You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements as of and for each of the years ended December 31, 2019, 2020, 2021, 2022 and as of and for the six months ended June 30, 2023 and the accompanying notes included in the Accountant's Report set out in Appendix I. Our consolidated financial statements have been prepared in accordance with HKFRSs. Potential investors should read the whole of the Accountant's Report set out in Appendix I and not rely merely on the information contained in this section. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, see "Risk Factors."

OVERVIEW

We are a vending machine 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, primarily consisting of vending machines, unmanned stores and unmanned shelves, 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 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 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 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. As of June 30, 2023, we had cumulatively 354.5 million distinguishable transacting users, with approximately 5.4 billion transactions completed.

According to Frost & Sullivan, the unmanned retail market in mainland China is underpenetrated, with an average of 0.8 vending machine per thousand population in 2022. 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 of offline sites covered by vending machines 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%. We therefore 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.

During the Track Record Period, we generated revenue 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 through vending machines only. 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. During the Track Record Period, our revenue from digital advertising services was generally determined by demand for such services from advertisers, which was impacted by macro-economic conditions, and the expansiveness of our POS network, which represents our capacity to reach consumers. During the Track Record Period, revenue from digital advertising services also relates to the number of new POSs opened which affects the amount of services fees we may receive from Alipay China for the advertising and promotion of its payment service products. For details of service fees from Alipay China, see "Connected Transactions – Partially-exempt Continuing Connected Transactions – Advertising Cooperation Framework Agreement";

- *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.

We generate most of our revenue from our unmanned retail business. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, revenue generated from our unmanned retail business accounted for 56.5%, 70.3%, 71.6%, 78.4%, 79.9% and 78.8% of our total revenue, respectively. We have two operating models for our unmanned retail business, the direct operation model and the partner model, 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 KAs, including Deppon Logistics and Xiaomi, which tend to have a large number of potential POS locations at a single site. In other locations, we engage POS partners to assist with sourcing and establishing POSs. Our POS partners are generally responsible for sourcing potential sites, the costs for developing POSs, occupancy fees and utility costs. In 2020, we started to shift our marketing efforts to our partner model as we believe this model would better accommodate the nature of our business operations since it facilitates site acquisitions and enhances our efficiency with simplified business process. As a result, revenue contribution of our partner model continued to increase from 9.2% in 2019 to 40.1%, 55.3% and 64.0% in 2020, 2021 and 2022, respectively, and remained relatively stable at 66.0% and 64.1% for the six months ended June 30, 2022 and 2023, respectively. While we remain entitled to the revenue generated by the machines, the POS partners are typically entitled to a share of the transaction GMV generated from the vending machines, subject to deduction of their responsible costs and expenses. From an accounting perspective, under both models we recognize retail sales revenue when control of the merchandise has been transferred to the end customer. In terms of costs and expenses, we record procurement costs of merchandise under both models under cost of sales, and incur expenses for sourcing, developing and maintaining Ubox POSs under the direct operation model and the share of transaction GMV paid to POS partners (as they bear the costs for developing POSs, occupancy fees and utility costs) under the partner model to selling and marketing expenses. Therefore, there is no difference in terms of revenue recognition, cost accounting and inventory management under the direct operation model and the partner model. Nevertheless, since the shift of focus to the partner model only started in 2020, we have limited experience with respect to operating the partner model and may not be able to realize the anticipated benefits of such business model. We will also be subject to risks and uncertainties related to this business model. For details, see "Risk Factors — Risks Relating to Our Business and Industry — We face certain risks associated with the shift from the direct operation model to the partner model."

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 then decreased to RMB2.5 billion in 2022, primarily due to the decrease in our revenue from mobile device distribution services under our others segment as the downstream mobile device retail market and the demand for our mobile device distribution services were negatively affected by macro-economic conditions and consumer demand during the same year, partially offset by (i) the increase in revenue from our unmanned retail business by 3.1% as compared to 2021 despite the impact of COVID-19 and (ii) the increase of RMB91.3 million in revenue from our merchandise wholesale as a result of the initiation of our shared warehouse initiative since the second half of 2021. Following the relaxation of COVID-19 policies and overall recovery of consumer traffic and business activities, our revenue increased by 9.6% from RMB1.1 billion for the six months ended June 30, 2022 to RMB1.3 billion for the same period in 2023.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The principal factors that directly or indirectly affect our business, financial conditions, results of operations and prospects include:

- Our ability to expand our POS network;
- Our ability to effectively maintain our technical edge, achieve breakthroughs in technology and innovation, and further digitalize our operations;
- Our ability to establish and maintain relationships with our merchandise suppliers and enhance our bargaining power; and
- Our ability to manage operating expenses and improve operational expenses.

Our Ability to Expand Our POS Network

Our revenue is largely affected by the number and coverage of our POSs, and our future revenue growth depends on our ability to open new POSs and expand our POS network. 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. As of June 30, 2023, 87.3% of our Ubox POSs and Non-Ubox POSs were concentrated in tier one, new tier one and tier two cities. The table below sets forth the breakdown of our Ubox POSs coverage by city tier as of the dates indicated:

	As of December 31,								As of June 30,			
	2019		2020		2021		2022		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	20,281	28.0	19,611	31.7
New tier one cities	21,462	33.8	17,725	30.3	30,580	35.9	23,077	34.8	24,335	33.6	21,365	34.5
Tier two cities	15,838	25.0	15,228	26.0	22,097	26.0	14,405	21.7	18,052	25.0	13,031	21.1
Tier three cities	6,420	10.1	5,718	9.8	7,042	8.3	5,820	8.8	6,419	8.9	5,177	8.4
Others	3,106	4.9	3,960	6.8	3,848	4.5	3,001	4.6	3,232	4.5	2,704	4.3
Total	**63,451**	**100.0**	**58,467**	**100.0**	**85,139**	**100.0**	**66,232**	**100.0**	**72,319**	**100.0**	**61,888**	**100.0**

Our POS network slightly shrank in 2020 primarily as a result of the COVID-19 pandemic. It resumed rapid expansion in 2021 primarily due to the increase in the number of POSs placed at restaurants in the second half of 2021. The number of POSs decreased in 2022, primarily due to regional resurgence of COVID-19 in mainland China in 2022 that affected consumer traffic in certain consumption scenarios, including restaurants. The number of our Ubox POSs slightly decreased during the first half of 2023. This was 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. Going forward, we intend to select more resilient venues to deploy our vending machines.

For different consumption scenarios, we have strategically adopted different POS management and development strategies to achieve efficient and rapid expansion. 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. 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. 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. During the Track Record Period, we entered into strategic cooperation with various leading internet companies, logistics service providers, automobile manufacturers and companies from other industries, and have deployed over 6,100 POSs to their premises nationally as of June 30, 2023. In other locations, we deploy the partner model and engage POS partners to assist us with sourcing and establishing POSs, while we manage the daily operation of our vending machines. The partner model has allowed us to rapidly expand our POS network at relatively low costs and risks associated with establishment and operation of POSs. It aligns our interest 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. Since 2020, we have actively enhanced the use of POS partners to assist us with sourcing and establishing POSs. 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. See "Business — Our POS Network" for details on the movement of our Ubox and Non-Ubox POSs during the Track Record Period.

Going forward, we plan to continue to expand our POS network to support the growth of our business and strengthen our market-leading position.

Our Ability to Effectively Maintain Our Technical Edge, Achieve Breakthroughs in Technology and Innovation, and Further Digitalize Our Operations

Our results of operations partly depend on our ability to maintain our technical edge, achieve breakthroughs in technology and further digitalize our operations to cost-effectively keep up with the technological upgrade and meet the demands of our anticipated growth. The vending machine retail industry is characterized by rapid technological evolution, continual shifts in customer demands and preferences, frequent introductions of new features and services. Our ability to expand is affected by the breadth and depth of our customer insights, our technology capabilities to develop our platform, and our ability to timely adapt to the rapidly evolving industry trends and preferences of our customers and business partners. We have continuously invested in research and development to further improve our technological capabilities. Poised to revolutionize unmanned retail, we have developed pick-and-go cabinets equipped with advanced hardware technologies, structural design and lighting, and the combined use of biometric authentication, credit assessment algorithm and IoT technologies. We have developed an operation system, which connects our vending machines to our centralized operation system over the cloud operated by third-party cloud service providers. We have also developed a data-driven operation system to digitalize our back-end supply flow. We will continue to invest in resources to enhance our technology capabilities. In particular, we will continue to develop new features and functionality and invest in data analytical capabilities, IoT technologies and back-end algorithms to enhance the level of standardization across our business operations, hence improving customer experience and our ability to manage our merchandise and an increasingly scalable business structure. Our ability to effectively maintain our technical edge, invest in relevant technologies may optimize our cost structure and lower our operating expenses as a percentage of our total revenues in the long run, but require upfront capital investments and expenditures in the short run, both of which would affect our financial positions.

Our Ability to Establish and Maintain Relationships with Our Merchandise Suppliers and Enhance Our Bargaining Power

Our ability to manage and control our cost of inventories sold and our ability to maintain mutually beneficial relationships with our merchandise suppliers are essential to our success. We procure merchandise from suppliers, including manufacturers and distributors of food and beverages, and sell them to our customers through our vending machines. Our ability to provide a broad selection of merchandise through our vending machines and POS network depends on our ability to develop mutually beneficial relationships with our suppliers. Revenue generated from our unmanned retail business (whose cost of sales are related to merchandise procurement) accounted for 56.5%, 70.3%, 71.6%, 78.4%, 79.9% and 78.8%, of our total revenue in 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively. We also generate revenue from merchandise wholesale. We therefore depend on merchandise suppliers to provide us with merchandise of quality for sale via our POS network or for wholesales, although, during the Track Record Period, we did not rely heavily on any single merchandise supplier.

The following sensitivity analysis illustrates the effects of hypothetical fluctuations in our cost of inventories sold on our gross profit for the periods indicated, assuming all other factors affecting our profitability had remained unchanged:

	- 20%	**- 10%**	**- 5%**	**0%**	**+ 5%**	**+ 10%**	**+ 20%**
Hypothetical change in gross profit *(RMB'000)*							
2019	251,242	125,621	62,811	–	(62,811)	(125,621)	(251,242)
2020	211,728	105,864	52,932	–	(52,932)	(105,864)	(211,728)
2021	293,278	146,639	73,319	–	(73,319)	(146,639)	(293,278)
2022	273,695	136,847	68,424	–	(68,424)	(136,847)	(273,695)
Six months ended June 30, 2022	119,497	59,748	29,874	–	(29,874)	(59,748)	(119,497)
Six months ended June 30, 2023	144,145	72,073	36,036	–	(36,036)	(72,073)	(144,145)

Moreover, 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. The mix of merchandise sold through our POS network also affects our financial performance as different merchandise generate different gross profit margins. For example, in 2021, we sold a higher portion of food products, which recorded higher gross profit margin than beverages sold during the year, as a result of our efforts in merchandise management in early 2021 to refine our merchandise mix, partially contributing to the increase in gross profit margin of our unmanned retail business from 41.7% in 2020 to 46.4% in 2021. Therefore, our ability to increase our gross profit margin will in part depend on the mix of merchandise sourced from suppliers and our ability to increase our bargaining power with suppliers. We leverage our scale and data-driven inventory and operation system to lower the procurement costs of our merchandise. See "Business — Logistics and Inventory Management" for details. We have also been engaging original equipment manufacturing contractors for customized merchandise that have better gross profit margin advantage over branded merchandise.

