vending machines determined with reference to the types and depreciation of the relevant vending machines and the actual amounts of occupancy fees paid by the Group (if any) and third-party payment service providers’ charges. Based on our experience in the operation of the Ubox POSs under direct operation model, we estimate that, in the absence of the impact of external factors such as regional resurgence of COVID-19 and pandemic control measures taken by local governments, the POS partners’ costs of maintaining POSs, including their staff costs, occupancy fees (save for POSs in locations with relatively higher occupancy fees such as transportation hubs) and utility costs, would generally account for less than approximately 20% of the transaction GMV. As such, we consider that a share of 20% to 30% of the transaction GMV is generally sufficient for the POS partners to retain some profit and cover their costs.

For POS partners who are restaurant model partners, they only deploy pick-and-go cabinets in their premises and are generally entitled to keep the difference between the transaction GMV and the predetermined merchandise price they agreed with us. The profit sharing and fees arrangement with the restaurant model partners is different than the other POS partners, as the retail price for beverages in the restaurant scenario is much higher than in other scenarios. While we provide merchandise with competitive supply price along with restocking and other services, the restaurant model partners share profit for difference between the price set by them at their premises and the supply price charged by us. This arrangement is attractive for restaurant model partners primarily because (i) we generally offer a competitive supply price as we usually purchase in bulk from merchandise suppliers and distributors and (ii) our pick-and-go cabinets allow consumers to directly

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purchase and pick up beverages without any assistance from restaurant staff which further reduces the restaurant model partners’ staff costs. The deployment of our machines does not compete with the restaurant model partners’ business as they are entitled to the entire profit generated from the machines. Such arrangement is also favorable to the expansion of our POS network.

- *Marketing activities and discounts of merchandise prices.* POS partners may provide discounts for merchandise sold at their POSs in marketing events co-organized with the site owners or in their marketing campaign. For example, one of our POS partners cooperated with a site owner, which is a large-scale internet company, to provide discounted merchandise at the POSs located in the premises of the internet company as part of the company’s employee welfare activities. Upon the POS partners’ requests, the prices of merchandise at the POSs can be adjusted. The discounted amounts are borne by the POS partners and are deducted from their share of GMV.
- *Subsidies.* We provide subsidies to POS partners for, among others, POSs at transportation hubs and scenic spots where the occupancy fees are relatively higher and POSs at schools with reduced consumer traffic and sales activities amid the COVID-19 pandemic. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, we provided subsidies in the amount of nil, RMB14.2 million, RMB14.3 million, RMB10.3 million, RMB4.7 million and RMB4.7 million to our POS partners, respectively.

For POS partners using their own vending machines, we provide merchandise procurement and restocking services and share transaction GMV with them while they develop and maintain their POS resources. Despite their experience and ability to operate their own vending machines, such POS partners have relatively small scale of operation and operation capabilities as compared to our Group. Through cooperating with us and integrating their POSs into our operation system, such POS partners can take advantage of our digitalization and operation capabilities and reduce their operation costs. It is also more favorable for such POS partners to focus on the improvement of their POS resources and business network.

Non-Ubox POS Operators

Our Non-Ubox POS operators primarily consist of individuals and SMEs which operate vending machines that are connected to our operation system. Their business scope includes vending machine sales and leases, merchandise sales, software development services, technology consulting services, computer software and hardware manufacturing, etc. All the vending machines operated by the Non-Ubox POS operators are operated under our operation system. Not all the vending machines operated by the Non-Ubox POS operators bear our brand name, depending on the ownership of the vending machines and site owners’ requirements. In general, for the vending machines that are owned by us, the Non-Ubox POS operators are not allowed to make any changes to our brand name or logo on the vending machines, while for the vending machines that are owned by the Non-Ubox POS operators, they are not required

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to keep or display our brand name or logo on the vending machines. In addition, our brand name or logo on vending machines may be covered subject to specific requirements of the site owners. Non-Ubox POS operators may choose to purchase or rent our vending machines, or use their own vending machines to sell the merchandise. Since the Non-Ubox POS operators are the operators of these vending machines, they are entitled to the revenue generated in these POSs. Such model is commonly used in the vending machine industry in mainland China, according to Frost & Sullivan. By collaborating with Non-Ubox POS operators, we can leverage their resources to expand our POS network and establish our market presence.

As of June 30, 2023, we had 1,153 Non-Ubox POS operators and we had 17,554 Non-Ubox POSs connected to our operation system. The table below sets forth the movement of the Non-Ubox POSs for the periods indicated:

	For the year ended December 31,				For the six months ended June 30,
	2019	2020	2021	2022	2023
Number of Non-Ubox POSs at the beginning of the period (A)	20,038	17,410	17,159	17,600	17,272
Number of Non-Ubox POSs opened during the period (B1)	4,584	2,917	2,240	2,680	1,278
Number of Non-Ubox POSs closed during the period (B2)	(4,021)	(2,997)	(1,934)	(3,340)	(1,350)
Net increase/(decrease) in the number of Non-Ubox POSs during the period (B1+B2)	563	(80)	306	(660)	(72)
Net increase/(decrease) in the number of Non-Ubox POSs due to change in operation model (C)	(3,191)	(171)	135	332	354
Number of Non-Ubox POSs at the end of the period (A+B1+B2+C)	17,410	17,159	17,600	17,272	17,554

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The table below sets forth the breakdown of our Non-Ubox POS coverage by city tier as of the dates indicated:

	As of December 31,								As of June 30,	
	2019		2020		2021		2022		2023	
		%		%		%		%		%
Non-Ubox POS by city tier										
Tier one cities	1,715	9.9	1,462	8.5	1,418	8.0	1,386	8.0	1,404	8.0
New tier one cities	3,661	21.0	3,525	20.5	3,593	20.4	3,575	20.7	3,740	21.3
Tier two cities	4,232	24.3	4,105	23.9	4,220	24.0	4,359	25.2	4,559	26.0
Tier three cities	4,168	23.9	4,367	25.5	4,501	25.6	4,128	23.9	4,090	23.3
Others	3,634	20.9	3,700	21.6	3,868	22.0	3,824	22.1	3,761	21.4
Total	17,410	100.0	17,159	100.0	17,600	100.0	17,272	100.0	17,554	100.0

The table below sets forth the number of Non-Ubox POSs by consumption scenario as of the dates indicated:

	As of December 31,								As of June 30,	
	2019		2020		2021		2022		2023	
		%		%		%		%		%
Non-Ubox POS by consumption scenario										
Schools	5,013	28.8	4,965	28.9	5,208	29.6	5,152	29.8	5,469	31.2
Factories	6,676	38.3	6,602	38.5	6,369	36.2	6,164	35.7	6,063	34.5
Office premises	373	2.1	609	3.5	1,098	6.2	1,149	6.7	1,232	7.0
Public venues ⁽¹⁾	3,292	18.9	3,130	18.2	3,014	17.1	2,986	17.3	3,050	17.4
Transportation hubs	777	4.5	742	4.3	679	3.9	711	4.1	671	3.8
Restaurants	37	0.2	32	0.2	34	0.2	29	0.2	34	0.2
Others ⁽²⁾	1,242	7.1	1,079	6.3	1,198	6.8	1,081	6.3	1,035	5.9
Total	17,410	100.0	17,159	100.0	17,600	100.0	17,272	100.0	17,554	100.0

Notes:

- Public venues include, among others, tourist attractions, parks, hospitals, shopping centers and sports venues.
- Others primarily include hotels, local communities and residential apartments.

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The table below sets forth the number of Non-Ubox POSs by type of vending machines for the periods indicated:

	As of December 31,				As of June 30,
	2019	2020	2021	2022	2023
Number of Non-Ubox POSs by type of vending machines					
Pick-and-go cabinets	17	112	1,526	2,331	3,071
Beverage vending machines	14,167	14,000	13,112	12,094	11,798
Beverage and snack vending machines	2,421	2,536	2,472	2,248	2,092
Others ⁽¹⁾	805	511	490	599	593
Total	17,410	17,159	17,600	17,272	17,554

Note:

(1) Others include other types of machines such as orange juice machines and coconut juice machines.

During the Track Record Period, the total number of our Non-Ubox POSs remained stable with an increasing proportion of pick-and-go cabinets. Our Non-Ubox POS operators prioritized launching of POSs of pick-and-go cabinets primarily due to the relatively low purchase and setting up costs of pick-and-go cabinets and the flexible compartment of pick-and-go cabinets which can accommodate a wide range of merchandise of different dimensions.

The table below sets forth the movement in the number of our Non-Ubox POS operators that had entered into cooperation agreements with us for the periods indicated:

	For the year ended December 31,				For the six months ended June 30,
	2019	2020	2021	2022	2023
Number of Non-Ubox POS operators					
At the beginning of the period	1,470	2,046	2,049	1,665	1,292
Joined during the period	746	335	247	445	161
Expired or terminated during the period	(170)	(332)	(631)	(818)	(300)
At the end of the period	2,046	2,049	1,665	1,292	1,153

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During the Track Record Period, there was an increasing trend of the reduction in the number of Non-Ubox POS operators especially since 2021, which were primarily due to the shift of our business strategy from collaborating with Non-Ubox POS operators to engaging POS partners. With the strategic shift of our business focus, we did not take the initiative to renew the existing cooperation agreements with Non-Ubox POS operators upon expiry or pursue new Non-Ubox POS operators except for merchandise wholesale customers. In order to ensure a smooth transition, generally, we did not actively terminate our existing cooperation agreements with Non-Ubox POS operators during the Track Record Period. In addition, some of our Non-Ubox POS operators had small scales of operation with less than five vending machines connected to our operation system. Those small-scale operations were much impacted by the prolonged COVID-19 pandemic when schools, transportation hubs and office premises were temporarily closed. Therefore, some small-scale Non-Ubox POS operators did not renew their cooperation agreements with us upon expiry and the number of our Non-Ubox POS operators significantly decreased in 2021 and 2022. The number of newly joined Non-Ubox POS operators increased in 2022 primarily because some of our merchandise wholesale customers using our shared warehouses entered into cooperation agreements with us to become our Non-Ubox POS operators. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2023, there were 4, 3, 3, 174 and 70 merchandise wholesale customers that had become our Non-Ubox POS operators, respectively. The number of merchandise wholesale customers increased in 2022 primarily because we actively expanded our shared warehouse business and some of these merchandise wholesales customers would like to use our operating system, which could potentially help them save operation costs and improve operational efficiency, and became our Non-Ubox POS operators during the same period.

The table below sets forth the respective total number of our Non-Ubox POS operators who were individuals, sole proprietorships and corporate entities as of the dates indicated:

	As of December 31,				As of June 30,
	2019	2020	2021	2022	2023
Individuals	1,293	1,361	1,127	834	746
Sole proprietorships	86	80	62	52	57
Corporate entities	667	608	476	406	350
Total	2,046	2,049	1,665	1,292	1,153

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The table below sets forth our Non-Ubox POS operators’ average monthly GMV per POS of each type of our vending machines for the periods indicated:

	For the year ended December 31,				For the six months ended June 30,	
	2019	2020	2021	2022	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Non-Ubox POS operators’ average monthly GMV per POS by type of vending machines						
Pick-and-go cabinets	695	1,563	1,410	1,371	1,261	1,617
Beverage vending machines	4,141	2,870	3,349	2,524	2,460	2,427
Beverage and snack vending machines	2,643	2,225	2,570	1,844	1,930	1,890
Others ⁽¹⁾	312	115	72	20	19	17
Overall	3,786	2,671	3,087	2,212	2,177	2,152

Note:

(1) Others include other types of machines such as orange juice machines and coconut juice machines.

Our Non-Ubox POS operators’ average monthly GMV per POS decreased in 2020 as compared to 2019 primarily due to the impact of COVID-19 in 2020. During a partial recovery from COVID-19 in 2021, their average monthly GMV per POS increased in 2021. Our Non-Ubox POS operators’ average monthly GMV per POS was lower in 2022 as compared to 2021 primarily due to the regional resurgence of COVID-19 in mainland China in 2022 which affected consumer traffic and sales.

The table below sets forth the revenue and cost/expenses recognition (in relation to the respective revenue generation) for Non-Ubox POSs with respect to our different business segments:

	Type of services	Revenue recognition	Cost/expenses recognition
Non-Ubox POSs	Vending machine sales and leases and/or hardware support services (optional)	Vending machine sales and leases	Cost of sales
	Merchandise wholesale (optional)	Merchandise wholesale	Cost of sales
	Operation system support	Advertising and system support services	Sales and marketing expenses, general and administrative expenses

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The principal terms of the cooperation agreements are summarized as follows:

- Term of agreement : One year to five years in general.
- Renewal of agreement : Automatic renewal upon expiration unless either party objects in general.
- Ownership of vending machines : Non-Ubox POS operators may choose to buy or lease vending machines from us or use their own machines. For machines sales and leases from us, see “— Our Product and Service Offerings — Vending Machine Sales and Leases.”
- Services provided by us : We provide hardware support services and operation system support to Non-Ubox POS operators per their requests. For revenue generated from advertising and system support services, such as merchandise displayed on machine racks, advertising on machine screen, we do not share such revenue with Non-Ubox POS operators. See “— Our Product and Service Offerings — Vending Machine Sales and Leases” and “— Our Product and Service Offerings — Advertising and System Support Services — Operation System Support.”
- Non-Ubox POS operators’ responsibilities : Operation of vending machines, participating in our marketing campaigns during their operation.
- Supply of merchandise : Non-Ubox POS operators may choose to:
- (i) purchase merchandise from us (as our buyers rather than agents) at favorable prices for selling in vending machines; or
 - (ii) source and sell merchandise from third parties, including beverages and food manufacturers or their distributors.

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- Restrictions on SKUs sold in vending machines : Non-Ubox POS operators may be required to undertake that for the vending machines they purchased or rented from us, (i) a proportion of machine racks will be used to sell designated SKUs which shall be displayed in the manner we require; (ii) a proportion of machine racks will be used to sell SKUs as listed in our internally recommended product catalogue; and (iii) the remaining machine racks can be used to place self-selected products determined by Non-Ubox POS operators. The Non-Ubox POS operators are not required to purchase the designated or recommended SKUs from us under the cooperation agreements but we offer competitive merchandise wholesale prices.
- Sales target and minimum purchase amount : If they choose to procure merchandise from us, Non-Ubox POS operators are required to purchase a minimum amount of merchandise from us on a monthly basis. If the actual purchase amount falls below the minimum purchase amount, the relevant Non-Ubox POS operators shall pay us certain percentage of the shortfall as service fees.
- Termination : The agreement with Non-Ubox POS operators shall be terminated in the following manner:
- (i) If they rent or have outstanding installments for machines they purchased, the Non-Ubox POS operators shall notify us in writing 30 days in advance, and shall return our vending machines and settle all payments including transportation fees and maintenance fees;
 - (ii) We have the right to unilaterally terminate the agreement when any Non-Ubox POS operator is in material breach of the agreement; and
 - (iii) The agreement may be terminated upon mutual agreement.

Management of Our Non-Ubox POS Operators

During the Track Record Period, all of our Non-Ubox POS operators were Independent Third Parties, and most of them purchased or rented vending machines from us.

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To ensure sufficient control over our Non-Ubox POS operators which purchase or rent our vending machines, we have introduced the following measures:

- *Selection of Non-Ubox POS operators.* We carefully select our Non-Ubox POS operators considering, among others, the following factors: (i) availability of suitable sites; (ii) financial conditions; (iii) commitment to our corporate culture and brand concept; and (iv) local knowledge and resources.
- *Training.* We provide guidelines and training in respect of the operation of vending machines to our Non-Ubox POS operators.
- *Vending machine operation.* The Non-Ubox POS operators should follow our operating standards and their vending machines should be connected to our operation system. We do not provide recommended prices, nor do we accept merchandise return or refund from our Non-Ubox POS operators.
- *Marketing.* Pursuant to our agreements with Non-Ubox POS operators, they are obliged to participate in our promotional activities to ensure consistent implementation of our marketing strategies.
- *Non-competition.* We only cooperate with a limited number of Non-Ubox POS operators in a geographical area to avoid cannibalization.
- *Ongoing supervision.* We closely supervise our Non-Ubox POS operators via our operation system and conduct spot checks on the quality of products sold through their vending machines regularly.

The table below sets forth a comparison of our arrangements with restaurant model partners and Non-Ubox POS operators:

	Restaurant model partners	Non-Ubox POS operators
Ownership of the vending machines	The vending machines, placed at the POSs of the restaurant model partners, are properties that belong to the Group.	Non-Ubox POS operators may choose to purchase or rent our vending machines, or use their own vending machines to sell the merchandise.
Scope of cooperation	The POSs are operated by the Group, including maintenance of the machines, restocking of merchandise and providing customer services. The restaurant model partners, as the site owners, are responsible for providing spaces for the deposition of vending machines and bearing utility costs.	The Non-Ubox POS operators operate their POSs that are connected to our operation system, which (i) allows them to monitor their machines' operating status in real time, (ii) generates restocking alerts and (iii) recommends restocking schedules and routing plans.

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	Restaurant model partners	Non-Ubox POS operators
Profit sharing arrangements	The restaurant model partners keep the difference between the price set by them at their premises and the supply price charged by the Group as profit.	The Non-Ubox POS operators are entitled to all the revenue generated by their POSs and recognize the purchase prices of merchandise supplied by the Group, if any, as costs.
Type(s) of merchandise sold by the machines	Beverages only.	To be determined by the Non-Ubox POS operators and may include a wide range of merchandise, such as food, snacks and beverages.
Sourcing and restocking of merchandise	The Group procures the beverages, manages the inventory level and is responsible for restocking the POSs.	The Non-Ubox POS operators are responsible for procurement of merchandise and restocking of their POSs. They can procure merchandise from the Group or any other suppliers.

Our revenue generated from the arrangement with restaurant model partners is recorded under our unmanned retail business instead of merchandise wholesale primarily because (i) such revenue is generated from our direct sales of the merchandise to the consumers who purchase the merchandise from our pick-and-go cabinets, which does not involve sales to the restaurant model partners for the purpose of reselling to the consumers, (ii) we control the merchandise and undertake the inventory risk before the merchandise is transferred to the consumers, (iii) we are primarily responsible for fulfilling the obligation to provide the merchandise to the consumers through the vending machines, collect the payment from the consumers, and pay the differences between the merchandise prices and our supply prices to the restaurant model partners subsequently, and (iv) the supply prices of our merchandise sold to the restaurant model partners are generally higher than those to the Non-Ubox POS operators and we can control and monitor the restaurant model partners’ share of profit by adjusting our supply prices.