Our Ability to Manage Operating Expenses and Improve Operational Efficiency

Our ability to manage and control our operating expenses is critical to the success of our business. Expenses of our operations mainly consist of selling and marketing expenses, general and administrative expenses and research and development expenses. The aggregated amount of such expenses accounted for 45.4%, 86.0%, 46.2%, 52.2%, 54.1% and 52.3%, respectively, of our revenue in 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023. Such expenses accounted for a greater proportion of our revenue in 2020 primarily due to impairment loss recognized as a result of the COVID-19 outbreak and share incentives granted to management and core employees in 2020. Going forward, as we continue to rapidly expand our business network, our profitability will depend on our ability to effectively control our operating expenses by implementing various measures. For example, 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 adopt a partner model to cost-effectively expand our POS network while reducing the need for maintaining large scale sales teams internally. We have introduced shared warehouses to provide more efficient and flexible services to Non-Ubox POS operators or merchandise wholesale customers and help them reduce warehousing costs while simultaneously helping us to further improve our inventory management and operation capabilities. We will also continuously increase the level of digitalization and automation of shared warehouses to enable more operation, including automatic placing of procurement orders. We expect our operating expenses to increase in absolute amount as we grow our business while decreasing as a percentage of our revenue as we continue to improve operational efficiency and achieve economies of scale.

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 experienced weaker performance in the first quarter of each year due to lower level of customer 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. For further details, see "Risk Factors — Risks Relating to Our Business and Industry — Our results of operation depend on the level of traffic and consumption and are thus subject to seasonal fluctuations."

IMPACT OF COVID-19

In December 2019, a novel strain of coronavirus named COVID-19 emerged and has spread globally since then. The COVID-19 pandemic disrupted the normal life and daily routine of the world population and restrictive measures were introduced by governments to curb the outbreak. Due to social distancing, lock-down, temporary shut-down and other disruptions, the COVID-19 pandemic has significantly impacted our business. To protect the health and well-being of our employees in support of efforts to control the spread of the COVID-19 outbreak, we closed, or reduced, working hours at our headquarters and offices and made remote working arrangements in early 2020. Our headquarters and offices had been reopened in an orderly manner by February 2020. The emergence of COVID-19 in mainland China has also adversely impacted the operations at our POSs because a number of public venues where our vending machines were located were required to be closed and consumer traffic and sales activities were adversely affected. For the two months of February and March 2020, approximately 27.9% of our Ubox POSs as of March 31, 2020 did not generate any sales, and our Non-Ubox POSs also experienced similar disruptions of varying degrees depending on their locations. In addition, the operations of our internal logistics functions and our logistics and transportation service providers were also negatively impacted, thereby affecting restocking of our machines. Moreover, due to closure of public venues and reduced consumer traffic, demand for our advertising and system support services and sales and leases of machines also decreased. Furthermore, during the outbreak of COVID-19 in mainland China, many of our karaoke booths, especially those located in shopping malls, were shut down since early 2020 until October 2020. As a result, our total revenue decreased by 30.3% from RMB2,727.5 million in 2019 to RMB1,902.0 million in 2020, and we recorded a loss of RMB1,184.2 million in 2020.

Following a partial recovery from COVID-19 in 2021, although we recorded a loss of RMB188.2 million in 2021, our adjusted net loss (non-HKFRS measure) decreased from RMB973.3 million in 2020 to RMB170.3 million in 2021 and our adjusted EBITDA (non-HKFRS measure) improved from negative RMB634.0 million in 2020 to positive RMB66.6 million in 2021. In addition, our operating cash flow improved from net cash used in operating activities of RMB31.9 million in 2020 to net cash generated from operating activities of RMB178.9 million in 2021.

In 2022, primarily related to the Delta and Omicron variants, COVID-19 resurged in various locations in mainland China, with particularly stringent counter-resurgence measures being taken in certain regions, including but not limited to, Beijing and Shanghai, resulting in closure of, and reduced consumer traffic and sales activities at, public venues where our vending machines are placed. Due to the resurgence and control measures, including the lock-down of Shanghai, approximately 40.0% of our Ubox POSs as of December 31, 2022 (not taking into account the sales of POSs located in schools in July and August as they generally have limited or no sales during summer holiday) did not generate any sales for at least 60 days in 2022. In addition, our POSs located at restaurants were also severely affected as the regional resurgences of COVID-19 in mainland China had a negative impact on the catering industry in mainland China. Similarly, Non-Ubox POSs also experienced disruptions of varying degrees depending on their locations. Moreover, revenue from our mobile device distribution services under our others segment decreased in 2022 as the downstream mobile device retail market and the demand for our mobile device distribution services were negatively affected by macro-economic conditions and consumer demand during the same year. As a result, our revenue decreased by 5.9% from RMB2,676.2 million in 2021 to RMB2,519.2 million in 2022.

We took a series of actions to mitigate the impact of COVID-19 on us. For example, we set up mandatory screening at the entrance of our offices and premises, checked health code (健康碼) and travel code (行程碼) of our employees and visitors from 2020 to 2022, and complied with the guidelines of health authorities if any of our employees show infection symptoms. During the Track Record Period, we also shifted our marketing efforts to the partner model by engaging more POS partners for our unmanned retail business with an aim to stabilize profit margin and alleviate the impact of interruption. Our POS partners under the partner model, while typically entitled to a share of the POSs' transaction GMV (subject to deduction of their responsible costs and expenses), are responsible for sourcing potential sites and bear the costs for developing POSs, occupancy fees and utility costs. 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, especially in light of the negative impact of COVID-19. To this end, during the period when our POSs operation was heavily impacted by COVID-19, we believe our POS partners, who maintained their POSs on site and bore the costs of developing POSs and occupancy fees, were motivated to actively negotiate with the site owners on the occupancy fees to better manage their costs and expenses associated with the POS sites. The partner model therefore helped make us more resilient to the uncertainties of overall business environment. In addition, we have become less susceptible, in terms of sourcing and developing potential POSs, to travel restrictions and quarantine measures by collaborating with a larger number of POS partners located across the country, instead of relying on a small number of internal marketing staff. See "Business — Our POS Network" for details. Moreover, our vending machines offer consumers with contactless purchase. With no human interaction required in the process, unmanned retail also represents a safer and more hygienic way of purchasing, which helps it gain an advantage at the time of the COVID-19 pandemic. According to Frost & Sullivan, in light of the fact that various social distancing measures being implemented in China are increasingly being regarded as normative behavior that guides consumers' daily activities, consumers are becoming increasingly adapted to unmanned retail which offers a contactless and time-saving shopping experience, where consumers may keep social distance and avoid spending time in crowded places. Consumers have also gradually embraced a variety of digital technologies, such as biometric authentication payment, that facilitate unmanned retail. Furthermore, we have entered into cooperation with a number of our customers, including merchandise wholesale customers as part of our shared warehouse initiative, under which we would share our warehouses with each other or we jointly establish new warehouses to save rental costs. In certain cases, we were able to leverage our customers' warehouses to shorten the re-stocking distance for our POSs. In addition, we also expanded our POS partner recruitment channels to include online recruitment with a view to attracting POS partners from different industries, and actively discussed and negotiated with site owners for rent deduction.

In general, our Directors are of the view that, as our business operations strongly rely on stable offline consumer traffic, the COVID-19 pandemic and the emergence of new COVID-19 variants which led to regional resurgences and certain pandemic control measures such as travel restrictions, mass testing and lockdowns, have had temporary adverse impact on our business operations and financial performance. Nevertheless, partially due to our promotion of the partner model, our business demonstrated resilience against the pandemic as evidenced by the significant increase in revenue by 40.7% from RMB1,902.0 million in 2020 to RMB2,676.2 million in 2021, approximately 98.1% of our revenue in 2019 before the outbreak of COVID-19. Since December 2022, the PRC government has relaxed its zero-COVID policy, including removing mass testing and central quarantine requirements and lifting travel restrictions. Many regions were facing a surge in cases following such relaxation until early February 2023. We also implemented various measures in light of such relaxation and surge in cases to mitigate their impact on our business operations:

– we adjusted our procurement plans and placed order in advance to avoid potential disruption to supply chains caused by the recent surge in cases;

– we flexibly adjusted work arrangement of our employees and adopted shifts to ensure that we could maintain sufficient number of employees to maintain our daily operation and, especially, to avoid logistics and transportation paralysis; and

– we increased supply and replenishment of merchandise in our vending machines that are currently in strong demand, such as electrolyte beverages and drinks that contain Vitamin C.

Driven by the pivot in COVID-19 policies and the early Chinese New Year holiday season, many offline business operations and consumer traffic across mainland China have started to recover in 2023. According to government statistics, railways, highways, waterways, and civil aviation in mainland China transported a total of 226 million passengers during the seven-day Chinese New Year holiday in early 2023, representing an increase of over 70% year-on-year over the same period in 2022. Performance of our POSs at many transportation hubs and public venues also experienced improvement. For instance, for our POSs at airports that were in operation in both January 2022 and January 2023, transaction GMV increased by approximately 23.0% from January 2022 to January 2023. Following the end of the Chinese New Year holiday, consumer traffic at and performance of our POSs at other consumption scenarios, such as schools, factories and office premises started to normalize and improve in 2023. As a result, transaction GMV of Ubox POSs and our revenue from unmanned retail increased by approximately 10.4% and 8.0%, respectively, from the six months ended June 30, 2022 to the same period in 2023. According to Frost & Sullivan, as people move more frequently and economic activities resume, the demand for and consumption of consumer goods are expected to recover in 2023. Our Directors believe that our business operations and financial performance will steadily improve following the change in COVID-19 policies as well as the improvement in consumer sentiment and overall business environment. For further details of risks associated with COVID-19, see "Risk Factors — Risks Relating to Our Business and Industry — We face risks related to natural disasters, epidemics and other public health emergencies, which could significantly disrupt our operations and financial condition."

BUSINESS SUSTAINABILITY

We had retained earnings of RMB54.2 million and RMB99.3 million as of January 1, 2019 (i.e. the beginning of the Track Record Period) and December 31, 2019, respectively. We incurred net losses of RMB1,184.2 million, RMB188.2 million, RMB283.1 million and RMB147.4 million in 2020, 2021, 2022 and the six months ended June 30, 2023, respectively. As a result, we had accumulated losses of RMB1,073.2 million, RMB1,258.2 million, RMB1,542.7 million and RMB1,695.2 million as of December 31, 2020, 2021, 2022 and June 30, 2023, respectively. We also experienced negative operating cash flow in 2020.

We incurred a net loss of RMB1,184.2 million in 2020, primarily due to (i) a decrease in revenue from each of our business lines, primarily attributable to (a) the decrease in revenue from our unmanned retail business primarily due to the significant decrease in overall outdoor consumer traffic as a result of COVID-19 leading to a decrease in monthly average GMV per POS despite the increase in average monthly number of POSs, and (b) the decrease in revenue from our advertising and system support services primarily due to the decrease in demand for such services from advertisers and their budgets and expenditures owing to the decrease in outdoor consumer traffic in light of COVID-19, while we incurred POS operation and development expenses when maintaining our Ubox POS network and other operating expenses, (ii) an increase in general and administrative expenses, which was mainly attributable to (a) share-based payments in relation to share incentives granted to management and core employees in 2020 and (b) impairment loss of goodwill as the COVID-19 outbreak negatively affected the business and expansion of our freshly brewed beverage vending machine business and karaoke booth service business, and (iii) an increase in impairment loss of inventories, property and equipment and right-of-use assets, primarily attributable to non-core types of machines such as karaoke booths and orange juice machines and coconut juice machines as a result of the negative impacts of COVID-19. For similar reasons, we incurred a net operating cash outflow of RMB31.9 million in 2020.

During a partial recovery from COVID-19, we experienced a significant increase in our revenue from RMB1,902.0 million in 2020 to RMB2,676.2 million in 2021, mainly attributable to the increase in revenue from our unmanned retail business as a result of partial resumption of outdoor consumer traffic. Accordingly, our net loss narrowed significantly from RMB1,184.2 million in 2020 to RMB188.2 million in 2021, primarily due to (i) a significant increase in revenue from unmanned retail business and others segment, which also led to the increase of our gross profit by 97.1% from RMB558.6 million in 2020 to RMB1,101.1 million in 2021 and (ii) the decrease in selling and marketing expenses and general and administrative expenses. Our operating cash flow also improved from a net operating cash outflow of RMB31.9 million in 2020 to a net operating cash inflow of RMB178.9 million in 2021. Notwithstanding the aforesaid improvements, we incurred a loss in 2021 and our accumulated loss increased primarily because average monthly GMV per POS for unmanned retail business, and our revenue and gross profit margin from advertising and system support services, had not recovered to pre-COVID-19 levels in 2019 as business activities and general market sentiment recovered only to a limited extent from the impacts from COVID-19.

We incurred a net loss of RMB283.1 million in 2022, primarily due to (i) an increase in selling and marketing expenses incurred, in terms of both absolute amount and a percentage of our total revenue, primarily due to an increase in depreciation of our machines, logistics and transportation expenses and employee benefit expenses in relation to the expansion and optimization of our POS network, and (ii) a decrease in revenue and, in turn our gross profit, mainly from (a) a decrease in revenue from our others segment primarily because the downstream mobile device retail market and the demand for our mobile device distribution services were negatively affected by macro-economic conditions and consumer demand in 2022, and (b) a decrease in revenue from advertising and system support services primarily due to the decrease in consumer traffic as a result of the negative impact of COVID-19, which was partially offset by (c) an increase of RMB91.3 million in revenue from our merchandise wholesale as a result of the initiation of our shared warehouse initiative since the second half of 2021 and (d) an increase in revenue from our unmanned retail business primarily due to the expansion and optimization of our POS network. Specifically, the monthly average number of Ubox POSs in 2022 increased as compared to that of 2021 (despite the decrease in number of

Ubox POSs from 85,139 to 66,232 as of December 31, 2021 and 2022, respectively, mainly due to the regional resurgence of COVID-19 in mainland China which significantly affected consumer traffic in certain scenarios, especially restaurants).

Our net loss increased from RMB128.4 million for the six months ended June 30, 2022 to RMB147.4 million for the same period in 2023. Such increase was primarily due to the increase in general and administrative expenses mainly attributable to an increase in share-based payments recognized in 2023 in relation to share incentives granted to our employees. Nevertheless, our net cash generated from operating activities increased by 19.3% from RMB155.9 million for the six months ended June 30, 2022 to RMB186.0 million for the same period in 2023.

We have adopted various measures to better manage our costs and expenses, including leveraging our data-driven inventory and operation system to lower procurement costs of merchandise, leveraging shared warehouses and further digitalizing and automating our operations to lower operating expenses. Nevertheless, we may still incur net losses and net operating cash outflow in the near future as the recovery of the economy from the negative impacts of COVID-19 is expected to be a gradual process especially in light of current macro-economic conditions.

We had operated profitably prior to the COVID-19 outbreak and intend to re-achieve profitability primarily by (i) further expanding our POS network especially under the partner model by increasing the density of our POSs with a strategic focus on tier one and tier two cities in the PRC, which will enable us to manage our logistics and operational costs more efficiently and to better benefit from economies of scale, (ii) further developing our advertising and system support services alongside the expansion of our POS network, and (iii) effectively managing our costs and expenses and improving our operating leverage as, other than share-based payments and certain impairment losses incurred in certain periods during the Track Record Period, a majority of our general and administrative expenses are relatively fixed or increasing at a slower pace compared to our business scale, which will enable us to benefit from economies of scale and our business expansion.

Since December 2022, the PRC government has relaxed its zero-COVID policy, including removing mass testing and central quarantine requirements and lifting travel restrictions. Many regions were facing a surge in cases following such relaxation until early February 2023. Driven by the pivot in COVID-19 policies and the early Chinese New Year holiday season, many offline business operations and consumer traffic across mainland China have started to recover. Performance at many of our POSs has also started to normalize and improve in 2023. As a result, we witnessed an increase in average monthly GMV of our vending machines from RMB2,700 per machine per month in 2022 to RMB2,992 per machine per month for the six months ended June 30, 2023 and our revenue increased by 9.6% from RMB1,143.1 million for the six months ended June 30, 2022 to RMB1,252.7 million for the same period in 2023. For further details, see "— Impact of COVID-19" above.

Further Expanding Our POS Network

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 our promotion of the partner model since 2020. The number of POSs decreased in 2022 primarily due to regional resurgence of COVID-19 in China in 2022 that affected consumer traffic in certain consumption scenarios, including restaurants. During the Track Record Period, a large portion of our gross profit was derived from our unmanned retail business. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, gross profit of our unmanned retail business amounted to RMB683.5 million, RMB557.5 million, RMB888.1 million, RMB891.4 million, RMB413.5 million and RMB444.5 million, respectively. The table below sets forth a breakdown of our gross profit per Ubox POS, which is calculated by dividing gross profit of unmanned retail business by the corresponding number of monthly Ubox POSs for the periods indicated:

	For the year ended December 31,				**For the six months ended June 30,**	
	2019	**2020**	**2021**	**2022**	**2022**	**2023**
Gross profit per Ubox POS *(RMB'000)*	16.1	9.5	13.9	12.0	5.2	7.0

The significant decrease of our gross profit per Ubox POS from 2019 to 2020 was primarily due to the COVID-19 pandemic. Going forward, we intend to select more resilient venues to deploy our vending machines.

To drive our overall revenue growth and achieve long-term profitability at scale, we plan to increase the number of POSs in different consumption scenarios including schools, factories, office premises, public places and other types of high-quality sites in tier one, new tier one, tier two and tier three cities in the PRC. We plan to open approximately 23,000 new POSs over the two years following the [**REDACTED**], with a strategic focus on tier one and tier two cities in the PRC, by utilizing our partner model. See "Future Plans and Use of [**REDACTED**]."

To this end, we plan to continue expanding our POS network by further promoting our partner model in the long run. We will further explore the potential of existing POS partners and promote their POS development capabilities through studying and sharing successful examples. We have formed a comprehensive set of methods for sourcing suitable new POS partners including quality POS partners with ready access to large numbers of POSs. For example, for office premises, we plan to recruit suppliers of office supplies, air conditioning equipment or drinking water purification equipment as our POS partners, who already have prior business relationships with the specific office premises, offering them an additional monetization channel and opportunities to strengthen their connections. In response to the impacts of COVID-19, we have been extending our POS partners recruitment through online means, including arranging live streaming on catching topics such as, POS development skills coupled with Q&A sessions, questionnaires and follow-up communications, on major social media platforms such as Douyin and WeChat, and further standardizing our POS partners' operations through providing online trainings. In addition, we plan to further promote our shared warehouse initiative and leverage our operation capabilities with an aim to convert business customers, such as merchandise wholesale customers to become our POS partners. As of June 30, 2023, among our merchandise wholesale customers, over 660 were also our shared warehouse customers, which we intend to further convert into POS partners in the future. Through the abovementioned measures, we engaged 115 new POS partners in the six months ended June 30, 2023. Furthermore, with respect to consumption scenarios with more consumer traffic, airports and subway stations where passenger traffic have been recovering following the governments' relaxation of pandemic control measures, we have refocused our business development resources and restarted negotiations with relevant site owners and POS partners to redeploy and increase the number of our POSs. Typically some site owners of major transportation hubs, hospitals, parks, schools or universities arrange biddings for the potential POSs they hold. As compared to the measures described above to expand our POS network, to a lessor extent, we attended such biddings or assisted our POS partners in attending such biddings.

The table below sets forth certain information regarding our POSs obtained through bidding as of the dates indicated:

	As of December 31,				As of June 30,	
	2019	2020	2021	2022	2022	2023
Direct operation model						
POSs obtained through bidding	5,234	3,740	4,434	6,093	6,355	4,861
Bidding rate[1] *(%)*	10.0	20.3	32.5	48.9	47.1	43.4
Partner model						
POSs obtained through bidding	N/A	6,881	8,531	7,456	8,266	7,053
Bidding rate[1] (%)	N/A	17.2	11.9	13.9	14.0	13.9

Note:

1. Bidding rate is calculated using the number of POSs obtained through bidding divided by the number of Ubox POSs at the end of each period in the Track Record Period under the respective model.

We recorded an overall increase in bidding rate under the direct operation model during the Track Record Period. We believe this is primarily attributable to our shift from direct operation model to partner model. POSs under direct operation model are usually considered strategically important such as schools and transportation hubs, and therefore more frequently were obtained through bidding. Meanwhile, our POSs under the direct operation model that were obtained through bidding as a percentage of total number of Ubox POSs as of the same date remained relatively stable. As of June 30, 2023, 43.4% of our POSs under the direct operation model (accounting for only 7.9% of the total number of our Ubox POSs as of the same date) were obtained through bidding.

As of June 30, 2023, we have assigned a designated team for business development of transportation hubs. This team actively collects information of new opportunities through various sources, including the Internet, social media, industry referrals, industry associations and forums. In addition, this team tracks major airports, railway stations and subway projects in major cities across the country, especially the bidding timetable of such projects. For existing transportation hub POSs, our team maintains regular communications with and pays revisits on a monthly basis to relevant site owners and partners to understand their demands so as to enhance their satisfaction and negotiates renewal of contracts near the end of each contract term. Besides transportation hubs, we have also established a team of approximately 60 members from various departments at our headquarters, which is dedicated to supporting our bidding efforts including project information collection, bidding scheme evaluation and material preparation. During the Track Record Period, we won over 240 biddings out of approximately 590 biddings we attended, with a success rate of 51.3%, 42.1%, 40.0%, 33.7% and 39.5% in 2019, 2020, 2021, 2022 and the six months ended June 30, 2023, respectively, in terms of number of bidding projects we attended. While the success rate decreased during the Track Record Period, primarily due to our adjustment of our optimistic bidding strategies adopted in 2019 in light of the relatively challenging business environment since the COVID-19 outbreak, we believe our bidding strategies remained effective and there was no material fluctuation of the number of POSs obtained through biddings attended or assisted by us. For instance, the number of POSs obtained through bidding with our assistance under the partner model increased by 24% from 2020 to 2021. In 2023, we plan to participate in not less than 20 transportation project biddings.

In view of the foregoing, we expect to achieve growth of approximately 3,900 POSs in the second half of 2023. We started to shift our marketing efforts to our partner model from 2020 after the outbreak of COVID-19 and consider such a shift to the partner model as a long-term development strategy, instead of an interim measure We intend to further promote in the aftermath of COVID-19. Overall, considering the net increase of over 35,000 Ubox POSs in 2019 before the COVID-19 outbreak, we are confident in our POS development strategies.