OUR PRODUCT AND SERVICE OFFERINGS

Unmanned Retail Business

Our unmanned retail business comprises sales of FMCG through vending machines at Ubox POSs. It is based on our vast network of Ubox POSs across mainland China, supported by our data-driven operation system. By installing our vending machines at each of our Ubox POSs, we offer consumers swift and convenient access to a broad selection of FMCG, including bottled beverages, snacks and freshly brewed coffee and other beverages. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, our unmanned retail business accounted for 56.5%, 70.3%, 71.6%, 78.4%, 79.9% and 78.8% of our revenue, respectively.

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Machines installed at each of our Ubox POSs serve as our touch points with consumers, and are integral to our nation-wide retail platform. To facilitate our nation-wide expansion, commencing from 2020, we have actively enhanced the use of POS partners to assist us with sourcing and establishing POSs. We have since started to adopt the partner model in addition to the direct operation model as we believe this allows more flexible and efficient network expansion. See “— Our POS Network — Our POS Partners” for details of our cooperation with POS partners. We generally adopt a direct operation model for POSs at strategically important sites, such as schools and premises of KAs, which tend to have a large number of potential POS locations at a single site. See “— Our POS Network — Sourcing and Establishing Ubox POSs” for details of factors we take into consideration in deciding whether to operate a POS under the direct operation model or partner model. As of June 30, 2023, we had entered into strategic cooperation with various leading internet companies, logistics service providers, automobile manufacturers and companies from other industries, including Deppon Logistics and Xiaomi, to deploy over 6,100 POSs to their premises nationally. Under our cooperation agreements with the companies for deploying POSs to their premises, we generally set out the numbers and types of vending machines to be deployed, with the companies being responsible for providing spaces for the deposition of vending machines and bearing utility costs, and we being responsible for operating the vending machines, including maintenance of the machines, restocking of merchandise and providing customer services. The companies are generally entitled to a fixed occupancy fee or a share of the transaction GMV of the vending machines pursuant to the cooperation agreements. At other locations, we generally adopt a partner model, where we engage POS partners to assist us with sourcing and establishing POSs. As of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, we had over 63,400, 58,400, 85,100, 66,200 and 61,800 Ubox POSs across mainland China, respectively, of which approximately 17.2%, 68.5%, 84.0%, 81.2% and 81.9% were operated under the partner model, respectively.

Our operation system is the backbone of our retail platform. Equipped with advanced telecommunication technology, each of the machines in our network is connected to our centralized operation system over the cloud operated by third-party cloud service providers, which enables our machines to instantly transmit data across our retail platform, and allows operators to constantly monitor its operating status in real time. Our operation system and vending machines have formed an inter-connected network that is able to operate without manual intervention or reconciliation of transaction data in certain material aspects, such as monitoring and evaluating the performance of existing vending machines, identifying the optimal sites for Ubox POSs, recommending the most popular and profitable merchandise at each machine in real time, constantly adjusting the merchandise mix recommendation, monitoring machine inventory level, generating restocking alerts, formulating restocking schedules and routing plans, and generating maintenance requests to our operation staff. See “— Our Technology-based Retail Platform — Our Technologies” for details.

Our data-driven operation network, comprising our suppliers, storage facilities and operation team, is closely knitted with our operation. With real-time update on the machine and inventory status, restocking and delivery route recommendation, our operation network is able to maintain a sufficient and efficient supply flow. See “— Logistics and Inventory Management.”

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Our Vending Machines

We install vending machines at each of our Ubox POSs across mainland China. The table below sets forth the breakdown of our Ubox POSs by city tier as of the dates indicated:

	As of December 31,								As of June 30,	
	2019		2020		2021		2022		2023	
	%	%	%	%	%	%	%	%	%	%
Ubox POSs by city tier										
Tier one cities	16,625	26.2	15,836	27.1	21,572	25.3	19,929	30.1	19,611	31.7
New tier one cities	21,462	33.8	17,725	30.3	30,580	35.9	23,077	34.8	21,365	34.5
Tier two cities	15,838	25.0	15,228	26.0	22,097	26.0	14,405	21.7	13,031	21.1
Tier three cities	6,420	10.1	5,718	9.8	7,042	8.3	5,820	8.8	5,177	8.4
Others	3,106	4.9	3,960	6.8	3,848	4.5	3,001	4.6	2,704	4.3
Total	63,451	100.0	58,467	100.0	85,139	100.0	66,232	100.0	61,888	100.0

The following table sets forth the GMV of vending machines at our Ubox POSs by city tier for the periods indicated:

	For the year ended December 31,								For the six months ended June 30,			
	2019		2020		2021		2022		2022		2023	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
GMV of vending machines by city tier												
Tier one cities	522,209	30.3	417,198	27.3	589,227	27.5	611,496	27.7	265,081	26.0	343,470	30.5
New tier one cities	528,202	30.6	489,341	32.0	695,158	32.5	815,417	36.9	384,091	37.6	397,514	35.3
Tier two cities	406,841	23.6	391,448	25.6	522,134	24.4	493,713	22.3	224,277	22.0	232,436	20.6
Tier three cities	181,903	10.6	166,219	10.9	216,450	10.1	193,836	8.8	98,610	9.7	94,258	8.4
Others	84,419	4.9	64,982	4.2	118,852	5.5	96,010	4.3	48,186	4.7	58,231	5.2
Total	1,723,574	100.0	1,529,188	100.0	2,141,821	100.0	2,210,473	100.0	1,020,245	100.0	1,125,909	100.0

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Based on the specific needs of different scenarios, we design and develop, and engage third-party manufacturers to produce, a range of vending machines. During the Track Record Period, we acquired machines mainly through direct purchases, and to a lesser extent, through finance lease arrangements, with third-party manufacturers. Our major vending machines include pick-and-go cabinets, beverage vending machines, beverage and snack vending machines and freshly brewed beverage vending machines. The table below sets forth the number of Ubox POSs by type of vending machines as of the dates indicated:

	As of December 31,								As of June 30,		
	2019		2020		2021		2022		2023		
	%	%	%	%	%	%	%	%	%	%	
Vending machines by type											
Pick-and-go cabinets	28,443	44.8	29,841	51.1	51,933	61.0	37,660	56.9	35,381	57.2	
Beverage vending machines	29,892	47.1	24,694	42.2	28,758	33.8	23,760	35.9	20,375	32.9	
Beverage and snack vending machines	2,399	3.8	1,701	2.9	1,946	2.3	2,056	3.1	3,313	5.4	
Freshly brewed beverage vending machines	2,201	3.5	1,831	3.1	2,054	2.4	2,353	3.6	2,421	3.9	
Others ⁽¹⁾	516	0.8	400	0.7	448	0.5	403	0.6	398	0.6	
Total	63,451	100.0	58,467	100.0	85,139	100.0	66,232	100.0	61,888	100.0	

Note:

(1) Others include other types of machines such as orange juice machines and coconut juice machines.

The number of our vending machines increased from 2019 to 2021, which was generally in line with growth of our POS network. Both the number and percentage of pick-and-go cabinets rapidly increased from 2019 to 2021, primarily as a result of its advantages in terms of cost and versatility, rendering them suitable for a wide range of scenarios. The total number of our vending machines decreased in 2022 primarily due to the regional resurgence of COVID-19 in mainland China in the same period that affected consumer traffic in certain consumption scenarios, including restaurants. The proportion of Ubox POSs of pick-and-go cabinets slightly decreased in 2022 primarily because some of the POSs of pick-and-go cabinets located in restaurants that were heavily affected by the regional resurgence of COVID-19 were removed. The number of our Ubox POSs of pick-and-go cabinets excluding POSs of restaurant model partners increased from 34,971 as of December 31, 2021 to 35,422 as of December 31, 2022. Despite that most travel restrictions and quarantine requirements were lifted in December 2022 which has led to the overall recovery of consumer traffic and business activities in the first half of 2023, the number of our Ubox POSs slightly decreased

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during the same period. This was mainly because the Company, POS partners and some other business partners such as site owners adopted a prudent approach towards the pace of recovery in the macro-environment under the prolonged impact of the pandemic and slowed down the expansion of the POS network in the same period.

The table below sets forth average monthly GMV of each type of our vending machines at Ubox POSs, excluding POSs of POS partners who are restaurant model partners, for the periods indicated:

	For the year ended December 31,				For the six months ended June 30,	
	2019	2020	2021	2022	2022	2023
	<i>(RMB per machine per month)</i>					
Monthly GMV by type of vending machines						
Pick-and-go cabinets	1,382	1,383	2,062	2,192	1,933	2,628
Beverage vending machines	4,246	3,076	4,150	3,608	3,308	3,841
Beverage and snack vending machines	2,720	2,812	3,720	2,365	2,026	3,036
Freshly brewed beverage vending machines	903	885	1,381	934	873	928
Others ⁽¹⁾	1,222	72	29	12	19	2
Overall	3,382	2,180	2,926	2,700	2,449	2,992

Note:

(1) Others include other types of machines such as orange juice machines and coconut juice machines.

The average monthly GMV of our pick-and-go cabinets, beverage and snack vending machines and freshly brewed beverage vending machines generally increased from 2019 to 2021. The overall average monthly GMV of all our vending machines decreased during the same period primarily due to the increase in the number of pick-and-go cabinets, which individually has lower average monthly GMV in general as compared to beverage vending machines and beverage and snack vending machines. The average monthly GMV of our vending machines was generally lower in 2022 as compared to 2021 primarily due to the regional resurgence of COVID-19 in mainland China in 2022 which affected consumer traffic and sales. The average monthly GMV of our vending machines at Ubox POSs was higher in the first half of 2023 as compared to the same period in 2022 primarily due to the recovery of consumer traffic and sales in the first half of 2023 following the relaxation of COVID-19 policies.

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The table below sets forth the number of Ubox POSs by consumption scenario as of the dates indicated:

Ubox POS by consumption scenario	As of December 31,								As of June 30,	
	2019		2020		2021		2022		2023	
		%		%		%		%		%
Schools	14,611	23.0	18,195	31.1	19,738	23.2	18,706	28.2	17,572	28.4
Factories	16,197	25.5	13,528	23.1	17,695	20.8	16,998	25.7	16,493	26.6
Office premises	12,797	20.2	11,059	18.9	14,113	16.6	13,876	21.0	13,342	21.6
Public venues ⁽¹⁾	11,321	17.8	9,063	15.5	9,877	11.6	8,751	13.2	8,122	13.1
Transportation hubs	3,884	6.1	3,773	6.5	3,587	4.2	2,265	3.4	2,281	3.7
Restaurants ⁽²⁾	183	0.3	129	0.2	16,490	19.4	1,636	2.5	829	1.3
Others ⁽³⁾	4,458	7.0	2,720	4.7	3,639	4.3	4,000	6.0	3,249	5.2
Total	63,451	100.0	58,467	100.0	85,139	100.0	66,232	100.0	61,888	100.0

Notes:

- Public venues include, among others, tourist attractions, parks, hospitals, shopping centers and sports venues.
- We actively enhanced our collaborations with restaurant model partners to deploy pick-and-go cabinets to restaurant premises in 2021 and achieved substantial scale during that year. The number of POSs in restaurants decreased in 2022 primarily due to the regional resurgence of COVID-19 in mainland China in the same period that affected consumer traffic in certain consumption scenarios, especially restaurants.
- Others primarily include hotels, local communities and residential apartments.

We continuously monitor and evaluate the performance of Ubox POSs. We define POS “pending optimization” as Ubox POSs with monthly average GMV in the respective year falling below the monthly average cost of sales and operating expenses during the same year. The concept of “pending optimization” was originated from the Group’s point of view for reference of making operation and management decisions, based on the Group’s estimate of operation cost of a typical POS. As of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, approximately 25.6%, 15.2%, 13.5%, 8.2% and 8.6% of Ubox POSs were classified as pending optimization, respectively. The table below sets out the number of Ubox POSs that were pending optimization as of the dates indicated:

Ubox POSs pending optimization	As of December 31,				As of June 30,
	2019	2020	2021	2022	2023
Direct operation model	15,196	6,508	3,224	3,179	2,679
Partner model ⁽¹⁾	1,053	2,368	8,241	2,249	2,631
Total	16,249	8,876	11,465	5,428	5,310

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Note:

- (1) The number of POSs pending optimization under the partner model increased in 2021 primarily due to the expansion of POSs placed at restaurants under the partner model in the second half of 2021, which generated relatively lower monthly average GMV per POS as a result of the restrictive measures taken by local governments amid the resurgence of COVID-19 which significantly reduced opening hours and consumer traffic of restaurants.

POSs are categorized as “pending optimization” primarily due to their revenue falling short of expectation caused by the changes of surrounding business environment that affect consumer traffic in the particular locations, such as the regional development of the COVID-19 pandemic, restrictive measures taken by local governments and relocation of local businesses. POSs in their early stage of development may also record less revenue than expected and fall within the categorization of “pending optimization.” For the POSs pending optimization under the direct operation model, we would consider such POS to be loss-making from the management perspective. For the POSs under the partner model, we only take into account the portion of GMV that the Group is entitled to when we determine whether such POSs should be categorized as “pending optimization.” We generally consider the POSs pending optimization under partner model to have the tendency of loss-making from the Group’s perspective, primarily because we have limited access to the financial information or cost structures of the POS partners and we do not share their loss (if any).

For Ubox POSs that require optimization, we will consider the need for improving or redeploying them, and accordingly formulate optimization plans by taking into account a range of factors. These factors include, among others, changes in foot traffic due to local circumstances and the expected duration of impact, the level of competition in the locations, availability of POS sites, and relationship with site owners. We will then directly, or through POS partners, implement the optimization plans. If a POS partner suffers loss in its POSs where the aggregate of its costs for development of POSs, occupancy fees and utility costs is higher than its share of the monthly GMV, it will typically take the initiative to negotiate with the site owners for better locations to place the vending machines, which will also facilitate the optimization of our POS network and the sustainability of the partner model. During the COVID-19 pandemic, some of our POS partners successfully negotiated with the site owners for reduction of occupancy fees and/or relocations of POSs.

The table below sets out the key specifications of our vending machines:

	Pick-and-go cabinet	Beverage vending machine	Beverage and snack vending machine	Freshly brewed beverage vending machine
Major consumption scenarios	Schools, restaurants, and office premises	Schools, factories, public venues, and transportation hubs	Schools, factories, public venues, and transportation hubs	Schools and office premises

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	Pick-and-go cabinet	Beverage vending machine	Beverage and snack vending machine	Freshly brewed beverage vending machine
Type of merchandise	Beverages, casual snacks and others	Bottled beverages	Beverages, casual snacks	Freshly brewed beverages
Maximum number of SKUs per machine ⁽¹⁾	N/A ⁽²⁾	23	60	18
Capacity (maximum)	398 liters ⁽²⁾	360 units	300 units	198 cups
Floor space occupied (sq.m)	0.43	0.90	1.10	0.50
Support advertising and system support services	Yes	Yes	Yes	Yes

Notes:

- (1) Maximum number of SKUs means the maximum number of merchandise that can be displayed and sold in the particular type of machine.
- (2) Pick-and-go cabinet has flexible compartments and can accommodate a wide range of merchandise of different dimensions. Therefore, it does not have a maximum number of SKUs, and its capacity is measured by liter.

The major categories of our vending machines are as follows:

Pick-and-go Cabinet (即選即取貨櫃)

Pick-and-go cabinet is our latest vending machine model. Equipped with the latest hardware technologies, structural design and lighting, and the combined use of biometric authentication, credit assessment algorithm and IoT technologies, pick-and-go cabinets poise to revolutionize unmanned retail by allowing consumers to open the door with facial recognition or scanning the on-screen QR code with electronic payment applications on their mobile phones and simply pick up merchandise and leave, leaving authentication and payment to technology. In contrast to traditional vending machines, which require a consumer to pay before picking up merchandise, the pick-and-go cabinet allows a biometrically authenticated consumer to open the cabinet door to directly pick up multiple merchandise in a single transaction. The pick-and-go cabinet automatically detects merchandise removed from it and check out when the consumer closes the door, simplifying the transaction process and creating a new, hassle-free consumption experience. The built-in biometric authentication device in our pick-and-go cabinet allows it to interact with the consumers’ electronic wallets which support biometric authentication. Payment for merchandise is made through the consumer’s electronic wallet after the door of pick-and-go cabinet is closed. Since our pick-and-go cabinet is featured by its application of electronic payment and biometric authentication, which are widely used in mainland China, cash payment is not supported in this model of vending

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machine. Coupled with IoT technologies, our pick-and-go cabinets can connect and exchange data with other machines and our system, which can automatically monitor their performance and machine inventory level. The inter-connection among machines allows us to monitor and manage multiple machines at the same time.

Pick-and-go cabinet has numerous advantages over traditional vending machines. The production cost of a pick-and-go cabinet is only approximately one-third that of a traditional vending machine primarily because the internal design of a pick-and-go cabinet is relatively simple and reduces the use of mechanic parts and components. In contrast to traditional vending machines, pick-and-go cabinets do not require complex internal mechanical systems, such as structures of motors and movable components, that pick up or push the selected merchandise towards the dispenser. See “Industry Overview — Cost Analysis.” It is also significantly smaller in size, rendering it suitable for a wide range of indoor scenarios. Further, with flexible compartment, it can accommodate a wider range of merchandise, thereby adaptable to a broader range of scenarios. Below are pictures of our pick-and-go cabinet:



Pick-and-go Cabinet

Beverage Vending Machine (飲料售貨機)

Our beverage vending machine is seamlessly connected to our operation system. Equipped with a touch screen and biometric authentication device, it is designed to offer consumers an optimal experience in purchasing canned and bottled beverages. Consumers can authenticate their identities and make payment with their electronic wallets at our beverage vending machines through facial recognition. The built-in biometric authentication device in our beverage vending machine allows it to interact with the consumers’ electronic wallets which support biometric authentication. It supports operation and automatic malfunctioning alert, thereby significantly enhancing the automation and digitalization of machine management. It also has a dynamic energy saving system that is capable of heating and cooling the merchandise, which allows operators to adjust the category of merchandise based on seasonal needs. For each transaction, the consumer selects and pays for a merchandise at the interactive display

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screen, and collects the merchandise at the dispenser. In addition to electronic payment such as Alipay and WeChat Pay, as of June 30, 2023, approximately 5.8% of our POSs of beverage vending machine support cash payment. Below are pictures of our beverage vending machine:



Beverage Vending Machine

Beverage and snack Vending Machine (飲料及零食售貨機)

Our beverage and snack vending machine suits various consumption scenarios. With expandable inner cabinet volume, the beverage and snack vending machine can accommodate a broad range of merchandise, including fragile items and merchandise with irregular packaging. With adjustable shelf and rack spaces, and the capability of cooling the merchandise, it has the versatility to adapt to a wide range of scenarios, allowing operators to adjust the category of merchandise based on a range of factors, including seasonal needs. For each transaction, a consumer selects and pays for a merchandise at the interactive display screen, and collects the merchandise at the dispenser. In addition to electronic payment such as Alipay and WeChat Pay, as of June 30, 2023, approximately 0.1% of our POSs of beverage and snack vending machine support cash payment. Below are pictures of our beverage and snack vending machine:



Beverage and Snack Vending Machine

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Freshly brewed Beverage Vending Machine (現製飲料售貨機)

With the growing health consciousness in mainland China, there has been an increasing demand for healthy beverages and food. We have therefore developed the freshly brewed beverage vending machine, which can serve consumers with a wide selection of freshly brewed beverages on demand. This includes freshly ground and capsule coffee, tea, juice, chocolate and other special drinks such as milk tea and Chinese sweet soup. Since October 2022, we have been authorized by a well-known international capsule coffee brand to be its first capsule coffee agent for self-service coffee machines in mainland China to brew and sell its coffee capsules in our freshly brewed beverage vending machines. For each transaction, a consumer selects and pays for a beverage at the interactive display screen, and the freshly brewed beverage vending machine will automatically prepare the selected beverage with the integrated beverage maker. Our freshly brewed beverage vending machine only accepts electronic payment such as Alipay and WeChat Pay. Below are pictures of our freshly brewed beverage vending machine:



Freshly Brewed Beverage Vending Machine

Others

We also have a small number of other types of machines, such as orange juice machines and coconut juice machines. They are currently not the focus of our business and we do not expect to increase the use of such machines in the future.