Furthermore, we will continue to increase the number of POSs under the direct operation model through strengthening our cooperation with KAs, which tend to have large number of POSs at a single site, and turning leading enterprises in industries with growth prospects into our KAs. We have conducted analysis on leading or influential enterprises in various industries and formulated plans for developing and maintaining KA customers with cross-city and multi-POS characteristics such as universities, hotels and apartments as well as those in the Internet and manufacturing industries. Leveraging our knowledge on operational management of large number of POSs and the convenience of our pick-and-go cabinets and freshly brewed beverage vending machines, we are able to identify and assist our KAs deal with pain points in maintaining large number of POSs. Especially, we are able to promote KA customers to use our machines and services across all of their offices and premises by leveraging our cross-regional operation advantages and directly cooperating with their headquarters to address their demands for lowering costs, increasing efficiency, unifying management across multiple offices and freeing up management resources. We are also able to leverage our existing back-end operation system to assist major KA customers in their employee welfare and holiday/overtime caring programs (such as adjusting prices of merchandise when KA customers plan to offer their employees discounts during holidays or when working overtime) and help them analyze data of such programs and other sales data of their POSs, which we believe has led to improved customer satisfaction and increased customer stickiness. The number of POSs at KAs increased by 38.4% from 4,408 as of December 31, 2021 to 6,102 as of June 30, 2023. Going forward, we will keep our efforts to cooperate with our existing KAs and identify new potential KAs with an aim to achieve growth of 1,100 POSs in the second half of 2023. We also maintain close communication with our existing KA customers to explore and convert their suppliers and customers to become our KA customers. Recently we have increased our business development efforts and are currently focusing on engaging leading enterprises in industries with growth prospects to become our KA customers.

According to Frost & Sullivan, the unmanned retail market in mainland China is underpenetrated, with an average of 0.8 vending machine per thousand population in 2022. 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 of offline sites covered by vending machines 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%. As such, we believe our POS network expansion plan is supported by strong industry potential and consumer demand. By increasing the density of our POSs in our POS network, we expect to be able to better manage the restocking and operation of our POSs, thereby enabling us to save and manage logistics and operational costs more efficiently and benefit from economies of scale. Besides, we believe the expansion of our POS network can create synergy that favours the growth of our advertising and system support services, which generally has a higher gross profit margin. See "— Further Developing Our Advertising And System Support Services" below for details.

We have taken timely actions in response to the governmental policies and measures to combat against COVID-19. For instance, we entered into cooperation with certain merchandise wholesale customers as part of our shared warehouse initiative, under which we would share our warehouses with each other or we jointly establish new warehouses to save rental costs. Pursuant to relevant agreements with customers, we may rent a certain area of the customers' warehouses and pay rent either in cash and/or through merchandise coupons (with which customers can purchase merchandise from us). The customers are required to ensure clear and reasonable segmentation of their warehouses based on the nature of merchandise, maintain sanitation of their warehouses and, based on our orders, load, unload, package and deliver our merchandise on a first-in-first-out basis and in accordance with the warehouse management standards agreed by both parties. The customers are responsible for any losses of merchandise at their warehouses. In certain cases, we were able to leverage our customers' warehouses to shorten our re-stocking distance for our POSs. In addition, we also expanded our POS partner recruitment channels to include online recruitment with a view to attracting POS partners from different industries, and actively discussed and negotiated with site owners for rent deduction. In our daily operations, we adhered to our supplier selection policy by working with reliable suppliers and monitored our stock level using our own internal logistics functions. Since

December 2022, the PRC government has relaxed its zero-COVID policy, including removing mass testing and central quarantine requirements and lifting travel restrictions. We will monitor the effects and after-effects of COVID-19 in light of such change in policies closely and refine our business expansion plans in response to market conditions in a timely manner.

Having considered (i) 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%, according to Frost & Sullivan, (ii) the increase in the revenue from unmanned retail business under the partner model during the Track Record Period which evidences the effectiveness of our partner model, and (iii) our effective measures adopted to navigate the impact of the COVID-19 outbreak and the recovery of consumer traffic since the relaxation of COVID-19 policies which is expected to benefit our unmanned retail business and businesses of POS partners, our Directors are of the view, and the Joint Sponsors concur, that the aforementioned plans to further expand our POS network are feasible.

Further Developing Our Advertising And System Support Services

Revenue from our advertising and system support services decreased from RMB540.6 million in 2019 to RMB219.6 million in 2020 and further decreased from RMB243.1 million in 2021 to RMB194.3 million in 2022. Such decrease was primarily due to the decrease in demand for such services from advertisers owing to the decrease in outdoor consumer traffic in light of COVID-19 and its resurgence in 2022. Furthermore, revenue from our advertising and system support services decreased from RMB100.1 million for the six months ended June 30, 2022 to RMB56.5 million for the six months ended June 30, 2023. Average monthly GMV of our vending machines at Ubox POSs (excluding POSs of POS partners who are restaurant model partners) in 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023 decreased by 35.5%, 13.5%, 20.2%, 27.6% and 11.5%, respectively, as compared to the level in 2019. The table below sets forth average monthly GMV of vending machines at Ubox POSs, excluding POSs of POS partners who are restaurant model partners, and their respective rate of decrease compared to the level in 2019, for the periods indicated:

	For the year ended December 31,				For the six months ended June 30,	
	2019	2020	2021	2022	2022	2023
Monthly GMV at Ubox POSs *(RMB per machine per month)*	3,382	2,180	2,926	2,700	2,449	2,992
Percentage of decrease compared to the level in 2019 *(%)*	N/A	35.5	13.5	20.2	27.6	11.5

However, our advertising and system support services was our most profitable business line with the highest gross profit margin among our business lines, amounting to 90.3%, 99.7%, 75.9%, 82.5%, 87.9% and 98.8% in 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively. In addition, according to Frost & Sullivan, the vending machine advertising market in mainland China is expected to experience strong growth going forward. Subsequent to the outbreak of COVID-19, the market size partially recovered in 2022 and is expected to reach RMB2.2 billion in 2027, representing a CAGR of 34.5% from 2022 to 2027. In light of the historical high levels of gross profit margin of this segment and the expected market growth, we intend to further promote our advertising and system support services alongside the recovery from the outbreak of COVID-19. Specifically, we are actively monitoring the level of market recovery by assessing the performance of Ubox POSs and Non-Ubox POSs and will continue to attract more advertisers to use and increase their spending on our digital advertising services. For merchandise to whom we provided merchandise display advertising services, on top of deepening our procurement cooperation with them, we plan to offer limited discounts for our merchandise display advertising services before advertisers regain confidence in the market and while their businesses recover. The discounts to be offered will be determined after arm's length negotiations taking into account factors including the type of merchandise display advertising services required and shall be fair and reasonable. We have entered into framework agreements with some of our major merchandise suppliers which stipulate that in case we procure their merchandise for our unmanned retail business, they shall procure our advertising services. With respect to other types of advertisers, we also plan to offer them certain discounts before they regain confidence in the market, and actively promote our advertising services to companies in the finance and the Internet sectors. In light of the recent relaxation of pandemic control measures, we expect the demand for our advertising services from advertisers in the year ending December 31, 2023 to gradually recover.

Due to the nature of our advertising and system support services, which mainly utilize the racks, machine bodies and display screens of our machines whose costs were mainly accounted for under our unmanned retail business, the aforementioned offering of discounts would not have a material impact on the gross profit margin of our advertising and system support services. The gross profit margin of our advertising and system support services mainly fluctuates to the extent we incur subcontractor cost when we acquire online traffic and offline promotion services from subcontractors (which are mainly advertising agencies) in order to provide specific advertising services to customers. Other than such subcontractor cost of advertising resources, only minimal costs for taxes and surcharges are allocated to our advertising services. See "— Consolidated Statements of Comprehensive Income — Cost of Sales" for details. We expect the gross profit margin of our advertising and system support services going forward would experience similar fluctuations to the extent we incur subcontractor cost but remain high as the trends we observed during the Track Record Period.

In addition, we intend to take advantage of the synergies created by our expanded POS network and our presence in various consumption scenarios to further monetize the machine bodies, racks and display screens of our vending machines, including at subway stations, airports, parks and shopping malls which generated higher level of advertising income before the COVID-19 outbreak.

Effectively Managing Our Cost and Expenses and Enhancing Operating Leverage

Our ability to manage and control our costs and operating expenses is critical to the success of our business and our profitability.

Cost of inventories sold constituted the largest component of our cost of sales. The table below sets forth our cost of inventories sold in absolute amounts and as a percentage of our total revenue for the periods indicated:

	For the year ended December 31,				For the six months ended June 30,	
	2019	2020	2021	2022	2022	2023
					(unaudited)	
Cost of inventories sold *(RMB'000)*	1,256,210	1,058,640	1,466,389	1,368,474	597,483	720,726
Cost of inventories sold as a percentage of total revnue *(%)*	46.1	55.7	54.8	54.3	52.3	57.5

As we continue to expand our POS network, we believe we will be able to efficiently manage cost of inventories sold as a percentage of revenue by implementing a number of measures, including (i) leveraging our industry leading position and increasing centralized procurement to secure competitive pricing from our merchandise suppliers, (ii) further leveraging our data-driven operation system for demand and sales forecast and effective inventory management to reduce stock-out losses, and (iii) constantly monitoring the sales performance of merchandise and corresponding costs to timely optimize merchandise mixes and inventory levels.

Our operating expenses primarily comprise selling and marketing expenses and general and administrative expenses. Selling and marketing expenses primarily relate to POSs operation and development expenses. The table below sets forth certain information regarding our selling and marketing expenses and POSs operation and development expenses for the periods indicated:

	For the year ended December 31,				For the six months ended June 30,	
	2019	**2020**	**2021**	**2022**	**2022**	**2023**
					(unaudited)	
Selling and marketing expenses *(RMB'000)*	1,023,716	1,083,735	1,077,412	1,155,720	546,736	545,133
Selling and marketing expenses as a percentage of total revenue *(%)*	37.5	57.0	40.3	45.9	47.8	43.5
POSs operation and development expenses *(RMB'000)*	574,570	553,170	585,920	587,354	263,936	261,155
POSs operation and development expenses as a percentage of selling and marketing expenses *(%)*	56.1	51.0	54.4	50.8	48.3	47.9
POSs operation and development expenses as a percentage of total revenue *(%)*	21.1	29.1	21.9	23.3	23.1	20.8

We expect our selling and marketing expenses to grow in absolute amounts as we expand our POS network. However, we expect selling and marketing expenses as a percentage of revenue to decrease as our partner model matures which would enable us to benefit from the operating leverage effect.

Our general and administrative expenses (excluding [**REDACTED**] expenses, share-based payment and impairment loss of goodwill) accounted for 5.7%, 7.5%, 4.0%, 4.2%, 4.4% and 3.1% of our total revenue in 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively. We expect that our general and administrative expenses as a percentage of total revenue will generally decrease in the long term as a result of economies of scale.

During the Track Record Period, we adopted various measures to control costs and expenses and to improve our operating leverage. Since 2020, we have been actively developing the partner model to drive the expansion of our POS network and believe this effort allows us to benefit from operating leverage effect as our POS partners are generally responsible for sourcing potential sites, the costs for developing POSs, occupancy fees and utility costs. As such, certain managerial costs and operating expenses do not need to increase in line with revenue generated from the partner model as it does not require a proportional increase in the scale of POSs directly operated by us or our own workforce.

In addition, we leverage our technology-based retail platform and algorithms to optimize our restocking scheduling and route planning to minimize transportation and logistics costs. As our POS network expands and its density increases, we also expect to be able to further optimize our restocking scheduling and route planning and thereby more effectively manage our transportation and logistics. During the Track Record Period, we also rolled out our pick-and-go cabinets with lower purchase costs (given their smaller size and less complex internal mechanical system) as compared to beverage vending machines. Being smaller in size and requiring lower capital investment, our pick-and-go cabinets allow us to expand our network to a wider range of consumptions scenarios and increases the number of potential sites for us and our POS partners to deploy our machines. As they are designed to accommodate a larger variety of merchandise, they also help us seize more sales opportunities.