Our Merchandise

The table below sets forth the major categories of products offered at our Ubox POSs as of June 30, 2023:

Product Category	Description	Price Range (RMB)
Beverages	Include bottled and canned water, tea, functional beverages, carbonated beverages and juice	2.5 to 8.0
Freshly brewed beverages	Include freshly brewed coffee and tea	5.0 to 13.0

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Product Category	Description	Price Range (RMB)
Snacks	Include pastries, instant food, casual snacks, and puffed and crispy snacks	3.0 to 10.0

We seek to continuously expand and optimize the category of merchandise offered at Ubox POSs, while maintaining cost efficiency. We source our merchandise from selected suppliers across mainland China, who are generally sizable and are typically able to offer a wide range of merchandise. See “— Our Suppliers.”

Pricing

Prices of our merchandise typically follow suppliers’ recommended retail prices and are generally in line with prices of similar merchandise sold at their vicinity, but we are allowed to determine retail prices based on the actual circumstances. We adopt location-based tiered pricing for our merchandise, and adjust prices according to factors including cost of merchandise, competition, consumption power of consumers and inventory turnover at a particular site. With reference to these factors, during the Track Record Period, we had made both upward and downward price adjustments on the suppliers’ recommended retail prices of our merchandise. We leverage our scale and data-driven inventory and operation system to lower the procurement costs of our merchandise. See “— Logistics and Inventory Management” for details.

Advertising and System Support Services

Leveraging our expansive network of POSs and our deep understanding of consumer behaviours, we offer (i) digital advertising services to advertisers, such as brand owners and merchandise suppliers and (ii) operation system support to Non-Ubox POS operators. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, advertising and system support services contributed 19.8%, 11.5%, 9.1%, 7.7%, 8.8% and 4.5% of our total revenue, respectively.

Digital Advertising Services

We leverage our technology and data analytics capabilities, as well as the sheer volume of non-personal transaction data we collect in our course of operation to enhance advertising results. For example, we use a data tagging technique to segment transaction data of each of our vending machines, thereby depicting the profiles of consumers that make purchases at that particular machine, with attributes including each consumer’s spending power, purchasing frequency and preferences. We also provide data analytics reports to advertisers to aid their advertisement placement decisions.

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Our retail platform allows us to provide advertisers with extensive reach across the country. With our platform’s ability to physically interact with consumers, it allows advertisers to deliver engaging advertising experience to consumers. It is further complemented by our ability to precisely push advertising content to consumers’ mobile devices to provide optimal marketing results. As of June 30, 2023, we had 90 digital advertising service customers.

Our digital advertising platform consists primarily of (i) display screen advertising services, (ii) after-payment advertising services, (iii) merchandise display advertising services and (iv) machine body advertising services. We offer them as stand-alone services or as customized solution packages to customers, who bear the production costs of their advertisements. During the Track Record Period, we also received service fees from Alipay China for the advertising and promotion of its payment service products. For details, see “Connected Transactions — Partially-exempt Continuing Connected Transactions — Advertising Cooperation Framework Agreement.” Save for the above, during the Track Record Period, all of our digital advertising services customers were Independent Third Parties.

Display screen advertising services

The touch screens of our vending machines allow advertisers to place customized interactive or still advertising content, including posters and videos. Placed usually at area with high traffic, our display screen advertising services allow advertisers to reach and interact with specific sub-segment of the community, thereby enhancing engagement and provide consumers with unique advertising experience. We do not incur substantial costs in displaying advertisements and changing advertising content on the screens of our vending machines. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2023, the total cost for this service line, which primarily comprises taxes and surcharges, amounted to approximately RMB0.2 million, RMB3,000, RMB0.02 million, RMB9,000 and RMB300, respectively. The pictures below illustrate examples of our display screen advertising services:



Interactive media advertisement



Static poster advertisement

After-payment advertising services

Each time a consumer completes a mobile payment transaction, we have the opportunity to push advertising content to their mobile devices through third-party payment applications such as Alipay and WeChat Pay. Leveraging such opportunity, we enable advertisers to effectively reach and engage their targeted consumers. For instance, in completion messages we deliver to consumers through third-party payment applications upon successful payment, we allow advertisers to build in customized advertising contents, which may, among others, include links that redirect consumers to advertisers’ designated portals. We do not have any profit sharing arrangement with third-party payment service providers in relation to our after-payment advertising services.

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We may from time to time engage advertisement agencies as our subcontractors in the provision of our after-payment advertising services where some advertisers target to generate new consumers/users of their products/services. Leveraging their abundant advertising resources including access to media channels and potential consumers, such as through mobile applications, WeChat groups and offline digital screens, such subcontractors enhance the exposure of our advertisements and help generate new customers for our advertisers. We typically pay such subcontractors based on advertising performance. The expenses paid to such subcontractors are recorded as subcontractor cost of advertising resources. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2023, the total cost for our after-payment advertising services, which primarily comprises subcontractor cost of advertising resources, taxes and surcharges, amounted to approximately RMB50.8 million, RMB0.5 million, RMB57.9 million, RMB33.6 million and RMB0.5 million, respectively.

Merchandise display advertising services

The racks of our vending machines present an effective and direct medium for advertising. Increasing the units of a certain item of merchandise on display in a machine increases its exposure to, and chances of being purchased by, consumers. Our merchandise display advertising services allow advertisers to purchase additional rack spaces for key or newly introduced products. In determining the rack spaces of a particular vending machine for merchandise display advertising services, we take into account factors including the expected impact on the overall sales as well as the sales of other merchandise in the same vending machine. We do not incur substantial costs in displaying merchandise on the racks of our vending machines. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2023, the total cost for this service line, which primarily comprises taxes and surcharges, amounted to approximately RMB0.6 million, RMB0.1 million, RMB0.2 million, RMB0.3 million and RMB0.2 million, respectively. The picture below illustrates an example of our merchandise display advertisement:



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Machine body advertising services

The bodies of our wide range of machines represent effective medium which can be custom-designed according to advertisers’ specific requirements. Furthermore, both sides of the body of the machines, tags of the merchandise display position and merchandise dispensers are media that allow advertisers to appeal to consumers. Pop-up extensions can also be added to increase the prominence of appearance. We do not incur substantial costs in displaying merchandise on the bodies of our vending machines. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2023, the total cost for this service line, which primarily comprises taxes and surcharges, amounted to approximately RMB0.1 million, RMB0.02 million, RMB0.04 million, RMB4,000 and nil, respectively. The picture below illustrates an example of our machine body advertisements:



Key terms of agreements and pricing policy. Our advertising service agreements with advertisers typically have terms of less than one year. The agreements typically specify the type of advertising service, and the number and region of the machines to be deployed. We are primarily responsible for distributing advertising content of advertisers through a designated quantity of agreed medium, and the advertisers are required to, among others, ensure that the advertisement content does not breach any applicable laws and regulations. We charge advertisers unit rates for digital advertising services based on the location and type of advertising medium. For key terms of our agreement with Alipay China for the advertising and promotion of its payment service products, see “Connected Transactions — Partially-exempt Continuing Connected Transactions — Advertising Cooperation Framework Agreement.”

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Operation System Support

We provide operation system support to Non-Ubox POS operators by allowing them to connect their machines to our operation system. By connecting their machines to our operation system, our customers can access a range of functionalities, including monitoring their machines’ operating status in real time. Our system provides restocking alerts, and restocking routes and schedule recommendations to guide the operation of the Non-Ubox POS operators. Minimal costs, which primarily comprise taxes and surcharges, are allocated to this service line primarily because we do not incur substantial costs in allowing Non-Ubox POS operators to connect their machines to our operation system. Costs that are directly related to Non-Ubox POS operators to the Group’s operating system were recorded as cost of revenue. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2023, the total cost for this service line amounted to RMB0.1million, RMB0.02 million, RMB0.4 million, RMB0.1 million and RMB0.03 million, respectively, which were not material to the Group.

Pricing policy and settlement. We charge fees in relation to monthly system access and service for each machine based on the relevant costs. These fees are recognized when the related services are rendered. System access and service fees are typically settled on a monthly basis.

Merchandise Wholesale

In addition to selling directly to consumers through our retail platform, we also sell merchandise to customers (who are typically vending machine operators) on a wholesale basis as our buyers rather than agents. Some of these merchandise wholesale customers are also our Non-Ubox POS operators, who operate vending machines that are connected to our operation system. See “— Our POS Network — Non-Ubox POS Operators.”

Our data-driven operation network is valuable to our merchandise wholesale customers due to our procurement cost advantage resulting from bulk purchase, and availability of storage facilities. Additionally, due to their relatively small scale of operation, it is not cost-efficient for our merchandise wholesale customers to establish and maintain their own operation network. Our wholesale merchandise primarily comprise beverages and snacks. Ownership of wholesale merchandise is transferred to our merchandise wholesale customers upon collection or delivery. Customers are typically responsible for collecting the ordered merchandise from our storage facilities.

As of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, we had 1,188, 811, 335, 496 and 730 merchandise wholesale customers, respectively. We do not restrict the appointment of, nor do we mandate selling price to, sub-wholesale customers, provided that the merchandise may only be sold in vending machines. As of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, 755, 600, 163, 216 and 193 of our merchandise wholesale customers were also our Non-Ubox POS operators, respectively. See “— Our POS Network — Non-Ubox POS Operators” for details. Our other merchandise wholesale customers are primarily small vending machine operators that purchase merchandise from us on a wholesale basis. We

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generally only allow our merchandise wholesale customers to purchase the quantity of merchandise needed to restock their vending machines for each order, thereby preventing them from selling the merchandise to consumers other than in vending machines. According to Frost & Sullivan, the arrangement between merchandise wholesale customers and us is in line with the industry norm in mainland China. During the Track Record Period, all of our merchandise wholesale customers were Independent Third Parties.

The table below sets forth the movement of our merchandise wholesale customers for the periods indicated:

	For the year ended December 31,				For the six months ended June 30,
	2019	2020	2021	2022	2023
	Number of merchandise wholesale customers At the beginning of the period	1,759	1,188	811	335
Increase during the period	430	185	174	286	384
Decrease during the period	(1,001)	(562)	(650)	(125)	(150)
At the end of the period	1,188	811	335	496	730

The number of our merchandise wholesale customers decreased from 2019 to 2021 primarily due to (i) business transformation or closure of some of the merchandise wholesale customers and (ii) our strategic shift of focus to unmanned retail business and the partner model with an aim to reduce our management costs in respect of merchandise wholesale customers and alleviate the impact of interruption caused by the COVID-19 pandemic in the same period. In the process of our strategic shift to unmanned retail business and the partner model, while we terminated cooperation with some merchandise wholesale customers, we launched the shared warehouse initiative, which, on top of merchandise wholesale, introduced more comprehensive services offered by us, such as warehousing, operation system management, and hardware and software support services, to the merchandise wholesale customers with a view to gradually converting them into our POS partners. Using the shared warehouse initiative as a starting point to introduce our capabilities and services to the merchandise wholesale customers, we target to deepen the business cooperation with our merchandise wholesale customers and extend the scope of our services provided to them. For example, we may assist with the operation of their POSs, provide hardware upgrades to their vending machines and replace their existing vending machines with our vending machines. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, merchandise wholesale contributed 10.9%, 6.1%, 1.5%, 5.2%, 4.7% and 8.8% of our total revenue,

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respectively. The increase in revenue contribution in 2022 was in line with the increase in the number of our merchandise wholesale customers in the same period. We will further promote our partner model and encourage our merchandise wholesale customers to become our POS partners through the implementation of the shared warehouse initiative and provision of our comprehensive services on top of the original merchandise wholesale business model. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2023, there were 166, 16, 34, 73 and 4 merchandise wholesale customers that had become our POS partners, respectively.

The principal terms of our agreements with merchandise wholesale customers are as follows:

- Terms of agreement : Three months to one year in general.
- Merchandise wholesale customers' responsibilities : Merchandise wholesale customers may only sell the merchandise at vending machines in general, and typically need to follow merchandise suppliers' recommended retail price. We do not prohibit merchandise wholesale customers from sourcing from other suppliers.
- Return policy : The merchandise wholesale customers are required to inspect the quantity, appearance, shelf life and quality of the merchandise upon delivery of the merchandise. We do not accept return of merchandise after they are accepted by the merchandise wholesale customers, upon which the risk of damage and loss of merchandise is transferred to the merchandise wholesale customers.
- Sales target and minimum purchase amount : There is no sales target or minimum purchase amount.
- Termination : The agreement with merchandise wholesale customers may generally be terminated in the following manner:
- (i) unilateral termination where such merchandise wholesale customer is in material breach of the relevant agreement including selling the merchandise to consumers directly other than in vending machines;
 - (ii) by notice; or
 - (iii) upon mutual agreement.

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Pricing Policy and Payment Terms

We typically charge a premium to our procurement costs. For Non-Ubox POS operators, full payment is typically required before delivery, and typically no credit period is granted for sale of merchandise. For other merchandise wholesale customers, we typically grant credit based on the scale of their vending machine retail sales, and the payments are settled on a monthly basis. We recognize revenue upon the transfer of control over the merchandise.

Vending Machine Sales and Leases

We sell, lease and/or provide hardware support services for vending machines to our Non-Ubox POS operator. We provide hardware support services including machine installation and maintenance services. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, vending machine sales and leases, and/or provision of hardware support services contributed 3.4%, 2.5%, 1.7%, 1.3%, 1.4% and 0.9% of our total revenue, respectively.

Non-Ubox POS operators which purchase the machines are required to pay in full or by installment. Ownership of machines will be transferred to customers upon delivery, followed by a seven-day acceptance period and a twelve-month warranty period from the delivery date. For customers who rent our vending machines, ownership of vending machines will not be transferred. Customers are responsible for machine delivery, while we provide them with the relevant hardware support services.

Pricing Policy and Payment Terms

For each machine, we typically charge our customers a one-off selling price, or monthly rental. We determine the price and rent of our machines mainly on a cost-plus basis. For machine sales, we take into account factors such as procurement costs and the level of customization required. In addition, we also consider the type of vending machines, purchase amount and year of manufacture when setting the selling prices of vending machines. For machine leasing, we take into account factors including the monthly depreciation amount. The sales consideration is recognized when the control of the machine is transferred, and the rental income is recognized over the rental period. We also charge a one-off installation fee for each machine sold, and monthly maintenance service fees for each machine. The service fees for installation and maintenance services are recognized when the related services are rendered.

Customers who purchased our machines are required to (i) pay in full, by lump-sum payment within five days after the date of the relevant agreements or (ii) pay by installments, with a portion of the total purchase price paid within five days after the date of the relevant agreements plus monthly instalments for the remaining sum for a period of one year to five years. Customers who rented our vending machine are required to pay (i) upfront rental deposits and (ii) monthly or quarterly rentals. One-off delivery service fees and deposits upon delivery of machines and maintenance service fees are settled on a monthly basis.

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In 2019, 2020, 2021, 2022 and the six months ended June 30, 2023, the average selling price of vending machines sold was RMB12,071, RMB9,739, RMB7,749, RMB7,130 and RMB5,286, respectively. The average selling price of vending machines in 2020 was lower as compared to 2019 primarily because the beverage vending machines and the beverage and snack vending machines sold in 2020 were mainly old version machines with discounted prices. The average selling price of vending machines in 2021 was lower as compared to 2020 primarily because (i) the proportion of pick-and-go cabinets with relatively lower selling prices among the vending machines sold increased in 2021, and (ii) the beverage vending machines sold in 2021 were mainly old version machines with discounted prices. The average selling price of vending machines sold was relatively lower in 2022 primarily because the vending machines sold in the same period were mainly old version machines with discounted prices. The average selling price of vending machines sold further decreased in the first half of 2023 primarily because (i) the proportion of pick-and-go cabinets with relatively lower selling prices among the vending machines sold increased in the same period, and (ii) the vending machines sold in the same period were mainly old version machines with discounted prices.

Others

During the Track Record Period, we also offered other services, which mainly comprised mobile device distribution services, karaoke booth services, karaoke booth sales and leases, and karaoke booth operation system support. These are currently not the focus of our business, and we do not expect significant growth in these business segments.

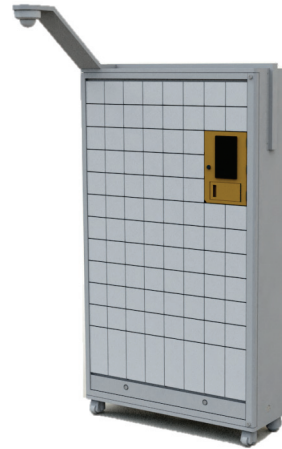
Mobile Device Distribution Services

Leveraging our digitalization capabilities and our extensive experience in vending machine operations, we enter into non-exclusive distribution arrangement with mobile phone manufacturers and offer unmanned mobile phones and accessories retail solutions to authorized resellers of major mobile phone manufacturers. We digitalize the delivery of mobile phones and accessories from mobile device resellers to consumers with our customized mobile device cabinets, namely (i) U-Buy Cloud Cabinet (優寶雲店), which is designed for the sales of mobile phones and accessories, and (ii) U-Buy Cloud Warehouse (優寶雲倉), which is designed for storage of mobile phones and accessories. Our U-Buy Cloud Cabinet and U-Buy Cloud Warehouse are customised mobile device cabinets and are not categorized under any type of vending machines under our unmanned retail business. Our mobile device distribution services were launched in 2018. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, mobile device distribution services contributed 2.2%, 7.3%, 14.5%, 6.4%, 4.0% and 5.6% of our total revenue, respectively. The decrease in revenue contribution of our mobile device distribution services in 2022 as compared to 2021 was primarily because the downstream mobile device market in mainland China was negatively affected by macro market conditions and consumer demands.

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U-Buy Cloud Cabinet



U-Buy Cloud Warehouse

The U-Buy Cloud Cabinets and U-Buy Cloud Warehouses are mainly located in offline stores operated by authorized resellers of major mobile phone manufacturers. Our U-Buy Cloud Cabinets and U-Buy Cloud Warehouses are equipped with 24-hour video surveillance and visual identification technologies to avoid damage or loss of merchandise. As of June 30, 2023, we had launched three U-Buy Cloud Cabinets and 628 U-Buy Cloud Warehouses in 507 offline stores operated by authorized resellers of major mobile phone manufacturers across mainland China. Our U-Buy Cloud Cabinets with adjustable shelf and rack spaces, interactive display screen and built-in payment system are designed for retail of mobile devices to consumers, whereas our U-Buy Cloud Warehouses with built-in QR code scanner, storage cabinets and doors are designed as a means of delivery for sale of mobile devices to resellers. Mobile device resellers place orders with us instead of sourcing devices directly from manufacturers primarily because (i) we usually purchase in bulk from manufacturers, which leads to competitive pricing in general, and (ii) our strong logistics network provides hassle free delivery and warehousing services to mobile device resellers and effectively reduces their inventory risk as they can keep a lower level of stock. In the traditional sales model of mobile devices, mobile device resellers are required to order mobile devices from manufacturers' reselling agents in the respective provinces, which typically require mobile device resellers to pay in full when they place orders. Using our U-Buy Cloud Cabinets and U-Buy Cloud Warehouses, mobile device resellers can order mobile devices from us instead of manufacturers' reselling agents with a 20% deposit at the time of ordering, with the remaining amount payable upon delivery. Mobile device resellers do not have to order mobile devices through the Group in order to use the U-Buy Cloud Cabinets and U-Buy Cloud Warehouses.

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Upon receiving orders from mobile device resellers, we purchase mobile phones or accessories from mobile phone manufacturers, and then sell them to the resellers. Revenue from mobile device distribution service is recognized upon transfer of control. The mobile devices sold to the resellers may be placed in our U-Buy Cloud Cabinets, which allow consumers to purchase and pick up the mobile devices on the spot when the product ownership and control are transferred to the consumers for recognizing revenue from mobile device distribution services. Apart from the U-Buy Cloud Cabinets, we deliver the products in different ways:

- *Self pick-up.* The mobile devices purchased by the resellers may be placed in our U-Buy Cloud Warehouses or in other designated third-party warehouses. After end consumers have ordered and purchased the products from the resellers, they may authorize end-consumers to pick up the products in our U-Buy Cloud Warehouses with automatically generated pick-up code or in other designated warehouses. The product ownership is transferred to the resellers once they sign on the receipt confirmations upon delivery of the mobile devices to the U-Buy Cloud Warehouses or designated third-party warehouses. Control is transferred and revenue is recognized from mobile device distribution services when the resellers or their authorized personnel, including their employees and the end-customers, pick up the mobile devices at the U-Buy Cloud Warehouses or designated third-party warehouses. Mobile devices delivered through this model contributed 97.5%, 100%, 99.8%, 99.9% and 100% of the total revenue of our mobile device distribution services in 2019, 2020, 2021, 2022 and the six months ended June 30, 2023, respectively;
- *Door-to-door logistics.* We deliver products to the consignee at the location designated by resellers. Mobile devices delivered through this model do not use the Group’s vending machines. The product ownership and control is transferred to the resellers for recognising revenue from mobile device distribution services once the mobile devices are dispatched from our warehouses. Such mobile devices did not generate material revenue during the Track Record Period;
- *Drop shipping.* We send the products by courier to the consignee on behalf of the resellers who resell the products through online retail platforms. Mobile devices delivered through this model do not use the Group’s vending machines. The product ownership and control is transferred to the resellers for recognising revenue from mobile device distribution services once the mobile devices are dispatched from our warehouses. Such mobile devices did not generate material revenue during the Track Record Period.

Key terms of agreements. We enter into framework agreements with authorized resellers, pursuant to which the authorized resellers, acting as our buyers rather than agents, purchase mobile phones or accessories from us while we deliver the products. Our purchase and sales framework agreements with authorized resellers typically have terms of one year, automatically renewable unless either party objects. We do not accept merchandise return or

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refund from resellers, nor do we require minimum purchase amounts, minimum sales targets or mandatory reselling prices from resellers. In addition, we do not prohibit authorized resellers from sourcing from other suppliers. Agreements with authorized reseller are generally terminable by (i) unilateral termination, where the authorized reseller is in material breach of the relevant agreement; (ii) notice; and (iii) mutual agreement. Resellers may only sell the mobile phones or accessories at designated areas in mainland China.

Pricing policy and payment terms. We typically charge a premium to our procurement costs. Resellers are required to make lump-sum payments or pay by instalments. We require resellers to pay a 20% deposit at the time of ordering, with the remaining sum payable upon delivery. We typically grant a credit period of 15 to 30 days to resellers. We had not experienced any delays or defaults in payments by the mobile device resellers during the Track Record Period.

The table below sets forth the revenue, gross profit and gross profit margin attributable to mobile device distribution services during the Track Record Period.

	For the year ended December 31,				For the six months ended June 30,	
	2019	2020	2021	2022	2022	2023
	<i>(RMB in thousands, except percentages)</i>					
Revenue	60,556	139,472	388,045	160,867	45,446	69,808
Gross profit	227	1,313	2,165	1,309	344	615
Gross profit margin	0.4%	0.9%	0.6%	0.8%	0.8%	0.9%

During the Track Record Period, the gross profit margin of our mobile device distribution services slightly fluctuated due to the changes in market price of the mobile devices. The revenue of our mobile device distribution services decreased in 2022 as compared to 2021 primarily because the downstream mobile device market in mainland China was negatively affected by macro market conditions and consumer demands.

In respect of mobile devices sold under our mobile device distribution services, we do not accept return of products from mobile device resellers. In the event that the mobile devices are defective in quality, the mobile device resellers shall send the defective products to the after-sales service centers or authorized repair centers designated by the mobile devices manufacturers.

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The following table sets forth movement in the number of resellers during the periods indicated:

	For the year ended December 31,				For the six months ended June 30,
	2019	2020	2021	2022	2023
Number of resellers:					
At the beginning of the period	–	8	7	12	19
Increase during the period	8	7	8	13	2
Decrease during the period	–	8	3	6	12
Net increase/(decrease) during the period	8	(1)	5	7	(10)
At the end of the period	8	7	12	19	9

Note: Based on the number of resellers who entered into agreements with us for sale and purchase of mobile phones during the relevant period.

Our Directors confirmed that, as of the Latest Practicable Date, all resellers we cooperated with were Independent Third Parties. Our mobile device distribution services enable us to diversify our revenue streams and improve resellers’ operational efficiency, thus achieving mutual benefits for both parties. According to Frost & Sullivan, the arrangement between resellers and us in the distribution of mobile phones and accessories is in line with the industry norm in mainland China.

Karaoke Booth Services

Our karaoke booth is a small, soundproof and air-conditioned booth where a maximum of two patrons can sing along to music from our extensive collection. We have three charging plans for our karaoke session. Patrons may choose to pay (i) by the song, (ii) purchase an all-you-can-sing session of 15, 30 or 60 minutes, or (iii) for karaoke booths outside Beijing and Shanghai, purchase a monthly pass for up to 30 minutes’ daily access to the karaoke booths for one month. Below is picture of our M-Bar self-service karaoke booth:



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M-Bar self-service karaoke booth

Leveraging our outstanding operational capabilities, we have established an extensive network of karaoke booths. As of June 30, 2023, we had a total of 1,706 karaoke booths under the direct operation model and 1,650 karaoke booths under franchising model, situated in 278 cities in mainland China. The following table sets forth the distribution of all karaoke booths operated by us and franchisees by type of sites as of the dates indicated:

	As of December 31,				As of June 30,
	2019	2020	2021	2022	2023
Coverage by type of sites					
Shopping centers	2,884	1,787	1,648	1,399	1,300
Cinemas	1,496	1,195	1,087	983	914
Bathhouses	492	412	346	290	267
Amusement parks	383	279	301	297	285
Others ⁽¹⁾	1,155	875	715	623	590
Total	6,410	4,548	4,097	3,592	3,356

Note:

1. Others include karaoke lounges, office premises, factories, airports, hotels, local communities and schools.

As of June 30, 2023, our music library consisted of more than 28,000 songs in different categories. We enter into copyright licensing agreements with the China Audio-video Copyright Association, the designated association approved by the National Copyright Administration for the management of the intellectual property rights in video and audio works in mainland China, whereby we are licensed to play the video and audio works from its library in our karaoke booth for a fixed annual fee.

Operation Models

Our karaoke booths are operated either through a direct operation model or a franchising model. Under the direct operation model, we enter into cooperation agreement with the site owner. The site owner will place our karaoke booth in a designated location for (i) monthly occupancy fee together with utility cost, or (ii) a share of its monthly transaction GMV (typically 50%). In each case we will be responsible for the installation and maintenance of the karaoke booth. The terms of our agreements with site owners are typically one year. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, the direct operation model contributed 94.9%, 86.7%, 94.7%, 93.2%, 93.1% and 98.5% of our revenue from our karaoke booth services, respectively.

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Under the franchising model, our karaoke booths were operated by two types of franchisees during the Track Record Period, namely revenue-sharing franchisees and franchisees which purchase or rent our karaoke booths. We believe that engaging franchisees has the following benefits: (i) faster penetration into new and prime regions and locations; (ii) effective utilization of the franchisees’ resources, local expertise and business network; and (iii) reducing our cost and operation risk. According to Frost & Sullivan, it is an industry norm to engage franchisees in the operation of karaoke booths in mainland China. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, revenue-sharing franchisees contributed 5.1%, 13.3%, 5.3%, 6.8%, 6.9% and 1.5% of our revenue from our karaoke booth services, respectively.

Principal terms of the two types of franchise arrangements are summarized as follows:

- *Revenue-sharing franchisees.* Under the revenue-sharing model, we enter into cooperation agreement with the franchisee. The franchisee (as our buyers rather than agents) may place our karaoke booths in any site owned or managed by it. The franchisee shall pay us a deposit and the installation and delivery fees for the karaoke booths. We are responsible for the operation and maintenance of the karaoke booths. The franchisee is generally entitled to 80% of the karaoke booths’ revenue, depending on the monthly sales. Our revenue is recognized when the services are rendered.
- *Franchisees which purchase or rent our karaoke booths.* Under this model, we only sell or rent our karaoke booths to franchisees and provide the related hardware support services. The franchisee is entitled to all the revenue generated from the karaoke booths, and is responsible for the installation, operation and maintenance of the karaoke booths. We charge the franchisee (i) purchase price or rental for our machines and (ii) a monthly service fee for using our operation system support. The revenue from sales and leases of our karaoke booths is recorded under machine sales and leases, and/or provision of hardware support services. See “— Our Product and Service Offerings — Others — Karaoke Booth Sales and Leases” and “— Our Product and Service Offerings — Others — Karaoke Booth Operation System Support.”

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The following table sets out the number of karaoke booths operated under each model as of the dates indicated:

	As of December 31,				As of
	2019	2020	2021	2022	June 30, 2023
Karaoke booths by operation model					
Direct operation model	4,719	2,862	2,333	1,943	1,706
Franchising model					
where franchisees	1,691	1,686	1,764	1,649	1,650
– share part of the operating revenue	298	144	109	–	–
– purchase our karaoke booths	1,390	1,460	1,605	1,649	1,650
– rent our karaoke booths	3	82	50	–	–
Total	6,410	4,548	4,097	3,592	3,356

The following table sets out the movement in the number of our franchisees and franchised karaoke booths for the periods indicated:

	For the year ended December 31,				For the six months ended
	2019	2020	2021	2022	June 30, 2023
Number of franchisees:					
At the beginning of the period	808	751	728	699	595
Increase during the period	137	104	46	32	8
Decrease during the period	(194)	(127)	(75)	(136)	(12)
Net increase/(decrease)	(57)	(23)	(29)	(104)	(4)
At the end of the period	751	728	699	595	591

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	For the year ended December 31,				For the six months ended June 30,
	2019	2020	2021	2022	2023
	Number of franchised karaoke booths:				
At the beginning of the period	1,678	1,691	1,686	1,764	1,649
Newly opened during the period	384	329	271	174	60
Closed during the period	(371)	(334)	(193)	(289)	(59)
Net increase/(decrease)	13	(5)	78	(115)	1
At the end of the period	1,691	1,686	1,764	1,649	1,650

The number of karaoke booths and karaoke booth franchisees decreased during the Track Record Period primarily due to the impact of the COVID-19 pandemic. Currently, with the decrease in popularity of karaoke booths amid the COVID-19 pandemic, we plan to refocus resources to our other business segments. As a result, we do not expect the number of our karaoke booths or the number of our karaoke booth franchisees to significantly increase in the near future.

To the best knowledge of our Directors, each franchisee we engaged during the Track Record Period was an Independent Third Party.

To maintain the quality of our karaoke booths services across franchisees, we have established comprehensive policies for managing our franchisees:

- *Non-competition.* To avoid cannibalization, the franchisees are typically assigned a geographical area where they are allowed to *exclusively* deal with site owners to place our karaoke booths.
- *No minimum number of karaoke booths to be established.* We do not set requirements for minimum number of karaoke booths to be established, or minimum investment amount in our franchise arrangements.
- *Quality control.* Franchisees are required to adhere to our operating standards and practices. We assess their performance on a regular basis against our key performance indicators, such as revenue achieved and record of customer complaints. Should any franchisee consistently fall below our performance standards, we may terminate our cooperation with that franchisee. During the Track Record Period, no franchise arrangements was terminated for such reason.

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Karaoke Booth Sales and Leases

We sell, lease and/or provide hardware support services for karaoke booths to karaoke booth franchisees. We provide hardware support services including machine installation and maintenance services. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, karaoke booth sales and leases, and/or provision of hardware support services for karaoke booths contributed 0.3%, 0.2%, 0.3%, 0.1%, 0.1% and 0.5% of our total revenue, respectively.

Pricing Policy and Payment Terms

For each karaoke booth, we typically charge our karaoke booth franchisees a one-off selling price, or monthly rental. We determine the price and rent of our machines mainly on a cost-plus basis. For machine sales, we take into account factors such as procurement costs and the level of customization required. In addition, we also consider the type of karaoke booths, purchase amount and year of manufacture when setting the selling prices of karaoke booths. For karaoke booth leasing, we take into account factors including the monthly depreciation amount. Karaoke booth franchisees are responsible for machine delivery, while we provide them with the relevant hardware support services. The sales consideration is recognized when the control of the machine is transferred, and the rental income is recognized over the rental period. We also charge a one-off installation fee for each machine sold, and monthly maintenance service fees for each machine. The service fees for installation and maintenance services are recognized when the related services are rendered.

Karaoke booth franchisees who purchased our machines are required to (i) pay in full, by lump-sum payment within five days after the date of the relevant agreements or (ii) pay by installments, with a portion of the total purchase price paid within five days after the date of the relevant agreements plus monthly instalments for the remaining sum for a period of one year to five years. Ownership of machines will be transferred to the karaoke booth franchisees upon delivery, followed by a seven-day acceptance period and a twelve-month warranty period from the delivery date. Karaoke booth franchisees who rented our vending machine are required to pay (i) upfront rental deposits and (ii) monthly or quarterly rentals. One-off delivery service fees and deposits upon delivery of machines and maintenance service fees are settled on a monthly basis. For karaoke booth franchisees who rent karaoke booths, ownership of the machines will not be transferred.

Karaoke Booth Operation System Support

We provide operation system support to karaoke booth franchisees by allowing them to connect their machines to our operation system. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, karaoke booth operation system support contributed 0.3%, 0.2%, 0.2%, 0.1%, 0.1% and 0.1% of our total revenue, respectively.

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The karaoke booth franchisers can access our music library over the cloud operated by third-party cloud service providers and entertainment system that supports interactive functions such as ordering songs and scoring. Minimal costs, which primarily comprise taxes and surcharges, are allocated to this service line primarily because we do not incur substantial costs in allowing karaoke booth franchisees to connect their machines to our operation system. Costs that are directly related to karaoke booth franchisees to the Group’s operating system were recorded as cost of revenue. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2023, the total cost for this service line amounted to RMB0.03 million, RMB0.01 million, RMB0.01 million, RMB0.01 million and RMB4,000, respectively, which were not material to the Group.

Pricing policy and settlement

We charge fees in relation to monthly system access and service for each machine based on the relevant costs. These fees are recognized when the related services are rendered. System access and service fees are typically settled on a monthly basis.

OUR CUSTOMERS

Customers for our unmanned retail business consist of consumers who purchase merchandise from our Ubox vending machines. Customers for our advertising and system support services mainly comprise advertisers, such as brand owners and merchandise suppliers which engage our advertising services, and Non-Ubox POS operators that connect their machines to our operation system. Customers for our merchandise wholesale and vending machine sales and leases mainly consist of merchandise wholesale customers and Non-Ubox POS operators. Customers for mobile device distribution services mainly consist of mobile device resellers. Customers for our karaoke booth services, karaoke booths sales and leases and karaoke booth operation system support mainly consist of patrons of karaoke booths under our direct operation and karaoke booth franchisees.

Major Customers

We have cultivated solid relationships with our major customers. As of June 30, 2023, we had an average of over 2 years of business relationship with our top five customers in 2019, 2020, 2021, 2022 and the six months ended June 30, 2023, all of whom were customers of our advertising and system support services, merchandise wholesale and/or mobile device distribution services categorized under others. Our top five customers in 2019, 2020, 2021, 2022 and the six months ended June 30, 2023 are primarily online payment services providers, beverages and food manufacturers and digital product sellers in mainland China. In each of 2019, 2020, 2021, 2022 and the six months ended June 30, 2023, our five largest customers in each year/period generated RMB288.8 million, RMB163.2 million, RMB408.4 million, RMB153.7 million and RMB68.0 million of revenue, accounting for 10.6%, 8.6%, 15.3%, 6.1% and 5.4% of our total revenue for the same periods, respectively. For the same periods, our largest customer in each year/period generated RMB159.2 million, RMB80.4 million, RMB120.2 million, RMB47.3 million and RMB27.1 million of revenue, respectively, accounting for 5.8%, 4.2%, 4.5%, 1.9% and 2.2% of our total revenue, respectively.