We have a track record of achieving operating leverage effect as evidenced by the decrease in general and administrative expenses as a percentage of our revenue from 5.7% in 2019 to 5.1% in 2022. Without considering share-based payments of RMB43.8 million recognized under general and administrative expenses in the six months ended June 30, 2023 in relation to share incentives granted to our employees, general and administrative expenses as a percentage of our revenue decreased from 4.8% for the six months ended June 30, 2023 to 4.1% for the same period in 2023. However, we were loss making during the Track Record Period, primarily because aspects of our business operations and network expansion was hampered by the COVID-19 outbreak and our monthly GMV per POS decreased. We believe our operating leverage effect to continue as the negative impact of COVID-19 is alleviated and the economy gradually recovers.

Based on the foregoing, our Directors believe, and the Joint Sponsors concur, that our Group's business is sustainable in the long run. Since December 2022, the restrictive measures to contain COVID-19 adopted by the PRC government began to be relaxed, such as gradual lift of travel restrictions. Assuming that the negative effects of COVID-19 will be gradually alleviated following such relaxation and overall consumer traffic will recover to the pre-COVID-19 level in the foreseeable future, we expect to remain loss-making in 2023 but achieve a turnaround in 2025. The foregoing forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, and may cause the actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. See "Risk Factors — Risks Relating to our Business and Industry — If we are not able to effectively manage our businesses, our expansion and growth in new geographical areas, our business and prospects may be materially and adversely affected" and "Risk Factors — Risks Relating to our Business and Industry — We are subject to risks and uncertainties faced by companies in a rapidly evolving industry."

Working Capital Sufficiency

Our Directors are of the opinion that we possess sufficient working capital, including sufficient cash and liquidity assets, and for at least the next 12 months from the date of this document, taking into account RMB269.5 million of cash and cash equivalents on hand as of June 30, 2023, internally generated funds, RMB411.0 million of unutilized banking facilities as of the Latest Practicable Date and [**REDACTED**] of estimated net [**REDACTED**] from the [**REDACTED**], assuming an [**REDACTED**] of [**REDACTED**] per [**REDACTED**], being the mid-point of the [**REDACTED**] range of [**REDACTED**] to [**REDACTED**] per [**REDACTED**], and that the [**REDACTED**] is not exercised. In addition, as evidenced by our Pre-[**REDACTED**] Investments and other historical fund-raising activities, we have a good track record in being able to raise funds from renowned investors to finance our business growth and expansion. See "History and Development — Pre-[**REDACTED**] Investments." We believe that the [**REDACTED**] and other potential external financing sources, including those to which we will gain access after [**REDACTED**], will provide additional funding for our business expansion operations.

BASIS OF PREPARATION

The historical financial information has been prepared in accordance with HKFRS issued by the HKICPA. The historical financial information has been prepared under the historical cost convention, except for certain financial assets at fair value through profit or loss.

The preparation of the historical financial information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the historical financial information are disclosed in Note 4 to the Accountant's Report as set out in Appendix I.

In preparing the historical financial information, we consistently adopted all applicable new and amended HKFRSs throughout the Track Record Period except for any new interpretation that were not yet effective.

MATERIAL ACCOUNTING POLICY INFORMATION

We have identified certain accounting policies and estimates that are material to the preparation of our financial statements in accordance with HKFRS. Some of our accounting policies involve subjective assumptions, estimates and judgments that affected the application of policies and reported amounts of assets, liabilities, revenues and expenses, as well as their accompanying disclosures and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could, in the future, result in outcomes that require a material adjustment to the carrying amounts of the assets and liabilities affected. When reviewing our financial statements, the following factors should be considered: (i) our selection of critical accounting policies, (ii) the judgment and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions.

Our material accounting policy information, estimates, assumptions and judgment made by our management which have material effect on our financial condition and results of operations are set forth in detail in Note 2 and Note 4 to the Accountant's Report as set out in Appendix I. Estimates, assumptions and judgments are continually re-evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. We set forth below the accounting policies, estimates and judgments that we believe are critical to the preparation of our financial statements.

Revenue Recognition

We recognize revenue when or as the control of the goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if our performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as we perform; or
- does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date.

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

Contracts with customers may include multiple performance obligations. For such arrangements, we allocate revenue to each performance obligation based on its relative standalone selling price. We generally determine standalone selling prices based on the prices charged to customers. If the standalone selling price is not directly observable, it is estimated using expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. Assumptions and estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgements on these assumptions and estimates may impact the revenue recognition.

Under our direct operation model, revenue from unmanned retail business arises from the end customers that buy merchandise through the vending machines operated by us. Revenue under the direct operation model is recognized when the control of goods have been transferred from the vending machines to the customers. Under our partner model, in addition to the revenue recognized when control of the goods is transferred to the end customers, commissions shared to POS partners are determined based on certain percentage of the transaction GMV agreed between us and the POS partners and charged to "selling and marketing expenses."

We recognize revenue when we satisfy a performance obligation by transferring a promised good or service to a customer. We shall determine at contract inception whether we satisfy the performance obligation over time or at a point in time. If control of the goods and services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods and services.

For displaying advertising services, merchandise display advertising services, machine body advertising services and operation system services, since the customer receives and consumes the benefits of our performance as we perform, the performance obligation is satisfied over the contract period, and the revenue should be recognized over time. Accordingly, we recognized revenues derived from the above mentioned services ratably over the contracted period in which the advertisements are displayed or services are provided.

For after-payment advertising services, since the performance obligation is satisfied at a point in time, the revenue should be recognized at a point in time when the services are delivered to the customers. Accordingly, revenue derived from after-payment advertising services is recognized based on actual performance measurement. We recognize the revenue from the delivery of pay-for click or pay-for instant display advertisements for advertisers to our users based on the relevant performance measures.

For details, see Note 2.21 to the Accountant's Report as set out in Appendix I.

Leases

The Group as lessor under operating leases

Lease income from operating leases where we are a lessor is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

The Group as lessee

We enter into contracts for lease of certain offices, warehouses, cars and machinery.

Where the contracts contain both lease and non-lease components, we allocate the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

At the lease commencement date, we recognize leases as a right-of-use asset and a corresponding liability, except for short-term leases with lease term of less than 12 months and leases of low-value assets. When we enter into a lease in respect of low-value assets, we recognize the lease on a straight-line basis as an expense in profit or loss.

The lease liability is initially recognised on a present value basis of the lease payments. After initial recognition, the lease payments are discounted using interest rate implicit in the lease, or if that rate cannot be readily determined, the lessee's incremental borrowing rate.

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;

- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;

- amounts expected to be payable by us under residual value guarantees;

- the exercise price of a purchase option if we are reasonably certain to exercise that option; and

- payments of penalties for terminating the lease, if the lease term reflects we exercising that option.

Right-of-use assets are recognized initially at cost, comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs and restoration costs. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

Share-based benefits

Share-based compensation benefits are provided to employees via the employee option plan. Information relating to the scheme is set out in Note 28 to the Accountant's Report as set out in Appendix I. The fair value of the employee service received in exchange for the grant of equity instruments is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

- including any market performance conditions (e.g., our share price);
- excluding the impact of any service and non-market performance vesting conditions (e.g., profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (e.g., the requirement for employees to save or holdings shares for a specific period of time).

The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, we revise our estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. We recognize the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Intangible assets

(i) Goodwill

Goodwill is measured as described in Note 2.2.6 to the Accountant's Report as set out in Appendix I. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

(ii) Software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining software are recognized as expenses as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software controlled by us are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software or database so that it will be available for use;
- management intends to complete the software or database, and use or sell it;
- there is an ability to use or sell the software or database;
- it can be demonstrated how the software or database will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software or database are available; and
- the expenditure attributable to the software or database during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software or database include employee costs and an appropriate portion of relevant overheads.

Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use.

(iii) Research and development expenditures

Research and development expenditures that do not meet the criteria in (ii) above are recognized as expenses as incurred. Development costs previously recognized as expenses are not recognized as assets in subsequent period.

(iv) Amortisation method and period

We amortize software licenses using the straight-line method over 3-10 years which is the best estimation under current business needs.

Property and Equipment

Property and equipment are stated at historical costs less depreciation. Historical costs include expenditure that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements, the shorter lease term as follows:

	Useful lives	**Residual values**
Vending Machines	5-10 years	5%
Electronic equipment	5 years	5%
Motor vehicles	5 years	5%
Office equipment and others	5 years	5%
Leasehold improvements	Shorter of estimated useful lives and remaining lease terms	–

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.7 to the Accountant's Report as set out in Appendix I).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in "other gains/(losses), net" in the consolidated statement of comprehensive income.

Critical Accounting Estimates and Judgments

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Our management also needs to exercise judgment in applying our accounting policies.

Estimates and judgments are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Impairment of Goodwill

We test annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.6(a) to the Accountant's Report as set out in Appendix I. In determining where goodwill is impaired requires an estimation of the recoverable amount of cash-generating units ("**CGU**") to which goodwill has been allocated. The recoverable amount of a CGU is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated in Note 18 to the Accountant's Report as set out in Appendix I. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

The goodwill of our Group mainly arose from the acquisition of Shenzhen Youka for its freshly brewed beverage vending machine business in 2019 as mentioned in Note 18(a) and Note 33 to the Accountant's Report as set out in Appendix I, and acquisition of karaoke booth service business and other vending machine business in previous years. We carry out our annual impairment test on goodwill by comparing the recoverable amounts of CGU to the carrying amounts. We consider that the freshly brewed beverage vending machine business, karaoke booth service business and the other vending machine business represent the smallest identifiable group of assets that generate cash inflows and are largely independent of the cash inflows from other assets. The following is a summary of goodwill allocated by us for each CGU:

	Freshly brewed beverage vending machine business *RMB'000*	**Karaoke booth service business** *RMB'000*	**Other vending machine business** *RMB'000*
Year ended December 31, 2019			
Opening	–	10,813	15,454
Additions	168,348	–	567
Closing	168,348	10,813	16,021
Year ended December 31, 2020			
Opening	168,348	10,813	16,021
Impairment	(147,573)	(10,813)	–
Closing	20,775	–	16,021

	Freshly brewed beverage vending machine business	Karaoke booth service business	Other vending machine business
	RMB'000	*RMB'000*	*RMB'000*
Year ended December 31, 2021			
Opening	20,775	–	16,021
Closing	20,775	–	16,021
Year ended December 31, 2022			
Opening	20,775	–	16,021
Closing	20,775	–	16,021
(Unaudited)			
Six months ended June 30, 2022			
Opening	20,775	–	16,021
Closing	20,775	–	16,021
Six months ended June 30, 2023			
Opening	20,775	–	16,021
Closing	20,775	–	16,021

Impairment review on goodwill has been conducted by our management as of December 31, 2019, 2020, 2021, 2022 and June 30, 2023 according to HKAS 36 "Impairment of assets." We carried out our impairment test on goodwill by comparing the recoverable amounts of each CGU to their carrying amounts. For the purpose of goodwill impairment review, the recoverable amount of a CGU (or group of CGUs) is the higher of its fair value less cost of disposal ("**FVLCOD**") and its value in use ("**VIU**"). We have engaged an independent external valuer for performing the goodwill impairment assessments as of December 31, 2019, 2020, 2021, 2022 and June 30, 2023. FVLCOD was determined using discounted cash flow projections of which the accuracy and reliability of the information is reasonably assured by the appropriate budgeting, forecast and control process established by us. We leveraged our experiences in the industries and prepared the cash flow projections from the perspective of other market participants. The discount rates adopted were derived from the analysis of valuer's interpretation of time value and specific risk of prevailing market participants adjusted for the difference in the marketability. VIU was determined using the cash flow projections based on business projection covering a five-year period. We leveraged our extensive experiences in the industries and prepared the forecast based on the past performance and our expectation of future business projection and market developments. The discount rates adopted were derived from the analysis of our time value and specific risk.