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The information of our top five customers in each year during the Track Record Period is set forth below:

For the Year Ended December 31, 2019

Ranking	Customer	Products/ services provided by us	Principal business	Commencement of business relationship	Sales amount	Percentage of total revenue	Credit terms	Settlement method	Business scale
					<i>RMB'000</i>	%			
1	Customer A	Advertising and system support services	Online payment	2018	159,199	5.9	Pay monthly, prepayment of 70% after issuance of billing, the rest of 30% will be paid after issuance of invoice	Bank Transfer	With a registered capital of RMB1.5 billion
2	Customer B	Advertising and system support services	Brand marketing	2017	38,733	1.4	Prepayment of 10% within 90 days after signing purchase order, full amount must be paid before June 9, 2020	Bank Transfer	With a registered capital of RMB10.0 million
3	Customer C	Advertising and system support services	Internet information services	2015	31,351	1.2	Monthly payment within 15 days after receiving invoice	Bank Transfer	With a registered capital of RMB1.0 billion
4	Customer D	Mobile device distribution services categorized under others	Digital product sales	2019	31,164	1.1	No credit term	Bank Transfer	With a registered capital of RMB10.0 million
5	Customer E	Advertising and system support services	Food wholesale	2018	28,332	1.0	30 days	Bank Transfer	With a registered capital of USD8.2 million

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For the Year Ended December 31, 2020

Ranking	Customer	Products/ services provided by us	Principal business	Commencement of business relationship	Sales amount	Percentage of total revenue	Credit terms	Settlement method	Business scale
					<i>RMB'000</i>	%			
1	Customer F	Mobile device distribution services categorized under others	Digital product sales	2020	80,378	4.2	No credit term	Bank Transfer	With a registered capital of RMB10.0 million
2	Customer A	Advertising and system support services	Online payment	2018	30,288	1.6	Pay monthly, prepayment of 70% after issuance of billing, the rest of 30% will be paid after issuance of invoice	Bank Transfer	With a registered capital of RMB1.5 billion
3	Customer G	Mobile device distribution services categorized under others	Digital product sales	2020	18,234	1.0	No credit term	Bank Transfer	N/A
4	Customer H	Advertising and system support services	Food production and sales	2016	17,497	0.9	Payment in three instalments within one year	Bank Transfer	With a registered capital of RMB550.0 million
5	Customer I	Advertising and system support services	Food production and sales	2016	16,764	0.9	Semi-annually Payment	Bank Transfer	With a registered capital of RMB650.0 million

For the Year Ended December 31, 2021

Ranking	Customer	Products/ services provided by us	Principal business	Commencement of business relationship	Sales amount	Percentage of total revenue	Credit terms	Settlement method	Business scale
					<i>RMB'000</i>	%			
1	Customer J	Mobile device distribution services categorized under others	Digital product sales	2020	120,234	4.5	No credit term	Bank Transfer	With a registered capital of RMB10.0 million
2	Customer K	Mobile device distribution services categorized under others	Digital product sales	2021	98,407	3.7	No credit term or 15 days if agreed by the Group	Bank Transfer	With a registered capital of RMB2.0 million

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Ranking	Customer	Products/ services provided by us	Principal business	Commencement of business relationship	Sales amount	Percentage of total revenue	Credit terms	Settlement method	Business scale
					RMB'000	%			
3	Customer L	Mobile device distribution services categorized under others	Digital product sales	2021	91,059	3.4	No credit term	Bank Transfer	With a registered capital of RMB5.0 million
4	Customer M	Advertising and system support services	Advertising design and agency	2019	63,744	2.4	Monthly payment	Bank Transfer	With a registered capital of RMB10.0 million
5	Customer N	Mobile device distribution services categorized under others	Digital product sales	2020	34,969	1.3	No credit term	Bank Transfer	With a registered capital of RMB5.0 million

For the Year Ended December 31, 2022

Ranking	Customer	Products/ services provided by us	Principal business	Commencement of business relationship	Sales amount	Percentage of total revenue	Credit terms	Settlement method	Business scale
					RMB'000	%			
1	Customer K	Mobile device distribution services categorized under others	Digital product sales	2021	47,290	1.9	No credit term or 15 days if agreed by the Group	Bank Transfer	With a registered capital of RMB2.0 million
2	Customer L	Mobile device Distribution services categorized under others	Digital product sales	2021	31,560	1.3	No credit term	Bank Transfer	With a registered capital of RMB10.0 million
3	Customer A	Advertising and system support services	Online payment	2018	29,930	1.2	Pay monthly, prepayment of 70% after issuance of billing, the rest of 30% will be paid after issuance of invoice	Bank Transfer	With a registered capital of RMB1.5 billion
4	Customer O	Advertising and system support services	Advertising design and agency	2022	22,696	0.9	Monthly payment	Bank Transfer	With a registered capital of RMB2.0 million

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Ranking	Customer	Products/ services provided by us	Principal business	Commencement of business relationship	Sales amount	Percentage of total revenue	Credit terms	Settlement method	Business scale
					<i>RMB'000</i>	%			
5	Customer P	Mobile device Distribution services categorized under others	Digital product sales	2022	22,226	0.9	30 days after shipment	Bank Transfer	N/A

For the Six Months Ended June 30, 2023

Ranking	Customer	Products/ services provided by us	Principal business	Commencement of business relationship	Sales amount	Percentage of total revenue	Credit terms	Settlement method	Business scale
					<i>RMB'000</i>	%			
1	Customer K	Mobile device distribution services categorized under others	Digital product sales	2021	27,144	2.2	1 day after delivery	Bank Transfer	With a registered capital of RMB2.0 million
2	Customer L	Mobile device distribution services categorized under others	Digital product sales	2021	18,703	1.5	3 days after delivery	Bank Transfer	With a registered capital of RMB10.0 million
3	Customer Q	Advertising and system support services	Food sales	2014	9,309	0.7	No credit term	Bank Transfer	With a registered capital of USD10.0 million
4	Customer R	Mobile device distribution services categorized under others	Digital product sales	2023	6,523	0.5	1 day after delivery	Bank Transfer	With a registered capital of RMB1.0 million
5	Customer S	Merchandise wholesale	Food sales	2021	6,331	0.5	Monthly payment within 30 days	Bank Transfer	With a registered capital of RMB19.1 million

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In 2019, 2020 and 2022, Alipay China was one of our five largest customers, from whom we received service fees for the advertising and promotion of its payment service products. For details, see “Connected Transactions — Partially-exempt Continuing Connected Transactions — Advertising Cooperation Framework Agreement.” During the Track Record Period, we also procured payment services through Alipay China’s payment channels so as to enable our customers to conduct online transactions via our vending machines. However, such payment services were not considered as our cost of sales but our expenses, and Alipay China was accordingly not regarded as our supplier. For details, see “Connected Transactions — Partially-exempt Continuing Connected Transactions — Payment Services Framework Agreement.” As of the Latest Practicable Date, save for Alipay China, none of our Directors, their close associates or any of our Shareholder which to the best knowledge of our Directors owned more than 5% of the issued share capital of our Company, had any interest in our top five customers. To the best knowledge of our Directors, save for Alipay China, each of our top five customers during the Track Record Period was an Independent Third Party.

Customer Service

We strive to optimize our customers’ experience by offering high-quality customer services. We have invested significant management, financial and human resources to offer our customers personalized services across our various lines of business. We have a dedicated customer service department to handle customer queries and complaint, and provide comprehensive training to our customer service representatives to ensure consistent and high-quality service.

We maintain a 24/7 hotline, WeChat public account and Alipay mini-program to answer questions and complaints from our customers. Upon receiving feedbacks from a customer, our system will assign a customer service representative to follow up until the issue is resolved. During the Track Record Period and up to the Latest Practicable Date, we did not receive any material complaint from our customers.

SALES AND MARKETING

We have dedicated marketing teams for each of our business segments. Our marketing team is primarily responsible for acquiring, developing and maintaining our existing and prospective customers. With respect to unmanned retail business, we primarily expand through our direct force and POS partners.

Our direct force is mainly responsible for the development of POS partners and securing new sites for machines under the direct operation model primarily in tier one, new tier one and tier two cities. As of June 30, 2023, Ubox POS under the direct operation model covered 86 cities and 28 provincial-level administrative regions across mainland China. As of June 30, 2023, our direct force consisted of 123 employees with in-depth industrial knowledge and professional experience, who are deployed to each region based on the needs of different geographic area to maximize efficiency of POS partner development and site acquisition.

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Commencing from 2020, we started to shift our marketing efforts to our partner model. We believe this model would better accommodate the nature of our business operations, as it facilitates site acquisitions and enhances our efficiency with simplified business process. See “— Our POS Network.”

OUR SUPPLIERS

Our major suppliers are primarily beverages and food manufacturers, distributors and machine manufacturers in mainland China. Purchases from our top five suppliers in each year/period accounted for 22.5%, 27.7%, 32.5%, 24.5% and 27.2% of our total purchases in each of 2019, 2020, 2021, 2022 and the six months ended June 30, 2023, and purchases from our largest supplier in each year/period accounted for 6.3%, 7.9%, 7.7%, 9.7% and 9.4% of our total purchases in the same periods, respectively. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2023, we had 558, 588, 539, 531 and 458 suppliers, respectively. The number of our suppliers decreased in 2022 primarily due to our termination of cooperation with some suppliers with smaller procurements to increase the level of centralized procurement with larger suppliers. The table below sets forth the details of our top five suppliers in each year during the Track Record Period:

For the Year Ended December 31, 2019

Ranking	Supplier	Products/ services purchased	Principal business	Commencement of business relationship	Purchase amount RMB'000	Percentage of total purchase %	Credit terms	Settlement	
								method	Business scale
1	Supplier A	Machines	R&D and sales of machines	2017	109,121	6.3	Payment within one year	Bank Transfer	With a registered capital of RMB13.0 million
2	Supplier B	Beverages and food	Food production and sales	2014	94,342	5.4	Monthly payment within 60 days	Bank Transfer	With a registered capital of USD52.0 million
3	Supplier C	Beverages and food	Food production and sales	2015	72,493	4.2	Monthly payment within 65 days	Bank Transfer	With a registered capital of RMB1.5 billion
4	Supplier D	Machines	R&D, production and sales of cold chain storage and transportation equipment	2018	66,240	3.8	Monthly payment within 30 days	Bank Transfer	With a registered capital of RMB483.9 million
5	Supplier E	Beverages and food	Food production and sales	2014	48,088	2.8	Monthly payment within 60 days	Bank Transfer	With a registered capital of RMB510.7 million

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For the Year Ended December 31, 2020

Ranking	Supplier	Products/ services purchased	Principal business	Commencement of business relationship	Purchase amount RMB'000	Percentage of total purchase %	Credit terms	Settlement method	Business scale
1	Supplier F	Beverages and food	Food sales	2014	94,729	7.9	No credit term	Bank Transfer	With a registered capital of USD10.0 million
2	Supplier B	Beverages and food	Food production and sales	2014	76,730	6.4	Monthly payment within 60 days	Bank Transfer	With a registered capital of USD52.0 million
3	Supplier G	Mobile devices	Technical development and sales of communication equipment	2020	74,038	6.1	Payment within one or two days	Bank Transfer	With a registered capital of RMB500.0 million
4	Supplier C	Beverages and food	Food production and sales	2015	53,760	4.5	Monthly payment within 65 days	Bank Transfer	With a registered capital of RMB1.5 billion
5	Supplier A	Machines	R&D and sales of machines	2017	34,888	2.9	Payment within one year	Bank Transfer	With a registered capital of RMB13.0 million

For the Year Ended December 31, 2021

Ranking	Supplier	Products/ services purchased	Principal business	Commencement of business relationship	Purchase amount RMB'000	Percentage of total purchase %	Credit terms	Settlement method	Business scale
1	Supplier A	Machines and food	R&D, production and sales of machines	2017	139,873	7.7	Payment within one year	Bank Transfer	With a registered capital of RMB13.0 million
2	Supplier F	Beverages and food	Food sales	2014	136,006	7.5	No credit term	Bank Transfer	With a registered capital of USD10.0 million
3	Supplier H	Mobile devices	Digital product sales	2021	126,121	6.9	Payment within one or two days	Bank Transfer	With a registered capital of RMB5.0 million

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Ranking	Supplier	Products/ services purchased	Principal business	Commencement of business relationship	Purchase amount RMB'000	Percentage of total purchase %	Credit terms	Settlement method	Business scale
4	Supplier I	Mobile devices	Technical development and sales of communication equipment	2021	99,867	5.5	No credit term	Bank Transfer	With a registered capital of USD320.0 million
5	Supplier B	Beverages and food	Food production and sales	2014	89,202	4.9	Monthly payment within 60 days	Bank Transfer	With a registered capital of USD52.0 million

For the Year Ended December 31, 2022

Ranking	Supplier	Products/ services purchased	Principal business	Commencement of business relationship	Purchase amount RMB'000	Percentage of total purchase %	Credit terms	Settlement method	Business scale
1	Supplier F	Beverages and food	Food sales	2014	137,862	9.7	No credit term	Bank Transfer	With a registered capital of USD10.0 million
2	Supplier B	Beverages and food	Food production and sales	2014	81,531	5.8	Monthly payment within 60 days	Bank Transfer	With a registered capital of USD52.0 million
3	Supplier C	Beverages and food	Food production and sales	2015	48,763	3.4	Monthly payment within 65 days	Bank Transfer	With a registered capital of RMB1.5 billion
4	Supplier I	Mobile devices	Technical development and sales of communication equipment	2021	40,468	2.9	No credit term	Bank Transfer	With a registered capital of USD320.0 million
5	Supplier J	Beverages and food	Beverage production and sales	2016	39,312	2.8	Monthly payment within 45 days	Bank Transfer	With a registered capital of RMB8.0 million

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For the Six Months Ended June 30, 2023

Ranking	Supplier	Products/ services purchased	Principal business	Commencement of business relationship	Purchase amount	Percentage of total purchase	Credit terms	Settlement method	Business scale
						RMB'000			
1	Supplier F	Beverages and food	Food sales	2014	68,456	9.4	No credit term	Bank Transfer	With a registered capital of USD10.0 million
2	Supplier B	Beverages and food	Food production and sales	2014	42,800	5.9	Monthly payment within 60 days	Bank Transfer	With a registered capital of USD52.0 million
3	Supplier K	Beverages and food	Food sales	2020	31,714	4.4	Monthly payment within 30 days	Bank Transfer	With a registered capital of RMB5.0 million
4	Supplier C	Beverages and food	Food production and sales	2015	28,241	3.9	Monthly payment within 65 days	Bank Transfer	With a registered capital of RMB1.5 billion
5	Supplier I	Mobile devices	Technical development and sales of communication equipment	2021	26,872	3.7	No credit term	Bank Transfer	With a registered capital of USD320.0 million

As of the Latest Practicable Date, none of our Directors, their close associates or any of our Shareholder which to the best knowledge of our Directors owned more than 5% of the issued share capital of our Company, had any interest in our top five suppliers. To the best knowledge of our Directors, each of our top five suppliers during the Track Record Period was an Independent Third Party.

Manufacturers and Distributors of Beverages, Food and Other Merchandise

We have adopted a series of measures to effectively control our procurement costs, including among others, entering into framework agreements with merchandise suppliers to ensure stable prices for our merchandise. We also typically procure merchandise at a discount to the recommended prices set by merchandise suppliers. Therefore, we believe we are not prone to fluctuations in procurement costs. See “Financial Information — Major Factors Affecting Our Results of Operations — Our Ability to Establish and Maintain Relationships with Our Merchandise Suppliers and Enhance Our Bargaining Power.”

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We have formulated a comprehensive set of criteria for selecting beverages and food manufacturers, and distributors, including their brand popularity, order service, delivery service, after-sale service, and credit terms. As of June 30, 2023, we had entered into strategic cooperation with 13 well-known international FMCG brands. Taking into account the comprehensive capabilities of these FMCG brands in terms of, among other things, their brand recognition, product quality, competitive prices, delivery time and financial status, the cooperation with these FMCG brands are strategically important to our business. Our cooperation agreements with FMCG brands typically have terms of one year and cover the supply of merchandise across mainland China. The agreements typically specify description, brand names, packaging, prices and shelf life of the merchandise to be supplied. In general, the FMCG brands would guarantee the merchandise prices are the most competitive among similar supply channels. The cooperation agreements with FMCG brands are generally terminable by (i) unilateral termination, where the FMCG brand is in material breach of the relevant agreement; (ii) notice; and (iii) mutual agreement. The terms in respect of suppliers' qualifications, placing orders, delivery of merchandise, product return policies and payment terms are similar to our agreements with other merchandise suppliers. Our merchandise suppliers are required to possess necessary qualifications for the provision of the relevant merchandise and/or services. Our agreements with merchandise suppliers typically require them to (i) deliver ordered merchandise in accordance with the specification set out in the agreements within a specified time and compensate us for failure to deliver to specified destination on schedule; and (ii) accept return of obsolete, slow-moving, out-of-season and defective merchandise. We typically settle the payment by bank transfer on a monthly basis.

Machine Manufacturers

We engage machine manufacturers to produce customized machines to our specifications. For example, apart from the type and size of machines, we may also specify the design of their internal compartments, payment modules, display screen, based on the intended application scenarios. We select machine manufacturers based on a range of factors, including product quality, price, after-sale services, and payment terms. During the Track Record Period, we acquired machines mainly through direct purchases, and to a lesser extent, through finance lease arrangements with machine manufacturers.

Under our agreements with machine manufacturers, they are typically required to (i) deliver ordered machines within a specified time and take mitigation measures if they fail to deliver to specified destination on schedule; (ii) conduct full inspection before delivery according to our inspection standards; (iii) accept return of machines that do not meet our quality standards; (iv) compensate for our losses incurred due to seriously defective machines, and (v) provide after-sale services, typically with a three-year warranty period. Under direct purchase arrangement, we are typically required to pay the purchase price within 30 days upon delivery. Under finance lease arrangement, we are typically required to pay monthly rental for a term of 36 months. We typically enter into confidentiality agreements with machine manufacturers at the outset of our cooperation and rely on confidentiality provision in our procurement agreements with machine suppliers to protect our intellectual properties.

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Overlapping of Major Customers and Suppliers

During the Track Record Period, ten of our major customers were also our suppliers, or vice versa. All of them were our merchandise suppliers who also procured advertising and system support services from us. According to Frost & Sullivan, it is common in the vending machine retail industry that merchandise suppliers engage vending machine operators to advertise their products.