As of December 31, 2019, the recoverable amount of each of the freshly brewed beverage vending machine business and karaoke booth service business CGUs was based on FVLCOD, which is measured using discounted cash flow projections. Based on the results of the impairment assessments, no impairment loss on the goodwill relating to freshly brewed beverage vending machine business or karaoke booth service business was recognized as of December 31, 2019.

During the year ended December 31, 2020, goodwill impairment arose in our freshly brewed beverage vending machine business due to the outbreak of COVID-19 epidemic. Our freshly brewed beverage vending machine business operation was suffered substantially, the promotion of freshly brewed beverage vending machine in mainland China was experiencing a decline in the number, as well as lower-than-expected profits from certain individual projects. As of December 31, 2020, the recoverable amount of the freshly brewed beverage vending machine business CGU was based on FVLCOD, which is measured using discounted cash flow projections prepared from market participants perspective. Based on the results of the impairment assessments, we recognized an impairment provision of approximately RMB147.6 million against the carrying amount of goodwill relating to the acquired freshly brewed beverage vending machine business.

During the year ended December 31, 2020, goodwill impairment arose in the Group's karaoke booth service business because people were afraid to sing in a confined space after the outbreak of COVID-19. As of December 31, 2020, the recoverable amount of the CGU was determined based on VIU. Based on the results of the impairment assessments, we recognized full impairment provision of goodwill, as well as property and equipment intangible assets and right-of-use assets relating to the acquired karaoke booth service business.

The impairment losses for the year ended December 31, 2020 related to unmanned retail business segment and other services segment are the impairment losses of the freshly brewed beverage vending machine business CGU and the impairment losses of the karaoke booth service business, respectively. Details are below:

	Karaoke booth service business/ Others	**Freshly brewed beverage vending machine business/ Unmanned retail business**
	RMB'000	*RMB'000*
Impairment losses of goodwill	10,813	147,573
Impairment losses of property and equipment	120,136	–
Impairment losses of intangible assets	1,153	–
Impairment losses of right-of-use assets	44,302	–
	176,404	147,573

During the years ended December 31, 2021, 2022 and the six months ended June 30, 2023, the recoverable amount of the freshly brewed beverage vending machine business CGU was based on FVLCOD, which was measured using discounted cash flow projections and higher than the carrying amount, thus no impairment loss on the goodwill relating to freshly brewed beverage vending machine business was recognized. The cash flow projections was prepared from market participants' perspective for the purpose of impairment reviews.

During the years ended December 31, 2019, 2020, 2021, 2022 and the six months ended June 30, 2023, the recoverable amount of the other vending machine business CGU was based on FVLCOD, which is measured using discounted cash flow projections. Based on the results of the impairment assessments, no impairment loss on the goodwill relating to other vending machine business CGU was recognized as of December 31, 2019, 2020, 2021, 2022 and June 30, 2023.

As of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, based on management's assessment on the recoverable amounts, the headroom of the freshly brewed beverage vending machine business, karaoke booth service business and other vending machine business were as below:

	Freshly brewed beverage vending machine business	**Karaoke booth service business**	**Other vending machine business**
	RMB'000	*RMB'000*	*RMB'000*
As of December 31, 2019	1,005*	33,509	4,641,435
As of December 31, 2020	Nil	Nil	5,484,316
As of December 31, 2021	19,079	N/A	4,183,346
As of December 31, 2022	16,763	N/A	3,352,186
As of June 30, 2023	16,978	N/A	3,446,245

* Freshly brewed beverage vending machine business was consolidated by our Group on December 19, 2019 due to our further acquisition of 46% equity interest of Shenzhen Youka from other shareholders and the recoverable amount approximates to its carrying value as of December 31, 2019.

The following table sets out the level-3 key assumptions for those CGUs that have goodwill allocated to them:

	Freshly brewed beverage vending machine business	Karaoke booth service business	Other vending machine business
As of December 31, 2019			
Revenue growth rate during the projection period	41.7% to 351.3%	3.0% to 17.9%	9.7% to 28.8%
Terminal value growth rate	3.0%	3.0%	3.0%
Gross margin during the projection period	66.2% to 67.2%	62.9% to 77.9%	46.3% to 47.0%
Post-tax discount rates	16.5%	17.0%	16.5%
Discount for lack of marketability	20.0%	20.0%	20.0%
As of December 31, 2020			
Revenue growth rate during the projection period	54.0% to 67.6%	-23.2% to 3.0%	36.3% to 59.4%
Terminal value growth rate	3.0%	N/A	3.0%
Gross margin during the projection period	37.7% to 51.2%	-41.6% to 1.2%	33.5% to 36.3%
Post-tax discount rate/Pre-tax discount rate (karaoke booth service business)	17.0%	17.5%	15.0%
Discount for lack of marketability	20.0%	N/A	20.0%
As of December 31, 2021			
Revenue growth rate during the projection period	18.4% to 79.0%	N/A	22.6% to 42.1%
Terminal value growth rate	3.0%	N/A	3.0%
Gross margin during the projection period	58.5%	N/A	42.0% to 43.3%
Post-tax discount rates	17.5%	N/A	15.0%
Discount for lack of marketability	20.0%	N/A	15.0%
As of December 31, 2022			
Revenue growth rate during the projection period	16.4% to 97.7%	N/A	5.0% to 44.6%
Terminal value growth rate	2.5%	N/A	2.5%
Gross margin during the projection period	67.5%	N/A	43.2% to 44.2%
Post-tax discount rates	17.5%	N/A	15.0%
Discount for lack of marketability	15.0%	N/A	10.0%

	Freshly brewed beverage vending machine business	Karaoke booth service business	Other vending machine business
As of June 30, 2023			
Revenue growth rate during the projection period	14.7% to 86.9%	N/A	9.2% to 38.7%
Terminal value growth rate	2.5%	N/A	2.5%
Gross margin during the projection period	69.0%	N/A	43.5% to 45.5%
Post tax discount rates	17.0%	N/A	15.0%
Discount for lack of marketability	15.0%	N/A	10.0%

Our management considers the impact of possible changes in a number of key assumptions, including revenue growth rate during the projection period, terminal value growth rate, gross margin during the projection period, and post tax discount rates and discount for lack of marketability. Further details of the level-3 key assumptions for those for our freshly brewed beverage vending machine business, karaoke booth service business and other vending machine business are set out in Note 18(b) to the Accountant's Report as set out in Appendix I. Revenue growth rates and gross profit margins were determined by our management based on past performance and the future business plan of the cash-generating unit expected to be achieved. The expansion of freshly brewed beverage vending machine business was adversely impacted by COVID-19 and the revenue generated by the freshly brewed beverage vending business was lower than our management's expectations, so the revenue growth rate during the projection period was adjusted from the year ended December 31, 2020 and afterward. Discount rates reflect market assessments of the time value and the specific risks relating to the industry. The post-tax discount rates adopted are based on the weighted average cost of capital ("**WACC**") of each of the two cash-generating units, mainly involving four key parameters: (i) cost of equity estimated from the capital asset pricing model, (ii) small size risk premium, (iii) company-specific risk premium and (iv) capital structure. As above mentioned key parameters only had immaterial changes between December 31, 2022 and 2021, the adopted WACC did not change as of December 31, 2022. The terminal value growth rates were based on the expected inflation rates, which have been applied to the terminal year's cash flows. The discount for lack of marketability was determined by the independent external valuer by use the Black-Scholes model.

Further details of the impairment review are set out in Note 18(b) to the Accountant's Report as set out in Appendix I.

The following table sets out the sensitivity analysis of the negative impact of variation in each of the key assumptions for goodwill impairment that make the recoverable amount equal to the carrying amount for the freshly brewed beverage vending machine business, karaoke booth services business and other vending machine business.

	Freshly brewed beverage vending machine business	Karaoke booth services business	Other vending machine business
As of December 31, 2019			
Decrease in revenue growth rate p.a. during the projection period	0.05%	4.58%	39.51%
Decrease in terminal value growth rate	0.01%	2.82%	3% decrease in terminal value growth rate will decrease the headroom of other vending machine business by approximately RMB981,945,000
Decrease gross margin p.a. during the projection period	0.02%	3.1%	10.0%
Increase post-tax discount rate	0.01%	1.79%	25.80%
Increase discount lack of marketability	0.16%	8.28%	64.51%
As of December 31, 2020			
Decrease in revenue growth rate p.a. during the projection period	N/A	N/A	50.23%
Decrease in terminal value growth rate	N/A	N/A	3% decrease in terminal value growth rate will decrease the headroom of other vending machine business by approximately RMB1,182,681,000
Decrease gross margin p.a. during the projection period	N/A	N/A	10.53%
Increase post-tax discount rate	N/A	N/A	35.92%
Increase discount lack of marketability	N/A	N/A	68.91%
As of December 31, 2021			
Decrease in revenue growth rate p.a. during the projection period	6.23%	N/A	40.86%
Decrease in terminal value growth rate	3% decrease in terminal value growth rate will decrease the headroom of freshly brewed beverage vending machine business by approximately RMB15,648,000	N/A	3% decrease in terminal value growth rate will decrease the headroom of other vending machine business by approximately RMB845,491,000
Decrease gross margin p.a. during the projection period	2.70%	N/A	9.62%
Increase post-tax discount rate	2.45%	N/A	33.02%
Increase discount lack of marketability	16.68%	N/A	69.33%

	Freshly brewed beverage vending machine business	Karaoke booth services business	Other vending machine business
As of December 31, 2022			
Decrease in revenue growth rate p.a. during the projection period	5.80%	N/A	39.51%
Decrease in terminal value growth rate	2.5% decrease in terminal value growth rate will decrease the headroom of freshly brewed beverage vending machine business by approximately RMB11,665,000	N/A	2.5% decrease in terminal value growth rate will decrease the headroom of other vending machine business by approximately RMB560,174,000
Decrease gross margin p.a. during the projection period	2.99%	N/A	9.07%
Increase post-tax discount rate	2.38%	N/A	33.35%
Increase discount lack of marketability	18.23%	N/A	73.71%
As of June 30, 2023			
Decrease in revenue growth rate p.a. during the projection period	5.31%	N/A	42.17%
Decrease in terminal value growth rate	2.5% decrease in terminal value growth rate will decrease the headroom of other vending machine business by approximately RMB12,496,000	N/A	2.5% decrease in terminal value growth rate will decrease the headroom of other vending machine business by approximately RMB555,194,000
Decrease gross margin p.a. during the projection period	3.02%	N/A	9.11%
Increase post-tax discount rate	2.34%	N/A	44.87%
Increase discount lack of marketability	17.01%	N/A	76.58%

As of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, our management believes that any reasonably possible change in key assumptions of the fair value less cost of disposals would not cause the carrying amount to exceed the recoverable amount of the other vending machine business CGU. As of December 31, 2019, 2021, 2022 and June 30, 2023, adverse changes in key assumptions applied in the sensitivity analysis would cause impairment loss of the freshly brewed beverage vending machine business CGU. As of December 31, 2019, adverse changes in key assumptions applied in the sensitivity analysis would cause impairment loss of the karaoke booth services business CGU.

For further details of impairment charge, key assumptions which are made by our management and third-party valuer and impact of possible changes in key assumptions see Note 18 to the Accountant's Report as set out in Appendix I.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following table sets forth our consolidated statements of comprehensive income in absolute amounts and as percentages of revenue 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* (*unaudited*)	*%*	*RMB'000*	*%*
Revenue	**2,727,461**	**100.0**	**1,902,010**	**100.0**	**2,676,237**	**100.0**	**2,519,224**	**100.0**	**1,143,090**	**100.0**	**1,252,678**	**100.0**
Cost of sales	(1,398,265)	(51.3)	(1,343,449)	(70.6)	(1,575,113)	(58.9)	(1,442,488)	(57.3)	(632,853)	(55.4)	(734,702)	(58.7)
Gross profit	**1,329,196**	**48.7**	**558,561**	**29.4**	**1,101,124**	**41.1**	**1,076,736**	**42.7**	**510,237**	**44.6**	**517,976**	**41.3**
Selling and marketing expenses	(1,023,716)	(37.5)	(1,083,735)	(57.0)	(1,077,412)	(40.3)	(1,155,720)	(45.9)	(546,736)	(47.8)	(545,133)	(43.5)
General and administrative expenses	(156,075)	(5.7)	(511,016)	(26.9)	(123,347)	(4.6)	(127,405)	(5.1)	(54,306)	(4.8)	(95,146)	(7.6)
Research and development expenses	(57,301)	(2.1)	(41,484)	(2.2)	(36,761)	(1.4)	(31,556)	(1.3)	(17,668)	(1.5)	(15,098)	(1.2)
Net impairment losses on financial assets	(10,858)	(0.4)	(58,389)	(3.1)	(28,224)	(1.1)	(9,264)	(0.4)	(6,904)	(0.6)	(842)	(0.1)
Other income	17,112	0.6	20,199	1.1	12,269	0.5	12,027	0.5	4,140	0.4	2,923	0.2
Other gains/(losses), net	11,344	0.4	(19,844)	(1.0)	(14,655)	(0.5)	(8,488)	(0.3)	821	0.1	(2,920)	(0.2)
Operating profit/(loss)	**109,702**	**4.0**	**(1,135,708)**	**(59.7)**	**(167,006)**	**(6.3)**	**(243,670)**	**(9.7)**	**(110,416)**	**(9.7)**	**(138,240)**	**(11.0)**
Finance costs	(58,688)	(2.2)	(32,344)	(1.7)	(13,517)	(0.5)	(13,331)	(0.5)	(7,260)	(0.6)	(4,584)	(0.4)
Share of results of investments accounted for using the equity method	(7,169)	(0.3)	(3,472)	(0.2)	(4,092)	(0.2)	(15,255)	(0.6)	(4,786)	(0.4)	(3,821)	(0.3)
Profit/(loss) before income tax	**43,845**	**1.6**	**(1,171,524)**	**(61.6)**	**(184,615)**	**(6.9)**	**(272,256)**	**(10.8)**	**(122,462)**	**(10.7)**	**(146,645)**	**(11.7)**
Income tax expense	(4,196)	(0.1)	(12,672)	(0.7)	(3,579)	(0.1)	(10,813)	(0.4)	(5,937)	(0.5)	(744)	(0.1)
Profit/(loss) for the year/period	**39,649**	**1.5**	**(1,184,196)**	**(62.3)**	**(188,194)**	**(7.0)**	**(283,069)**	**(11.2)**	**(128,399)**	**(11.2)**	**(147,389)**	**(11.8)**

	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*	*%*
									(unaudited)			
Other comprehensive income/(loss), net of tax	1	0.0	2	0.0	–	–	–	–	–	–	–	–
Total comprehensive income/loss for the year/period	**39,650**	**1.5**	**(1,184,194)**	**(62.3)**	**(188,194)**	**(7.0)**	**(283,069)**	**(11.2)**	**(128,399)**	**(11.2)**	**(147,389)**	**(11.8)**
Profit/(loss) for the year/period attributable to:												
– Owners of the Company	45,142	1.7	(1,172,461)	(61.6)	(185,000)	(6.9)	(284,529)	(11.3)	(127,479)	(11.2)	(152,480)	(12.2)
– Non-controlling interests	(5,493)	(0.2)	(11,735)	(0.6)	(3,194)	(0.1)	1,460	0.1	(920)	(0.1)	5,091	0.4
	39,649	**1.5**	**(1,184,196)**	**(62.3)**	**(188,194)**	**(7.0)**	**(283,069)**	**(11.2)**	**(128,399)**	**(11.2)**	**(147,389)**	**(11.8)**

Non-HKFRS Measures

To supplement our financial information which are presented in accordance with HKFRS, we use non-HKFRS measures, namely, adjusted EBITDA and adjusted net profit or loss, as additional financial measures, which are not required by, or presented in accordance with, HKFRS. We believe that such non-HKFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain items. We believe that such measures provide useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of adjusted EBITDA and adjusted net profit or loss may not be comparable to similarly titled financial measures presented by other companies. The use of such non-HKFRS measures have limitations as analytical tools, and you should not consider them in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under HKFRS.

We define adjusted EBITDA (non-HKFRS measure) as EBITDA (which is profit/(loss) for the year/period plus depreciation of property and equipment and right-of-use assets, amortization of intangible assets, income tax expenses and interest expenses on borrowings and lease liabilities) for the year/period adjusted by adding (i) share-based payment and (ii) [**REDACTED**] expenses.

We define adjusted net profit/(loss) (non-HKFRS measure) as profit/(loss) for the year/period adjusted for (i) share-based payment and (ii) [**REDACTED**] expenses.

Share-based payment consisted of non-cash expenses arising from granting options to eligible individuals under the 2020 Incentive Scheme and the Pre-[**REDACTED**] Incentive Scheme and does not result in cash outflow. [**REDACTED**] expenses are mainly expenses related to the [**REDACTED**] and added back mainly because they were incurred for the purpose of the [**REDACTED**].

The following table sets out adjusted EBITDA (non-HKFRS measure) and adjusted net profit/(loss) (non-HKFRS measure), and a reconciliation from profit/(loss) for the year/period to adjusted EBITDA (non-HKFRS measure) and adjusted net profit/(loss) (non-HKFRS measure) 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 (unaudited)*	*RMB'000*
Profit/(loss) for the year/period	39,649	(1,184,196)	(188,194)	(283,069)	(128,399)	(147,389)
Add						
Depreciation of property and equipment, right-of-use assets	203,669	276,669	202,364	242,030	122,329	121,837
Amortization of intangible assets	13,167	17,545	17,423	15,842	8,045	7,675
Income tax expenses	4,196	12,672	3,579	10,813	5,937	744
Interest expenses on borrowings and lease liabilities	58,688	32,344	13,517	13,331	7,260	4,584
EBITDA	319,369	(844,966)	48,689	(1,053)	15,172	(12,549)
Add						
Share-based payment	–	210,918	1,500	–	–	49,527
[**REDACTED**] expenses	–	–	16,411	22,077	3,790	6,581
Adjusted EBITDA (non-HKFRS measure)	319,369	(634,048)	66,600	21,024	18,962	43,559
Profit/(loss) for the year/period	**39,649**	**(1,184,196)**	**(188,194)**	**(283,069)**	**(128,399)**	**(147,389)**
Add						
Share-based payment	–	210,918	1,500	–	–	49,527
[**REDACTED**] expenses	–	–	16,411	22,077	3,790	6,581
Adjusted net profit/(loss) (non-HKFRS measure)	**39,649**	**(973,278)**	**(170,283)**	**(260,992)**	**(124,609)**	**(91,281)**

SELECTED ITEMS FROM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Revenue

Revenue by business segment

During the Track Record Period, we generated revenue primarily from (i) unmanned retail business, (ii) advertising and system support services, (iii) merchandise wholesale, (iv) vending machine sales and leases, and (v) others. The following table sets forth our revenue by business segment 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* (unaudited)	*%*	*RMB'000*	*%*
Unmanned retail business	1,539,891	56.5	1,336,763	70.3	1,915,116	71.6	1,974,657	78.4	913,388	79.9	986,795	78.8
– Direct operation model	*1,289,146*	*47.3*	*574,339*	*30.2*	*435,917*	*16.3*	*362,309*	*14.4*	*158,849*	*13.9*	*183,752*	*14.7*
– Partner model	*250,745*	*9.2*	*762,424*	*40.1*	*1,479,199*	*55.3*	*1,612,348*	*64.0*	*754,539*	*66.0*	*803,043*	*64.1*
Advertising and system support services	540,600	19.8	219,561	11.5	243,120	9.1	194,271	7.7	100,074	8.8	56,450	4.5
– Digital advertising services	*518,874*	*19.0*	*203,095*	*10.6*	*224,706*	*8.4*	*176,216*	*7.0*	*91,314*	*8.0*	*50,415*	*4.0*
– Operation system support	*21,726*	*0.8*	*16,466*	*0.9*	*18,414*	*0.7*	*18,055*	*0.7*	*8,760*	*0.8*	*6,035*	*0.5*
Merchandise wholesale	297,900	10.9	115,485	6.1	40,516	1.5	131,795	5.2	54,103	4.7	110,685	8.8
Vending machine sales and leases	91,485	3.4	47,040	2.5	44,241	1.7	33,840	1.3	16,149	1.4	11,712	0.9
Others	257,585	9.4	183,161	9.6	433,244	16.1	184,661	7.4	59,376	5.2	87,036	7.0
Total	**2,727,461**	**100.0**	**1,902,010**	**100.0**	**2,676,237**	**100.0**	**2,519,224**	**100.0**	**1,143,090**	**100.0**	**1,252,678**	**100.0**

Unmanned retail business

Under our unmanned retail business, we offer consumers swift and convenient access to a broad selection of FMCG, including bottled beverages, snacks, freshly brewed coffee and other beverages, and generate revenue from selling them to consumers through our vast network of vending machines. Revenue generated from our unmanned retail business was calculated based on GMV of vending machines deducted by value-added tax and discounts in promotional campaigns. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, revenue generated from unmanned retail business amounted to approximately RMB1,539.9 million, RMB1,336.8 million, RMB1,915.1 million, RMB1,974.7 million, RMB913.4 million and RMB986.8 million, respectively, representing 56.5%, 70.3%, 71.6%, 78.4%, 79.9% and 78.8% of our total revenue in the same periods, respectively.

We expand our unmanned retail business primarily through our sales force and POS partners. Commencing from 2020, we have started to adopt the partner model in addition to the direct operation model as we believe this allows more flexible and efficient network expansion, where the partner model facilitates site acquisitions and enhances our efficiency with simplified POS sourcing and development. We generally adopt the direct operation model for POSs at strategically important sites where we source POS sites directly, and engage POS partners to assist us with sourcing and establishing other POSs, where POS partners are responsible for the occupancy fee plus utility cost. As of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, 17.2%, 68.5%, 84.0%, 81.2% and 81.9% of our Ubox POSs were operated under the partner model, respectively. As a result, revenue generated from POSs operated by POS partners increased from RMB250.7 million in 2019 to RMB762.4 million in 2020, RMB1,479.2 million in 2021 and RMB1,612.3 million in 2022, and further increased from RMB754.5 million for the six months ended June 30, 2022 to RMB803.0 million for the same period in 2023, accounting for 16.3%, 57.0%, 77.2%, 81.7%, 82.6% and 81.4% of revenue generated from our unmanned retail business for the same periods, respectively.