The table below sets out our total sales to and purchases from these merchandise suppliers for the periods indicated:

	Products/ services procured from us as our customer	Products/ services to us as our supplier	For the year ended December 31,								For the six months ended June 30,	
			2019		2020		2021		2022		2023	
			Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Customer E	Advertising and system support services	Beverages and food	28,332	46,989	–	27,244	770	27,753	486	19,580	–	7,129
Customer H	Advertising and system support services	Beverages and food	12,365	25,620	17,497	28,123	1,543	1,022	–	–	–	–
Customer I	Advertising and system support services	Beverages and food	20,816	28,001	16,764	11,801	16,428	11,650	2,690	6,743	2,500	6,783
Supplier B	Advertising and system support services	Beverages and food	4,593	94,342	6,568	76,730	7,980	89,202	4,256	81,531	5,081	42,800
Supplier C	Advertising and system support services	Beverages and food	1,138	72,493	399	53,760	–	57,545	291	48,797	–	28,241
Supplier E	Advertising and system support services	Beverages and food	1,384	48,088	1,807	34,466	1,627	32,282	1,465	32,189	1,217	14,592
Supplier F	Advertising and system support services	Beverages and food	1,677	47,725	4,843	94,729	8,060	136,006	16,035	137,862	9,309	68,456
Supplier J	Advertising and system support services	Beverage and food	1,412	2,794	10,851	32,399	2,205	47,314	17,406	39,312	5,660	19,350
Customer S	Advertising and system support services	Beverage and food	–	–	–	–	–	–	849	15,217	4	13,475
Supplier K	Advertising and system support services	Beverage and food	–	–	–	1,143	–	9,782	1,548	28,200	1,377	31,714
			<u>71,717</u>	<u>366,052</u>	<u>58,729</u>	<u>360,395</u>	<u>38,613</u>	<u>412,556</u>	<u>45,026</u>	<u>409,431</u>	<u>25,148</u>	<u>232,540</u>

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In 2019, 2020, 2021, 2022 and the six months ended June 30, 2023, revenue from the provision of advertising and system support services to these merchandise suppliers contributed approximately 2.6%, 3.1%, 1.4%, 1.8% and 2.0% of our total revenue, respectively, and purchases from them contributed approximately 21.1%, 29.9%, 22.7%, 28.9% and 32.0% of our total purchase, respectively. During the Track Record Period, our sales and purchases with the overlapping customers and suppliers were not inter-conditional with each other.

Our Directors have confirmed that all of our sales to and purchases from these merchandise suppliers were conducted in the ordinary course of business under normal commercial terms. The terms of our agreements with these merchandise suppliers are substantially the same as those with our other merchandise suppliers and advertising and system support services customers. As of the Latest Practicable Date, to the best information and knowledge of our Directors, all of these merchandise suppliers were Independent Third Parties.

LOGISTICS AND INVENTORY MANAGEMENT

Logistics

As of June 30, 2023, our fleet had 372 operational vehicles and approximately 900 operation personnel, among whom approximately 190 were our employees and 710 were third-party contractors. As of June 30, 2023, we operated 106 warehouses and 212 sorting centers across 121 cities and 28 provincial-level administrative regions in mainland China. Our nation-wide logistics and warehousing network helps us minimize transportation costs as it consolidates the delivery of merchandise for logistics routes in proximity and gives more room to logistics routes optimization. Our algorithms calculate optimal logistics routes based on factors such as stock level, road traffic, type of merchandise and delivery capacity, and timely adjust the logistics routes to enable centralized restocking scheduling and route planning. For further details of formulation of logistics routes, see “— Our Technology-based Retail Platform.”

Inventory Management

Through our operation system, we are able to monitor information such as inventory level, movement of our SKUs and stock description on a real time basis. We place orders with our suppliers based on the results generated from our operation system. We continuously monitor our inventory levels to ensure that our inventories are optimized by adopting sales-based procurement policy for all our merchandise. In practice, we maintain data for merchandise, procurement and inventory in our centralized operation system, based on which we get daily average sales and inventory level of each SKU in each warehouse. Then we calculate the number of days of stock available for sale and determine whether to proceed to the next round of procurement, with reference to safety stock quantity and procurement-in-transit quantity. We manage the inventory level and arrange the restocking for our Ubox POSs, but not for Non-Ubox POSs. For Non-Ubox POSs connected to our centralized operation

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system, the operation system constantly monitors machine inventory level and generates restocking alerts to the Non-Ubox POS operators. Particularly, we pay close attention to food products. Our system will automatically alert us when the remaining shelf life is less than a third. Merchandise with shelf life of less than that as prescribed by relevant laws and regulations will be disposed of promptly. It generally takes one to five days to execute orders, from the point of placing the order to delivery. We conduct monthly and semi-annual audit to ensure the accuracy and safety of our inventory. During the Track Record Period, our inventory shrinkage rate, being the percentage of inventory lost between the point when it was received and sold, was less than 0.3%. We strive to keep our inventory turnover days for all products to an optimal level.

Operation and Maintenance Support

As of June 30, 2023, we had a team of 145 maintenance engineers nation-wide, who are responsible for ensuring the smooth operation of our POSs. We are devoted to continuously enhance our operation and maintenance support by, among others, optimizing management, providing operational skill training and incentivizing of talents. In addition, our centralized operation system sends notification to the responsible operation staff upon identification of any malfunction, which ensures timely repair of any malfunctioning vending machines.

QUALITY CONTROL

We place great emphasis on the quality of the merchandise provided through our machines. Led by experienced procurement team, when evaluating our suppliers, we have established stringent screening procedures for potential suppliers. We take into account factors including industry reputation, product quality, production scale and price. We also verify all required licenses and permits before we enter into supply agreements and continuously monitor the validity of such licenses and permits of suppliers.

To ensure the high quality and safety of products offered by us, all products we procured must strictly comply with applicable standards in all respects. In the event we receive complaints from consumers or become aware of product quality issues, we will conduct a thorough inspection of various stages along the supply chain to identify issues impacting product quality and food safety. We will perform immediate risk analysis, formulating relevant measures and stringently oversee their implementation.

As a result of our stringent quality control procedures, we did not experience any material product liability or other legal claims during the Track Record Period. See “Risk Factors — Risks Relating to Our Business and Industry — Our reputation, performance and financial condition could be adversely affected by any failure to maintain effective quality control mechanism and food safety monitoring system.”

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RESEARCH AND DEVELOPMENT

Our retail platform hinges on two of our proprietary technologies – the mechanical structure of our vending machines and the method of communication between our vending machines and operation system. Therefore, continuous research and development to improve our core technologies is critical to our future growth and our ability to remain competitive. As of the Latest Practicable Date, we had 204 registered patents and led the technological developments of the industry in areas such as structural designs and components of vending machines, and communication technologies between vending machines and operation system.

As of June 30, 2023, we had a dedicated team of 75 personnel in our research and development team, the majority of whom had joined our Group for more than three years and held a bachelor’s degree or above. Our research and development team are responsible for the design, development, maintenance and optimization of our proprietary technologies and infrastructure, including our operation system and our enterprise resource planning system. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, our research and development expenses amounted to RMB57.3 million, RMB41.5 million, RMB36.8 million, RMB31.6 million, RMB17.7 million and RMB15.1 million, respectively, accounting for 2.1%, 2.2%, 1.4%, 1.3%, 1.5% and 1.2% of our total revenue in the same periods.

We have sought to collaborate with leading technology companies to explore industry application of technologies. For example, in 2018, we collaborated with Ant Group to enhance the development of our service offerings. According to our cooperation agreement with Ant Group, the research and development focus was centered around biometric authentication and merchandise recognition technologies for our pick-and-go cabinets. The technology developed was based on Ant Group’s biometric authentication and merchandise recognition solutions. Currently, we are allowed to use the solutions for free, and there is no cost/profit/loss sharing arrangement between Ant Group and us. However, the terms of cooperation may be subject to changes in the future. While ownership of intellectual property rights relating to the abovementioned solutions remained with the Ant Group, we are entitled to ownership of patents with respect to the application of these underlying technologies in the context of vending machine retail.

Going forward, we will focus our research and development efforts on improving services related technologies through enhancing the capabilities of our data platform, optimizing and acquiring algorithms and expanding data applications. We will develop and introduce AI recognition technology and algorithms related to the services provided by vending machines to improve customer experience and expand business scope. We may also recruit technological talents with a view to optimize our operation system for business partners, consumers and internal control, and improve overall operating efficiency through simultaneous hardware and software upgrades.

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DATA PRIVACY

In order to better serve our unmanned retail business customers, we collect transaction data including purchase orders and payment results. We have in place a robust data protection policy to ensure our compliance with the applicable laws and regulations. Internally, we have formulated and adopted, among others, a Data Security Management Policy, a Data Classification and Management Policy, an Information Security Training Policy and a Network and Information System Incident Response Plan. We require all of our employees and business partners to strictly adhere to our internal policies governing data privacy and security. We only collect information as necessary for our operation. In addition, we communicate with our users in an easy-to-understand manner to help them understand their rights under applicable laws and regulations. Our policies on cybersecurity and data privacy cover data protection for data transmitted on our centralized operation system over the cloud operated by third-party cloud service providers. We also stipulate our data privacy and security requirements in the service agreements entered into with such service providers.

We have put in place a comprehensive auditing mechanism across our business, to keep track of the data privacy and data security actions taken throughout the lifecycle of our products and services. To ensure the security and integrity of our data, we have adopted technical solutions such as data encryption, data backup, access control, system intrusion monitoring, and storing data under the protection of firewall to prevent unauthorized access and malicious attacks.

With regards to the organizational and technical safeguards in place, we provide employees with trainings for data-related matters and privacy practice on a regular basis. We also have clear and strict authorization and authentication procedures for data decryption and access. Employees are required to obtain authorization for access of data, which would only be granted for data that are directly relevant and necessary to the employee’s job responsibilities. We have adopted policies relating to administration of customer data, such as Alipay and WeChat Pay user identities, phone numbers and location, and personal information for employees with such access to comply with and conduct regular review to ensure compliance.

In addition, we utilize a complete set of data privacy and data security management systems that allow us to continuously review and improve our data protection control and procedures.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material information leakage or loss of user data in mainland China or any overseas market. As advised by our PRC Legal Advisor, during the Track Record Period and up to the Latest Practicable Date, we had complied with all applicable data privacy laws and regulations in mainland China in all material respects, including the China Personal Information Protection Law. See “Risk Factors — Our business is subject to complex and evolving Chinese and international laws and regulations regarding privacy and data protection” and “Regulatory Overview — Regulations Relating to Information Security and Privacy Protection.”

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INTELLECTUAL PROPERTY

As our service offerings are based on technology, intellectual property rights are essential to protect our business operations. As of the Latest Practicable Date, we held 204 patents, which covered key aspects of our operation, including structural designs and components of vending machines, and communication technologies between vending machines and operation system. As of the Latest Practicable Date, we also had 337 trademarks, 138 software copyrights, 18 domain names, 22 pending patent applications and 1 pending trademark applications in mainland China. For details about our material intellectual property rights, see “Statutory and General Information — B. Further Information about our Business — 2. Our Material Intellectual Property Rights” in Appendix VI to this document. We also entered into non-competition and confidentiality agreement with our key employees in the research and development team to protect the outcome of our research and development efforts. We have formulated operation guidelines for different stages of intellectual property application, including patent proposal, patent application, patent examination and settlement, among others, which have standardized our intellectual property application process and management of our intellectual properties. Our legal department is primarily responsible for the application, management and monitoring of our intellectual property rights.

We actively defend our material intellectual property rights where possible. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any occasion of unauthorized use of our intellectual property rights by third parties which would have a material impact to our business or operation. See “Risk Factors — Risks Relating to Our Business and Industry — We may not be able to adequately protect our intellectual property rights, which could harm the value of our brand and adversely affect our business” for details. During the Track Record Period and up to the Latest Practicable Date, we did not have any material disputes or pending legal proceedings or claims for infringement upon third parties’ intellectual property rights.

SEASONALITY

Our business is subject to seasonal fluctuations depending on the location of our POSs and the relevant time of a year. In general, we experience weaker performance in the first quarter of each year due to lower level of consumer foot traffic and consumption from vending machines, especially outdoor ones, during winter. We typically record higher level of revenue from the second to fourth quarters of each year due to the warmer weather and relatively stronger demand for vending machine retail of beverages. We are also subject to seasonal fluctuation in demand from particular scenarios. For example, POSs at schools typically record lower level of revenue during summer and winter vacations. See “Financial Information — Seasonality.”

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COMPETITION

The vending machine retail industry in mainland China is fragmented and has witnessed rapid growth in the past few years. According to Frost & Sullivan, the size of the vending machine retail market in mainland China in terms of retail sales value increased from approximately RMB13.1 billion in 2017 to approximately RMB28.9 billion in 2022, representing a CAGR of approximately 17.1%. See “Industry Overview — Size of Mainland China’s Vending Machine Retail Market.”

Our major competitors include other vending machine operators, integrated logistics companies and beverage companies that are tapping into the vending machine retail industry. We believe we are competitively positioned because of our advantages in scale, digitalization and operation capabilities, multiple operation models, extensive POS network and superb R&D capabilities. See “— Our Strengths.”

RISK MANAGEMENT AND INTERNAL CONTROL

We are subject to various risks in our operations, see “Risk Factors — Risks Relating to Our Business and Industry.” We have established and currently maintain a robust risk management and internal control systems comprising policies, procedures, and reporting mechanisms in essential aspects of our business operations to identify, assess, evaluate and monitor key risks associated with our strategic objectives on an ongoing basis. We also have dedicated risk control specialists in our securities department to handle our risk management and internal control affairs. We embed a culture of compliance in the daily work routine of our employees through compliance trainings, and set various expectations for our employees’ work performances in terms of compliance.

Our Board is responsible for establishing and monitoring our risk management and internal control systems, while our senior management oversees the daily implementation of the procedures and measures of each department. We review our risk management and internal control systems on a regular basis to adapt to the changes in market conditions and the regulatory environment and their impact on our product and service offerings. To prevent oversight, our Board has established an audit committee to make recommendations to our Directors on the appointment and removal of external auditors, review the financial statements and render advice in respect of financial reporting and internal controls, and oversee our risk management and internal control systems and any significant risks. The audit committee comprises three members, namely Ms. Guo Wei, Mr. Wang Xiaochuan and Ms. An Yufang, our independent non-executive Directors, with Ms. Guo Wei (possessing the appropriate professional qualifications) as chair. For the professional qualifications and experiences of the members of our audit committee, see “Directors, Supervisors and Senior Management.”

In order to manage our compliance and legal risk exposures effectively, we have designed and adopted strict internal procedures to ensure the compliance of our business operations with the relevant rules and regulations. In particular, as we and our employees deal with a variety of third parties in our operations, we have implemented internal procedures with respect to

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anti-bribery, anti-corruption and conflict of interest matters. Firstly, as part of our risk management and internal control measures, we have adopted a series of internal regulations against corrupt and fraudulent activities, which include measures against receiving bribes and kickbacks, and misappropriation of company assets. Secondly, employees and parties outside our Company are encouraged to provide information and report violations of professional ethics by our employees or suspected corruption cases via email. Thirdly, we carefully evaluate risk events and conduct investigations when necessary. Fourthly, we have implemented clear and strict policies and guidelines that prohibit the acceptance of gifts, hospitality and other offers by interested third parties. Lastly, we conduct internal control inspections regularly. Employees are required to acknowledge and accept our internal code of conduct that lists in detail relevant policies and regulations, including but not limited to clear definitions of bribery and corruption. We impose on directors, senior management and employees penalties, and require compensation, for any losses incurred as a result of any activities concerning bribery and corruption.

Information System Risk Management

Our objectives for information system management are to identify, assess, monitor and control information technology risks by establishing an effective mechanism to operate our business in a safe, continuous, stable and compliant environment. We have implemented policies and procedures to (i) monitor the key operation indicators of our operation system and give an alarm if such indicators go beyond the security thresholds; (ii) manage the authorities of our employees to access certain functions of our operation system; (iii) manage the network and hard drive capacities; and (iv) categorize system malfunctions and accidents into four levels according to their seriousness and urgency, and implement different mechanisms to fix them.

We experienced a total of six incidents where our vending machines and operation systems were out of service during the Track Record Period. In each of 2019 and 2021, there were one instance where our vending machines and operation systems were temporarily out of service for approximately 15 minutes and 4 minutes, respectively, due to system failures of third-party payment platforms, and our loss arising from each incident was estimated to be approximately RMB0.1 million. In 2022, there was one similar instance due to system failure of third-party payment platform and our estimated loss was estimated to be approximately RMB0.05 million. There was also one instance in 2019 where our vending machines and operation systems were temporarily out of service during our system upgrade with an estimated loss of approximately RMB0.03 million. In each of 2021 and 2022, there was one instance where our database for restocking of merchandise was temporarily out of service, for approximately 1.6 hours and 50 minutes with an estimated loss of approximately RMB0.03 million and RMB0.03 million, respectively. Save as disclosed above, we had not experienced any material system failure or malfunctioning of our operation systems or our vending machines during the Track Record Period and up to the Latest Practicable Date.

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When the incidents occurred, the abnormal drop in transaction amount triggered our alarm system and the personnel on duty immediately reported the malfunction to our maintenance team, who then located the malfunction in our system and/or communicated with third-party payment platforms to resolve the problems in time. To prevent the recurrence of similar incidents, we have taken the following preventive measures:

- *Regular system inspection.* We regularly inspect, among others, (i) the operation status, storage space and memory utilization of our system and database; (ii) the operation status of network equipment, utilization rate and load of network resources; and (iii) the status of our application services and the execution of the application task to prevent and detect potential system faults in advance.
- *Real-time monitoring of operation parameters.* In order to ensure the stable operation of our system and vending machines, we monitor the key operation parameters in real time and set the corresponding alarm value for each group of parameters. When a certain parameter reaches the alarm value, the alarm system will immediately notify the personnel on duty, which allows the problems to be solved in a timely manner.
- *System failure response mechanism.* We have established a system failure response mechanism through issuing “Ubox Network and Information Emergency Plan” and “Ubox System Failure Reporting and Handling Mechanism” in order to streamline the system failure reporting and handling procedure as well as minimize the harm of system failure to our business. Our Ubox Network and Information Emergency Plan and Ubox System Failure Reporting and Handling Mechanism set out emergency response measures for, among others, telecommunication failures, computer viruses, interruptions in access to our platform, hacking or other attempts to harm our platform. We defined four levels of incidents according to their nature and severity and set out the corresponding reporting protocol. We established an emergency response group for handling network and information system security incidents. Security incidents are reported to the emergency response group, which will verify the incidents and report to the management of our Group. We carried out annual system failure response drill with the relevant personnel.

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EMPLOYEES

As of June 30, 2023, we had 1,135 full-time employees, all located in mainland China. The following table sets forth the number of our employees by function:

Function	Number of Employees	% of Total
Customer service and operation	833	73.4
Sales and marketing	123	10.8
General and administration	75	6.6
Research and development	104	9.2
Total	1,135	100.0

We primarily recruit our employees through a third-party recruitment platform. After collecting and approving the recruitment plans from each department on our office administration system, we will submit our recruitment plans to the recruitment platform, which will then publish them through various recruitment channels. The portfolios of candidates will be screened and assessed by our human resources department and the relevant department heads.

Our success depends on our ability to attract, retain and motivate qualified employees. We offer our employees a competitive remuneration package which includes salary, benefits, bonus and incentives. Our compensation programs are designed to remunerate our employees based on their performance, measured against specified objective criteria. As required by PRC Law, we have made contributions to the various mandatory social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance and maternity leave insurance, and to mandatory housing provident funds, for or on behalf of our employees. In addition, we provide our employees with a diverse work environment and a wide range of career development opportunities. We also organize various training programs on a regular basis for our employees to enhance their professional knowledge, improve time management skills and communications skills, and strengthen their team spirit.

As of the Latest Practicable Date, other than Guangzhou Weiji and Shanghai Huilin, which had established labor unions for its employees, our employees were not represented by any labor union. We believe that we maintain good working relationship with our employees and we had not experienced any strikes or labor disputes that had any material adverse effect to our operations during the Track Record Period and up to the Latest Practicable Date. As of the Latest Practicable Date, we did not have any material non-compliance with statutory social security insurance fund and housing provident fund obligations under applicable laws. See “— Legal Proceedings and Compliance.”

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AWARDS AND RECOGNITIONS

The following table sets forth some of our major awards and recognitions during the Track Record Period and up to the Latest Practicable Date.

Award/Recognition	Issuing Entity	Time of Receipt
Beverage Creative Marketing Silver Award, Technical Marketing Silver Award and Media Creative Category Bronze Award, and Tiger Roar Awards (飲料創意營銷銀獎、技術營銷類銀獎及媒介創意類銅獎及虎嘯獎)	China Advertising Association of Commerce (中國商務廣告協會)	May 2019
2019 (Industry) Influential Brand Award (2019(行業)影響力品牌獎)	China Finance Summit (中國財經峰會)	July 2019
2019 Excellent Operator (2019年度優秀運營商)	Asia-Pacific Self-service Vending Industry Association (亞太自助售貨行業聯合會)	November 2019
ONE Payment Business Transformation Award (ONE支付商業轉型獎)	Alibaba Group (阿里巴巴集團)	December 2019
WISE 2020 King of New Economy – Most Influential Enterprise in the New Retail Field (新零售領域「2020年中國新經濟之王最具影響力企業」)	36Kr (36氪創投研究院)	December 2020
2021 Edge Awards – New Consumption Ecological Service Provider of the Year (2021全球創新評選「年度新消費生態服務商」)	TMT Post (鈦媒體)	December 2021

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INSURANCE

We maintain standard benefit plans required by PRC Law, including medical insurance, maternity insurance, pension insurance, unemployment insurance and work-related injury insurance. We obtain such insurance from reputable insurance carriers in accordance with commercially reasonable standards. In line with general market practice, we do not maintain business interruption insurance or key man life insurance, which are not mandatory under the applicable laws. For a discussion of risks relating to our insurance coverage, see “Risk Factors — Risks Relating to Our Business and Industry — We have limited insurance coverage, which could expose us to significant costs and business disruption.”

Our Directors believe that our insurance coverage is adequate and in line with industry norm. We periodically review our insurance coverage to ensure that it remains to be sufficient.

PROPERTIES

We are headquartered in Beijing, China. As of the Latest Practicable Date, we did not own any properties, and we operated our business through 154 leased properties in mainland China. Our leased properties had a total GFA of approximately 87,261 sq.m., which were primarily used as office premises, warehouses and staff dormitories. The duration of these leases vary from one year to six years. Rents under our leases are generally in fixed sum.

Leased Properties Pending Building Ownership Certificates (房屋所有權證)

As of the Latest Practicable Date, with respect to 102 of our leased properties with an aggregate GFA of approximately 61,809 sq.m, representing approximately 70.8% of our total leased GFA, the lessors of such leased properties had not been able to obtain or provide us with sufficient and valid building ownership certificates that evidence their rights to lease the properties or proof of authorization from property owners to sublease the properties to us. Among the leased properties without sufficient and valid building ownership certificates, in respect of 41 of such leased properties with an aggregate GFA of approximately 26,639 sq.m representing approximately 30.5% of our total leased GFA, we had obtained confirmations for approval of use from the relevant government authorities, neighborhood committees, village committees, owners or lessors. Such leased properties are used for storage, office and residential purposes.

As advised by our PRC Legal Advisor, without ownership certificates or proof of authorizations from the property owners, our use of these defective leased properties may be affected by third parties’ claims or challenges against the lease or our land use rights. Pursuant to the applicable PRC Law, if the lessors do not have the requisite rights to lease these properties, the relevant lease agreements may be deemed invalid and we may be required to vacate these properties. However, in the event that we are unable to continue using such properties due to third parties’ claims or challenges against the leases or our land use rights, based on the advice of our PRC Legal Advisor, we, as the tenant, will have the right to claim compensation from the lessors.

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In view of the foregoing, our Directors are of the view that the abovementioned title defects will not materially and adversely affect our business and results of operations on the grounds that: (i) to the best of our Directors' knowledge, our leases with respect to these defective leased properties had not been subject to claims or disputes in connection with rights to lease and use such leased properties during the Track Record Period and up to the Latest Practicable Date, (ii) we believe that we would be able to relocate to a different site relatively easy on comparable commercial terms and at similar prices with immaterial relocation costs should we be required to do so; and (iii) considering these defective leased properties are geographically dispersed across mainland China under the jurisdiction of different local governmental authorities, we believe it is unlikely that we would be at the same time subject to claims of rights from various third parties or required by the governmental authorities to relocate with respect to a significant number of these defective leased properties.

Leased Properties with Usage Defects

As of the Latest Practicable Date, the actual use of 7 of our leased properties with an aggregate GFA of 3,496 sq.m., representing approximately 4.0% of our total leased GFA, did not fit into the prescribed scope of usage shown on the relevant ownership certificates.

Our PRC Legal Advisor advised us that, administrative penalties may be imposed on the lessors if the properties are leased for the usage incompatible with the prescribed scope, and our usage of such leased properties with usage defects may be interrupted. As advised by our PRC Legal Advisor, if we are not able to continue to use the relevant leased properties because the lessors failed to lease the properties according to the stipulated uses, we have the right to claim compensation from the lessors in accordance with the applicable laws and regulations and/or the relevant lease agreements.

In view of the foregoing, our Directors are of the view that the abovementioned usage defects will not materially and adversely affect our business and results of operations on the grounds that: (i) to the best of our Directors' knowledge, our leases with respect to these defective leased properties had not been subject to claims or disputes in connection with the actual use of such leased properties during the Track Record Period and up to the Latest Practicable Date and (ii) we believe that we would be able to relocate to a different site relatively easy on comparable commercial terms and at similar prices with immaterial relocation costs should we be required to do so.

Lack of Requisite Approval for Certain Leased Properties

As of the Latest Practicable Date, with respect to 10 of our leased properties built on collective land (集體用地) or allocated land (劃撥用地) with an aggregate GFA of 4,103 sq.m, representing approximately 4.7% of our total leased GFA, the lessors could not provide documents proving that the corresponding approval procedures for such properties leased to us had been completed.

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As advised by our PRC Legal Advisor, properties on collective land or allocated land shall not be leased without authorization from relevant authorities. There is no guarantee that the lessors had obtained authorizations from the relevant collective economic organizations or land administration departments to lease the properties. If the lessors did not obtain the requisite approval for leasing such properties in accordance with the relevant laws and regulations, the validity of the relevant leasing contracts may be uncertain. In the event that we are not able to continue to use the leased properties, we consider that the leased properties can be replaced by other suitable properties on comparable commercial terms and at similar prices with immaterial relocation costs. In view of the foregoing, our Directors are of the view that such property defects do not have any material adverse impact on the operation of the Group.

Lease Registration

Pursuant to the applicable PRC Law, property lease contracts must be registered with the local branch of the Ministry of Housing and Urban-Rural Development of the PRC. As of the Latest Practicable Date, 152 of our lease agreements with landlords were not registered with the relevant government authorities in mainland China. This was primarily due to the difficulty in procuring our lessors’ cooperation in registering such leases.

Our PRC Legal Advisor advised us that, according to the applicable PRC Law, the non-registration would not affect the validity of these lease agreements, but we, as the lessee, may be required by the relevant authorities in mainland China to register the relevant lease agreements within a prescribed time limit. If we fail to do so, we may be subject to fines ranging from RMB1,000 to RMB10,000 for each non-registered lease agreement. The estimated total maximum penalty was RMB1.52 million as of the Latest Practicable Date. However, as of the Latest Practicable Date, we had not been ordered to register our lease agreements or fined by the relevant authorities in mainland China with respect to these lease agreements. In view of the foregoing, our Directors are of the view that non-registration of these lease agreements will not materially and adversely affect our business operations.

For further details on the risks associated with our leased properties, see “Risk Factors — Risks Relating to Legal, Compliance, and Regulatory Matters — Our leased property interests may be defective and our lease agreements may not be registered, our right to lease the properties affected by such defects may be challenged, which could cause significant disruption to our business.”

Internal Control Measures

To prevent recurrence of these potential defects in our leased properties, we have taken the following measures:

- Proactive approach and communication with our lessors. We designate our staff to proactively reach out to and communicate with lessors to obtain the relevant ownership certificates or proof of authorizations from property owners.

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- Internal policies. We require all our lessors to provide the necessary documentation and valid title certificates before we enter into lease agreements with them and we will not enter into lease agreements for properties with title defects. Moreover, as part of our enhanced internal policies, our lease agreements are required to be registered with relevant authorities. Upon expiry of lease agreements, we will assess the legal risks and will not renew a lease agreement if the risk is too high.

As of June 30, 2023, none of the properties held or leased by us has a carrying amount of 15% or more of our consolidated total assets. Therefore, according to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which requires a valuation report with respect to all our interests in land or buildings.

LEGAL PROCEEDINGS AND COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, no member of our Group had been involved in any legal, arbitration or administrative proceedings, including bankruptcy or receivership proceedings, whether actual or threatened, that we believe would have a material adverse effect to our business, results of operations, financial condition or reputation. Also, our Directors had not been involved in any actual or threatened claims or litigations of material impact. However, we may from time to time become a party to various legal, arbitration or administrative proceedings arising in the ordinary course of business. Litigation or any other legal or administrative proceeding, regardless of the outcome, is likely to result in substantial cost and diversion of our resources, including our management’s time and attention.

As confirmed by our PRC Legal Advisor, during the Track Record Period and up to the Latest Practicable Date, we had complied with all applicable laws and regulations in all material respects, except as disclosed below.

Social Insurance and Housing Provident Funds

Background and Reasons for Non-compliance

According to the relevant PRC Law, we are required to make contributions to social insurance and housing provident fund for the benefit of our employees in mainland China. During the Track Record Period and as of the Latest Practicable Date, some of our subsidiaries in mainland China did not make full contribution to the social insurance and housing provident funds for some of our employees in accordance with the relevant PRC Law. We estimate that the shortfall of social insurance payments in 2019, 2020, 2021, 2022 and the six months ended June 30, 2023 amounted to approximately RMB6.3 million, RMB2.0 million, RMB5.9

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million, RMB2.6 million and RMB1.6 million, respectively, and the shortfall of housing provident fund contributions in 2019, 2020, 2021, 2022 and the six months ended June 30, 2023 amounted to approximately RMB0.5 million, RMB1.8 million, RMB1.6 million, RMB0.8 million and RMB0.4 million, respectively.

We were unable to make full social insurance and housing provident funds contributions for such employees primarily because (i) a certain number of our employees were not cooperative and refused to make full contributions to social insurance and/or housing provident funds mainly for personal reasons; and (ii) a certain number of our employees are migrant workers who were not willing to make full contributions to the social welfare schemes of the city where they temporarily reside as such contributions cannot be easily transferred among cities.

Potential Legal Consequences

As advised by our PRC Legal Advisor, pursuant to relevant PRC Law, (i) the under-contribution of social insurance within a prescribed period may be subject to an overdue charge of 0.05% of the delayed payment amount per day and the competent authority may further impose a fine of one to three times of the overdue amount if such payment is not made within the stipulated period; and (ii) in respect of outstanding housing provident fund contributions, we may be ordered to pay the outstanding housing provident fund contributions within a prescribed time period. An application may be made to a people’s court for compulsory enforcement if the payment of the outstanding housing provident fund contributions is not made after the expiration of the time limit. As advised by our PRC Legal Advisor, there is no expressed legal provision or regulation that imposes a penalty on the Group for such non-payment of housing provident fund contributions but we may be ordered to pay the outstanding amount of our housing provident fund within the prescribed period. As of the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant regulatory authorities with respect to our social insurance contributions and housing provident funds, nor had we received any order or been informed to settle the deficit amount. The provisions we made on our financial statements in respect of contributions to the social insurance and housing provident funds were RMB4.3 million, RMB1.8 million, RMB4.0 million, RMB2.4 million and RMB1.4 million, respectively, in 2019, 2020, 2021, 2022 and the six months ended June 30, 2023.

Remedial Measures

We have implemented our policy on the payment of social insurance and housing provident fund contribution for employees in compliance with relevant PRC Law. We actively encourage and make such contributions for our employees. Despite our efforts, we were unable to pay in full the outstanding social insurance contributions and housing provident fund contributions for some of our employees due to their reluctance to participate in the relevant schemes. As soon as they agree that we make the relevant social security insurance and housing

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provident fund contributions for them, we will make such contributions for them accordingly from that point of time onwards. Moreover, we have taken the following rectification measures to mitigate future occurrence of such non-compliances:

- *Training and Advice.* Consult our PRC Legal Advisor for advice on relevant PRC Law, and strengthen legal compliance training to our personnel, including by engaging our PRC Legal Advisor to provide training to our personnel to keep us abreast of latest development of the relevant regulations;
- *Policy.* Enhance our human resources management policies, which explicitly requires social insurance and housing provident fund contributions to be made in full in accordance with applicable laws and regulations;
- *Review and record-keeping.* Designate our human resources staff to review and monitor the reporting and contributions of social insurance and housing provident fund on a monthly basis; and
- *Increasing awareness of developments in the law.* Regularly keep abreast of latest developments in PRC Law in relation to social insurance and housing provident funds.

We made provisions in the total amount of RMB4.3 million, RMB1.8 million, RMB4.0 million, RMB2.4 million and RMB1.4 million, respectively, on our financial statements in respect of such potential liabilities in 2019, 2020, 2021, 2022 and the six months ended June 30, 2023. Our PRC Legal Advisor has advised us that, according to the interviews with the relevant regulatory authorities, the risk of being ordered by the government authorities on their own initiative to pay the outstanding amount of (1) the social insurance contributions for our Shenzhen, Wuhan and Hangzhou subsidiaries/branches and (2) the housing provident fund contributions for our Shenzhen, Shenyang and Quanzhou subsidiaries/branches is remote. Accordingly, we did not make provisions for contributions to the social insurance and housing provident funds for employees in the above cities. For employees of other subsidiaries/branches, provision has been made for the shortfall of social insurance and housing provident funds contributions. Taking into consideration the advice of our PRC Legal Advisor, our Directors are of the view that the provision is adequate and sufficient. We undertake to make timely payments for the deficient amount and overdue charges as soon as requested by the competent governmental authorities.

Pursuant to the Urgent Notice on Enforcing the Requirement of the General Meeting of the State Council and Stabilizing the Levy of Social Insurance Payment (《關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知》) promulgated on September 21, 2018 by the Ministry of Human Resources & Social Security, administrative enforcement authorities are prohibited from organizing and conducting centralized collection of enterprises' historical social insurance arrears without permission.

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In view of the above, our Directors are of the view that such non-compliance did not and will not have a material adverse impact on our Group and our provisions for the shortfall related to social insurance and housing provident funds are adequate on the grounds that: (i) there were no material disputes between our employees and us regarding the social insurance or housing provident fund contributions during the Track Record Period; (ii) we had not been subject to any material administrative penalties during the Track Record Period and up to the Latest Practicable Date; (iii) as of the Latest Practicable Date, we had not received any notification from the relevant authorities in mainland China requiring us to pay shortfalls or the penalties with respect to social insurance and housing provident funds; and (iv) as of the Latest Practicable Date, we had neither experienced any disagreement from relevant social insurance or housing provident fund authorities with respect to such contributions, nor received any enquiries from local tax authorities regarding social security tax payments in light of the reform plan recently promulgated in mainland China.

LICENSES, PERMITS AND REGULATORY APPROVALS

As advised by our PRC Legal Advisor, as of the Latest Practicable Date, we had obtained all requisite licenses, permits and approvals from relevant government authorities that are material to our business operations in mainland China. Such licenses, permits and approvals remained in full effect, and no circumstances existed that would render their revocation or cancellation.

The following table sets forth the material licenses and permits currently held by us:

No.	Licenses/Permits	Holder	Issuing Authority	Issuance Date	Expiry Date
1.	Food business license (食品經營許可證)	Guangzhou Weiji Trading Co., Ltd. (廣州偉吉貿易有限公司)	Guangzhou Haizhu District Market Supervision Administration (廣州市海珠區市場監督管理局)	June 8, 2021	June 7, 2026
2.	Food business license (食品經營許可證)	Beijing Taihe Ruitong Cloud Business Technology Co., Ltd. (北京泰和瑞通雲商科技有限公司)	Beijing Shunyi District Food and Drug Administration (北京市順義區食品藥品監督管理局)	January 7, 2022	January 6, 2027

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RECENT REGULATORY DEVELOPMENT IN MAINLAND CHINA

Recent Development on Regulations Relating to Information Security and Privacy Protection

On November 14, 2021, the Cyberspace Administration of China (國家互聯網信息辦公室) (the “CAC”) released the Administration Governing the Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) (the “**Draft Cyber Data Security Regulations**”), and accepted public comments until December 13, 2021. The Draft Cyber Data Security Regulations define data processors as individuals or organizations that autonomously determine the purpose and the manner of processing data. If a data processor who is in possession of personal data of more than one million users would like to listing in a foreign country, it shall apply for a cybersecurity review according to the Draft Cyber Data Security Regulations. Besides, data processors that are listed overseas shall carry out annual data security assessment. Public consultation for the Draft Cyber Data Security Regulations ended on December 13, 2021. The final version and effective date of such regulations are subject to change with substantial uncertainty.

Having consulted with our PRC Legal Advisor, we believe that the Measures for Cybersecurity Review and Draft Cyber Data Security Regulations (if formally issued in the current form) would apply to us given that in the ordinary course of our business, we collect, process and store different types of data such as Alipay and WeChat Pay user identities, phone numbers, location, payment records and other personal information concerning our customers, business partners and employees, all of which would be considered as data processing activities under applicable PRC Law.

On December 28, 2021, the CAC and certain other regulatory authorities in mainland China published the Measures for Cybersecurity Review (《網絡安全審查辦法》), which reiterates and expands the applicable scope of the cybersecurity review. Pursuant to the new measures, critical information infrastructure operators that purchase network products and services and network platform operators engaging in data processing activities that affect or may affect national security must be subject to the cybersecurity review. A network platform operator that has personal information of more than one million users must apply for a cybersecurity review when it seeks to list in a foreign country. As of the Latest Practicable Date, the Group was in possession of personal data of more than one million users.

On April 20, 2022, our PRC Legal Advisor conducted a phone consultation with the China Cybersecurity Review Technology and Certification Center (中國網絡安全審查技術與認證中心) (the “CCRC”), which is a competent authority according to our PRC Legal Advisor. The CCRC confirmed that (i) the Company is not required to submit cybersecurity review application for the proposed [REDACTED] in Hong Kong; and (ii) the Company is not bound by the requirements on cybersecurity review for Hong Kong [REDACTED] under the Draft Cyber Data Security Regulations as such regulations have not come into effect. The CCRC also confirmed that the Company is not required to notify the CAC of its proposed [REDACTED] in Hong Kong for reasons that (i) the Company’s current application for [REDACTED] in

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Hong Kong is not listing in a foreign country, and (ii) the Draft Cyber Data Security Regulations, which requires data processors to apply for cybersecurity review if its [REDACTED] in Hong Kong will affect or may affect national security, have not taken into effect, and such requirement is not included in the Measures for Cybersecurity Review.

Our PRC Legal Advisor is of the view that we will be able to comply with the Measures for Cybersecurity Review and Draft Cyber Data Security Regulations (if formally issued in the current form) in all material aspects on the basis that (i) we only collect the personal information necessary for provision of the relevant services and have obtained customers’ informed consent for processing such information, (ii) we have not been informed by any governmental authority in mainland China of any requirement on submission for cybersecurity review when we filed to CSRC for approval for this [REDACTED]; (iii) we have not been subject to any material fines or administrative penalties, mandatory rectifications, or other sanctions by any competent regulatory authorities in relation to the infringement of cybersecurity and data protection laws and regulations; (iv) there is no material leakage of data or personal information or violation of cybersecurity and data protection and privacy laws and regulations by us which will have a material adverse impact on the Group’s business operations; (v) there have been no material cybersecurity and data protection incidents or infringement upon the rights of any third parties, or other legal proceedings, administrative or governmental proceedings, pending or, to the best of the knowledge of the Company, threatened against or relating to the Company; (vi) we have implemented comprehensive cybersecurity and data protection policies, procedures, and measures to ensure secured storage and transmission of data and prevent unauthorized access or use of data; and (vii) we will closely monitor the legislative and regulatory development in connection with cybersecurity and data protection, including the Draft Cyber Data Security Regulations and the interpretation or implementation rules of laws and regulations of cybersecurity and data protection, and adjust and enhance the Group’s data protection measures as appropriate.

As of the Latest Practicable Date, we had not been involved in any product, service or data processing activities that might give rise to national security risks based on the factors set out in Article 10 of the Measures for Cybersecurity Review and have not been inquired, investigated, warned or penalized by any authorities in mainland China in this respect. In particular, (1) the Group has not been designated by any regulatory authority as a critical information infrastructure operator (“**CIIO**”) and does not provide network products and services to CIIO, thus the Group will not pose (i) any risk that the use of its products and services could bring about the illegal control of, interference with, or destruction of critical information infrastructure (“**CII**”), (ii) any risk to CII business continuity of product and service supply disruptions, (iii) any risk to security, openness, transparency, and diversity of sources of products and services used by any CIIO; or (iv) the reliability of supply channels of any CIIO, as well as the risk of supply disruptions due to political, diplomatic, and trade factors, and (2) the Group does not process any important data or core data, thus it will not pose any risk (i) that core data or important data are stolen, leaked, damaged, or illegally used or illegally exported, or (ii) risk existing that due to listing, CII, core data or important data are affected, controlled, or maliciously used by foreign governments, as well as cybersecurity risks.

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On July 7, 2022, the CAC promulgated the Measures on Security Assessment of Cross-border Data Transfer (《數據出境安全評估辦法》) (the “**Data Export Measures**”), which became effective on September 1, 2022. The Data Export Measures stipulates that any data processor who processes or exports personal information exceeding a certain volume threshold shall apply for a security assessment by the CAC before transferring any personal information abroad. The security assessment requirement also applies to any transfer of important data outside of mainland China. As of the Latest Practicable Date, (i) we had not received any notification from relevant regulatory authorities identifying us as a critical information infrastructure operator, (ii) the identification of important data and the implementation are still subject to elaboration by relevant government authorities, and (iii) the data collected and generated in our daily business operation are kept within mainland China and not transmitted overseas. Therefore, our Directors and our PRC Legal Advisor are of the view that the Measures on Security Assessment of Cross-border Data Transfer do not apply to us.

On September 14, 2022, the CAC released the Notice of Public Consultation on the Decision on Amending the Cybersecurity Law of the People’s Republic of China (Draft for Comments) (關於公開徵求《關於修改〈中華人民共和國網絡安全法〉的決定(徵求意見稿)》意見的通知), or the Draft Amendment of Cybersecurity Law. The Draft Amendment of Cybersecurity Law mainly increases the legal liability for violations under the current Cybersecurity Security Law, integrates and unifies the penalties for violation of network operation security protection obligations, violation of critical information infrastructure security protection obligations and violation of personal information protection obligations.

For further details, see “Regulatory Overview — Regulations Relating to Information Security and Privacy Protection” and “Risk Factors — Risks Relating to Legal, Compliance and Regulatory Matters — Any failure to protect our customer data, or the improper collection, use or disclosure of such data, as well as the uncertainties surrounding the cybersecurity review may subject us to the liabilities imposed by data privacy and protection laws and regulations, which may negatively impact our reputation and business.”

Recent Development on Regulations relating to Overseas Listing

On February 17, 2023, the CSRC promulgated the Trial Measures for Administration of the Overseas Securities Offering and Listing by Domestic Enterprises (《境內企業境外發行證券和上市管理試行辦法》) and five supporting guidelines (the “**Trial Measures**”), which took effect on March 31, 2023. The Trial Measures comprehensively improve and reform the existing regulatory regime for overseas offering and listing of securities of mainland China-based companies and regulate both direct and indirect overseas offering and listing of securities of mainland China-based companies by adopting a filing-based regulatory regime.

According to the Trial Measures, a domestic company seeking direct overseas offering and listing shall file with the CSRC, submit the filing report, legal opinions and other relevant materials as required under the Trial Measures, and state the shareholders’ information and other matters in a truthful, accurate and complete manner. Where a domestic company submits

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an application for initial public offering to the competent overseas regulators, such domestic company shall file with the CSRC within three business days after such application is submitted. The Trial Measures also require subsequent reports to be filed with the CSRC on material events, such as a change of control event, or voluntary or forced delisting of the issuer who has completed the overseas offering and listing. If the issuer fails to complete the filing procedure, conceals any material fact or falsifies any major content in its filing documents, it may be subject to administrative penalties, such as order to rectify, warnings, fines, and its controlling shareholders, actual controllers, the person directly in charge and other directly liable persons may also be subject to administrative penalties, such as warnings and fines. However, since the Trial Measures were newly promulgated, the interpretation, application and enforcement of the Trial Measures remain unclear.

According to the Guidelines for Application of Regulatory Rules – Overseas Offering and Listing No. 1, a domestic company seeking directly listing overseas shall formulate the company’s articles of association referring to the Guidelines for the Articles of Association of Listed Companies latest amended on January 5, 2022 by the CSRC (the “**Guidelines for Articles of Association**”).

As advised by the PRC legal advisor, the Company’s Articles of Association has been approved by the general meeting of the Shareholders held on April 8, 2022 and the Board of Directors held on April 3, 2023, which shall become effective on the [REDACTED]. Furthermore, the contents of the Company’s Articles of Association complies with the requirements under the PRC Company Law, the Trial Measures and the Guidelines for Articles of Association.

On February 24, 2023, the CSRC, jointly with other relevant governmental authorities, promulgated the Provisions on Strengthening Confidentiality and Archives Management of Overseas Securities Issuance and Listing by Domestic Enterprises (《關於加強境內企業境外發行證券和上市相關保密和檔案管理工作的規定》) (the “**Confidentiality and Archives Management Provisions**”), which took effect on March 31, 2023. The Confidentiality and Archives Management Provisions outline obligations of issuers listed in overseas markets with operations in mainland China when they provide information involving state secrets or sensitive information to their securities service providers (such as auditors) and overseas regulators. In addition, under the Confidentiality and Archives Management Provisions, such issuers will also be required to obtain approval from the CSRC and other authorities in mainland China before accepting any investigation or inspection by overseas regulators. As the Confidentiality and Archives Management Provisions were recently promulgated, there are uncertainties with respect to their interpretation and implementation. For further details, see “Regulatory Overview — Regulations Relating to Overseas Listing.”

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ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

We do not operate any production facilities. Therefore, we are not subject to significant health, safety or environmental risks. In respect of inventory management and logistics works, we have in place a comprehensive set of internal policies and guidance to ensure the safety of our operation team in the maintenance of warehouses and operation of vehicles. To comply with applicable laws and regulations, our human resources department would, if necessary and after consultation with our legal advisors, adjust our human resources policies to accommodate material changes to relevant labor and safety laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines or other penalties due to non-compliance with health, safety or environmental regulations. As advised by our PRC Legal Advisor, during the Track Record Period and up to the Latest Practicable Date, the Company was in compliance with the relevant environmental and occupational health and safety laws and regulations in mainland China in all material aspects.

Policy on Environmental, Social and Corporate Governance

We are committed to promoting corporate social responsibility and sustainable development, and integrating them into all major aspects of our business operations. Accordingly, our Board has adopted a comprehensive policy on environmental, social and corporate governance responsibilities (the “**ESG Policy**”) in accordance with the Listing Rules, which sets forth, among others, (i) the appropriate risk governance on environmental, social and governance (“**ESG**”) matters, including ESG-related risks and opportunities; (ii) identification of key stakeholders and the communication channels to engage with them; (iii) ESG governing structure, (iv) ESG strategy formation procedures; and (v) ESG risk management and monitoring.

Governance

We believe that it requires collective effort from our Board of Directors to evaluate and manage material ESG issues, therefore we have not established any sub-committee for ESG issues. Our Directors have overall responsibility for our ESG strategy and reporting, ensuring that our ESG policies are duly implemented and have continuous updates for full compliance with the latest standards. Our Directors also support our commitment to fulfilling our environmental and social responsibility, for which they are responsible for identification, assessment and management of our ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place.

Our Directors’ principal duties and responsibilities in respect of ESG include: (i) keeping abreast of the latest ESG-related laws and regulations, including the applicable sections of the Listing Rules, and keeping the Board informed of any changes in such laws and regulations and updating our ESG Policy in accordance with the latest regulatory updates; (ii) identifying our key stakeholders based on our business operations and understanding such stakeholders’ influences and dependence with respect to ESG matters; (iii) assessing ESG-related risks on a regular basis according to applicable laws, regulations and policies, especially risks in relation

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to climate changes, to ensure our responsibilities with respect to ESG matters are met; (iv) monitoring the effectiveness and ensuring the implementation of our ESG Policy; and (v) reporting to our management on an annual basis on the implementation of our ESG Policy and preparing the ESG report.

Impacts of ESG-related Risks

We have identified the following ESG-related risks which may have an impact on our business, strategy or financial performance:

- (i) *Product quality and food safety.* Our quality control mechanisms, food safety monitoring system and procurement procedures, among others, may not be adequate. For more details on our quality control systems, see “ — Quality Control.” The quality of the merchandise provided by our suppliers are subject to factors beyond our control. We may be subject to risks of complaints or even food safety incidents as well, and our financial condition, performance and goodwill will therefore be seriously affected.
- (ii) *Supply chain management.* Responsible sourcing and sound supply chain management are essential for us to ensure reliable product quality and sustainability along our supply chain. It is crucial for us, as an unmanned retail operator, to have the ability to manage our inventory and logistics for merchandise across the country. If we are unable to select quality third-party suppliers or monitor, audit and manage different parties in the supply chain, we may be exposed to risks of suppliers’ non-compliance with applicable laws and regulations and unethical practices, which could diminish our competitiveness and harm our reputation.
- (iii) *Climate change adaption.* Floods, typhoons, storms, and other extreme weather conditions and natural disasters may cause price volatility of merchandise, fluctuation in supply and physical damage to our machines, warehouses and offices, pose safety risks to our staff, among other consequences.
- (iv) *Environmental compliance.* We are subject to relevant environmental laws and regulations, such as the Energy Conservation Law (《中華人民共和國節約能源法》). For example, energy-consuming entities shall strengthen energy conservation management, formulate and implement energy conservation plans and technical measures of energy conservation, and reduce energy consumption in accordance with the principle of rational energy utilisation. Regulators may impose more stringent environmental requirements and standards on us, which may increase our operating costs.

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Identification, assessment, management and mitigation of ESG-related risks

Our Directors are responsible for identifying and evaluating ESG-related risks, and formulating and assessing strategic plans and mitigating measures. We have adopted the following measures to identify, assess, manage and mitigate ESG-related risks.

Product quality and food safety

We comply with relevant laws and regulations regarding food safety in all material respects and are prudent in the processes of procurement, storage, transportation and distribution of merchandise. For details of the food safety laws and regulations that apply to us, please see “Regulatory Overview — Regulations Relating to Food Sale and Safety.” We deploy our procurement team to stringently evaluate our suppliers.

Supply chain management

We have established a supplier approval process, through which suppliers must provide relevant qualifications or certifications, such as their business licenses or food production and operation licenses. If the suppliers are not compliant with the applicable laws and regulations regarding food safety and quality or commit misconducts, we may terminate our contracts with them. We place great emphasis on supply chain sustainability and have been promoting a responsible and low-carbon paradigm along our value chain.

Climate change adaptation

We are committed to conserving energy and water and reducing our carbon footprint. We primarily consume electricity and petroleum in our operational activities, which are the main sources of our greenhouse gas emissions. To reduce our greenhouse gas emissions and conserve energy and water, we have adopted the following targets and measures:

A. Energy and Water Consumption at our Office Premises and Warehouses

Metrics and targets. We evaluate our energy consumption using the metric of average annual power usage per sq.m and water consumption using the metric of average annual water usage per sq.m at our office premises and warehouses. In 2021, 2022 and the six months ended June 30, 2023, our estimated average power usage per sq.m was 14.0 kWh, 13.4 kWh and 7.3 kWh and average water usage per sq.m was 139.9 liters, 131.2 liters and 68.4 liters, respectively. We will seek to reduce the level of our average annual energy and water consumption by 3% over the next three years.

Measures leading to the targets. We have taken various measures, including replacing high energy consuming equipment at offices and warehouses to reduce energy consumption. For instance, we continuously monitor the energy consumption at our office premises and warehouses and repair timely when malfunction of relevant facilities resulting in abnormal power consumptions. We have also taken various initiative to conserve water. Among others, we regularly inspect our water tanks to prevent water leakage. We also seek to raise energy and water consumption awareness among our employees.

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B. Energy Consumption of our Vehicles

Metrics and targets. We seek to continuously reduce energy consumption of our self-owned vehicles. We evaluate the energy consumption of our self-owned vehicles using the metrics of average annual petroleum used per vehicle. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2023, our estimated average petroleum used per vehicle was 2.67 tons, 2.62 tons, 2.57 tons, 2.57 tons and 0.99 tons, respectively. We will seek to reduce the level of our average annual petroleum used per vehicle by approximately 16% over the next three years.

Measures leading to the targets. We will gradually replace the existing vehicles that run on petroleum with electric vehicles. We will also continue to optimize our operation system to reduce the energy consumption. More efficient restocking schedule and route planning will reduce the energy consumption in the course of merchandise transportation.

C. Energy Consumption of our Machines

The table below sets out the energy consumption of our vending machines during the Track Record Period:

	Pick-and-go cabinet	Beverage vending machine	Beverage and snack vending machine	Freshly brewed beverage vending machine
Energy consumption (Wh per unit)	120 to 500	100 to 881	111 to 406	100 to 1,700

Metrics and targets. We endeavor to proactively conserve energy in response to the government’s initiatives. We evaluate the level of energy consumption of our machines with the metric of average annual power usage per POS. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2023, our estimated average power usage per POS was 1,992 kWh, 1,960 kWh, 1,945 kWh, 1,936 kWh and 956 kWh, respectively. We will seek to reduce the level of our average annual power usage per machine by approximately 1.3% over the next two years.

Measures leading to the targets. We have continuously optimized our machine design to reduce energy consumption. Among others, we place our machines at indoor and shaded areas, and adjust the cabinet temperature in accordance with the change of seasons to reduce energy needed for cooling and/or heating of merchandise. The refrigeration units of our machines are regularly cleaned to remove the dusts and enhance energy efficiency. We also switch our machines to energy-saving mode during time with low consumer traffic to reduce energy consumption for lighting and cooling.

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Resource Consumption

We endeavor to reduce negative impact on the environment by optimizing resources consumption across our operations. In relation to our procurement and warehouses management, we adopt a “just-in-time” procurement strategy to reduce overstocks and wastes. We also seek to source from suppliers with sustainable production and operation. Packaging materials of the merchandise and machines received from the manufacturers, such as used carton boxes will either be sent to recycling companies or factories upon unboxing or passed on to the site owners together with such merchandise and machines.

In relation to resource utilization management of our offices, among others, we adopt a document management system and a paper management system with the aim to reduce the amount of paper waste used for record keeping and avoid unnecessary printing. To reduce plastic wastes, we have also installed water dispenser at our offices.

Internal Control Measures

To achieve our targets, our legal department will execute the ESG-related policies and measures, and our management team will review the execution process on a regular basis. We also plan to implement the following internal control measures, including, among others, (a) encouraging staff to switch off unused office equipment, such as computers, lights, and air-conditioners; (b) imposing temperature controls for air conditioning and keeping indoor air-conditioning temperature at 26°C at all times; (c) reducing the use of paper documents and promoting printing on both sides and using recycled paper if necessary; (d) actively using online office and video conference technologies to reduce on-site meetings; (e) encouraging the use of online system for internal administrative procedures; (f) conducting waste classification training; (g) placing waste sorting bins at our venue; and (h) recycling the packaging materials.

Our in-house legal staff are responsible for keeping abreast of the regulatory development in relation to our business and operations. In addition, we also provide opportunities to our employees to attend forums, workshops and external trainings on these related topics.

Employees

We believe that employees are an important driver of our corporate development. As an equal employment opportunity employer, we also focus on embracing diversity within our organization and equal and respectful treatment of all of our employees in their hiring, training, wellness and professional and personal development. As of June 30, 2023, the gender distribution of our employees were approximately 70.7% male and 29.3% female. We recognize and embrace the benefits of having a diverse Board of Directors to enhance the quality of its performance. To this end, we have adopted a board diversity policy which requires all board appointments to be based on meritocracy, and candidates to be considered against objective criteria. See “Directors, Supervisors and Senior Management — Board Diversity.”