Advertising and system support services

During the Track Record Period, leveraging our expansive network of POSs and our deep understanding of consumer behaviors, we offer digital advertising services to brand owners, merchandise suppliers, payment platforms and other advertising agencies by displaying their advertisements, images or brands on the touchscreens or bodies of our vending machines, or through the provision of after-payment advertising services and merchandise display advertising services. During the Track Record Period, our revenue from digital advertising services was generally determined by demand for such services from advertisers, which was impacted by macro-economic conditions, and the expansiveness of our POS network, which represents our capacity to reach consumers. During the Track Record Period, revenue from digital advertising services also relates to the number of new POSs opened which affects the amount of services fees we may receive from Alipay China for the advertising and promotion of its payment service products. For details of service fees from Alipay China, see "Connected Transactions – Partially-exempt Continuing Connected Transactions – Advertising Cooperation Framework Agreement." In addition, we provide operation system support to Non-Ubox POS operators 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, revenue generated from the provision of advertising and system support services amounted to RMB540.6 million, RMB219.6 million, RMB243.1 million, RMB194.3 million, RMB100.1 million and RMB56.5 million, respectively, representing 19.8%, 11.5%, 9.1%, 7.7%, 8.8% and 4.5% of our total revenue for the same periods, respectively.

Merchandise wholesale

During the Track Record Period, in order to leverage our operation and digitalization capabilities, we offer merchandise wholesale services to wholesale customers and certain non-Ubox POS operators who already operate vending machines and empower them to improve operational efficiency.

Revenue from merchandise wholesale amounted to RMB297.9 million, RMB115.5 million, RMB40.5 million, RMB131.8 million, RMB54.1 million and RMB110.7 million, respectively in 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, representing 10.9%, 6.1%, 1.5%, 5.2%, 4.7% and 8.8% of our total revenue for the same periods, respectively.

Vending machine sales and leases

During the Track Record Period, we offer vending machine sales and leases to our Non-Ubox POS operators. In addition, we provide hardware support services including machine installation and maintenance services.

Revenue from vending machine sales and leases amounted to RMB91.5 million, RMB47.0 million, RMB44.2 million, RMB33.8 million, RMB16.1 million and RMB11.7 million, respectively in 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, representing 3.4%, 2.5%, 1.7%, 1.3%, 1.4% and 0.9% of our total revenue for the same periods, respectively.

Others

During the Track Record Period, our revenue from others segment primarily consisted of revenue generated from (i) mobile device distribution services, which comprise unmanned mobile phones and accessories retail solutions, (ii) operating M-Bar self-service karaoke booths, in which customers generally pay by number of songs or by the time spent in our karaoke booths or to a lesser extent, customers (outside Beijing and Shanghai) may purchase a monthly pass for access to our karaoke booths, (iii) karaoke booths sales and leases, and (iv) karaoke booth operation system support. Revenue from others segment amounted to RMB257.6 million, RMB183.2 million, RMB433.2 million, RMB184.7 million, RMB59.4 million and RMB87.0 million, respectively, in 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, representing 9.4%, 9.6%, 16.1%, 7.4%, 5.2% and 7.0% of our total revenue for the same periods, respectively. We have decided that karaoke booth services will no longer be our Group's development focus and we currently are only maintaining our operation of existing karaoke booths while cutting down some under-performing machines in light of the negative impact of COVID-19 on this business segment.

Cost of Sales

Our cost of sales comprises (i) cost of inventories sold, (ii) subcontractor cost of advertising resources, (iii) depreciation of property and equipment, (iv) depreciation of right-of-use assets, (v) taxes and surcharges, (vi) impairment loss of inventories, and (vii) impairment loss of property and equipment and right-of-use assets. The following table sets forth a breakdown of our cost of sales by nature 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* *(unaudited)*	*%*	*RMB'000*	*%*
Cost of inventories sold	1,256,210	89.8	1,058,640	78.8	1,466,389	93.1	1,368,474	94.9	597,483	94.4	720,726	98.1
Subcontractor cost of advertising resources	50,315	3.6	499	0.0	58,095	3.7	33,507	2.3	11,908	1.9	478	0.1
Depreciation of property and equipment	45,241	3.2	37,780	2.8	19,055	1.2	15,428	1.1	9,527	1.5	2,852	0.4
Depreciation of right-of-use assets	33,853	2.4	26,014	1.9	24,810	1.6	18,095	1.3	11,104	1.8	6,144	0.8
Taxes and surcharges	10,116	0.7	2,166	0.2	6,764	0.4	6,984	0.4	2,831	0.4	4,502	0.6
Impairment loss of inventories	2,530	0.3	53,912	4.0	–	–	–	–	–	–	–	–
Impairment loss of property and equipment and right-of-use assets	–	–	164,438	12.3	–	–	–	–	–	–	–	–
Total	**1,398,265**	**100.0**	**1,343,449**	**100.0**	**1,575,113**	**100.0**	**1,442,488**	**100.0**	**632,853**	**100.0**	**734,702**	**100.0**

Cost of inventories sold represents costs relating to the procurement of (i) FMCG such as food and beverages sold through our vending machines, (ii) mobile phones and accessories in connection with our mobile device distribution services under our others segment, and (iii) machines sold.

Subcontractor cost of advertising resources relate to our provision of after-payment advertising services to customers. See "Business — Our Product and Service Offerings — Advertising and System Support Services — Digital Advertising Services" for details. In order to provide such advertising services to customers, we may from time to time acquire online traffic and offline promotion services from subcontractors. Such subcontractors mainly include advertisement agencies which have abundant advertising resources including access to media channels and potential consumers, such as through mobile applications, WeChat groups and offline digital screens.

Depreciation of right-of-use assets represents depreciation of our machines, primarily karaoke booths and leased out vending machines purchased by us under finance lease arrangement and leased to Non-Ubox POS operators.

Depreciation of property and equipment represents depreciation of our machines, primarily karaoke booths and leased out vending machines leased to Non-Ubox POS operators. Depreciation of property and equipment decreased from 2019 to 2020 primarily due to the decrease in number of karaoke booths and impairment recognised for karaoke booths as a result of the COVID-19 outbreak.

Taxes and surcharges represent maintenance and construction tax and educational surtax and other miscellaneous taxes. The decrease in taxes and surcharges from 2019 to 2020 was primarily due to the decrease in value-added tax resulting from the decrease in our revenue as a result of COVID-19. The increase in taxes and surcharges from 2020 to 2021 was generally in line with the growth of our business as COVID-19 had been largely contained in China in 2021. Taxes and surcharges remained relatively stable in 2021 and 2022. The increase in taxes and surcharges for the six months ended June 30, 2023 as compared to the same period in 2022 was primarily due to the increase in value-added tax resulting from the increase in sales following the relaxation of COVID-19 policies and overall recovery of consumer traffic and business activities.

Impairment loss of inventories represents impairment loss on our non-core types of machines such as orange juice machines, coconut juice machines and karaoke booths held for sale. We recognized RMB53.9 million of impairment loss of inventories in 2020 primarily because we were unable to put them into operation or sell them as a result of the COVID-19 pandemic with reduced foot traffic.

Impairment loss of property and equipment and right-of-use assets represents impairment loss on karaoke booths in operation. We recognized RMB164.4 million in impairment loss of property and equipment and right-of-use assets in 2020 primarily because our karaoke booth business was adversely affected by COVID-19 in 2020.

Gross Profit and Gross Profit Margin

The following table sets forth our gross profit and gross profit margin by business segment for the periods indicated:

	For the year ended December 31,								For the six months ended June 30,			
	2019		2020		2021		2022		2022		2023	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
									(unaudited)			
Unmanned retail business	683,467	44.4	557,516	41.7	888,056	46.4	891,398	45.1	413,543	45.3	444,458	45.0
Advertising and system support services	488,280	90.3	218,812	99.7	184,411	75.9	160,225	82.5	87,918	87.9	55,769	98.8
– Digital advertising services	*466,634*	*89.9*	*202,365*	*99.6*	*166,431*	*74.1*	*142,233*	*80.7*	*79,180*	*86.7*	*49,764*	*98.7*
– Operation system support	*21,646*	*99.6*	*16,447*	*99.9*	*17,980*	*97.6*	*17,992*	*99.7*	*8,738*	*99.7*	*6,005*	*99.5*
Merchandise wholesale	14,669	4.9	4,029	3.5	2,965	7.3	5,225	4.0	2,834	5.2	3,990	3.6
Vending machine sales and leases	15,147	16.6	(32,224)	(68.5)	13,887	31.4	10,792	31.9	2,981	18.5	3,165	27.0
Others	127,633	49.5	(189,572)	(103.5)	11,805	2.7	9,096	4.9	2,961	5.0	10,594	12.2
Total	**1,329,196**	**48.7**	**558,561**	**29.4**	**1,101,124**	**41.1**	**1,076,736**	**42.7**	**510,237**	**44.6**	**517,976**	**41.3**

Our gross profit was RMB1,329.2 million, RMB558.6 million, RMB1,101.1 million, RMB1,076.7 million, RMB510.2 million and RMB518.0 million in 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively. The decrease in gross profit from RMB1,329.2 million in 2019 to RMB558.6 million in 2020 was mainly attributable to (i) the decrease in our revenue as a result of the COVID-19 outbreak, and (ii) the increase in our impairment losses of inventories, and property and equipment and right-of-use assets primarily attributable to our non-core types of machines such as karaoke booths in operation and orange juice machines, coconut juice machines and karaoke booths held for sale as a result of the COVID-19 outbreak. Specifically, vending machine sales and leases and others segment recorded gross losses in 2020 primarily due to the increase in impairment losses attributable to our non-core types of machines held for sale and karaoke booths in operation as a result of the COVID-19 outbreak. The increase in gross profit from RMB558.6 million in 2020 to RMB1,101.1 million in 2021 was mainly attributable to the increase in revenue from our unmanned retail business. The decrease in gross profit from RMB1,101.1 million in 2021 to RMB1,076.7 million in 2022 was mainly attributable to the decrease in revenue from advertising and system support services. The increase in gross profit from RMB510.2 million for the six months ended June 30, 2022 to RMB518.0 million for the six months ended June 30, 2023 was mainly attributable to the increase in revenue from unmanned retail business partially offset by the decrease in revenue from advertising and system support services.

Our gross profit margin was 48.7%, 29.4%, 41.1%, 42.7%, 44.6% and 41.3% in 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively. The decrease in gross profit margin from 2019 to 2020 was primarily due to (i) the decrease in revenue generated from high gross margin consumption scenarios such as transportation hubs, public venues and schools as a result of COVID-19, (ii) the decrease in revenue generated from advertising and system support services (primarily due to the decrease in demand for such services from advertisers and their budgets and expenditures owing to the decrease in outdoor consumer traffic in light of COVID-19) which typically records higher gross profit margin than other business segments, and (iii) impairment losses recognized in 2020.

Our gross profit margin increased from 29.4% in 2020 to 41.1% in 2021 primarily due to (i) the increase in revenue generated from unmanned retail business as a percentage of total revenue, while gross profit margin of this business segment also improved due to the higher portion of food products with higher gross profit margin sold in 2021, as a result of our efforts in merchandise management in early 2021 to refine our merchandise mix, (ii) the recovery of consumer traffic at consumption scenarios or POSs with higher gross profit margin, such as public venues, transportation hubs and schools, and (iii) significant amounts of impairment losses, primarily attributable to karaoke booths in operation and orange juice machines and coconut juice machines recognized in 2020.

Our gross profit margin increased from 41.1% in 2021 to 42.7% in 2022 primarily due to (i) the increase in revenue from unmanned retail business as a percentage of our total revenue from 71.6% in 2021 to 78.4% in 2022, which has relatively higher gross profit margin, (ii) the increase in gross profit margin of advertising and system support services from 75.9% in 2021 to 82.5% in 2022, and (iii) the decrease in revenue from others segment as a percentage of our total revenue from 16.1% in 2021 to 7.4% in 2022, primarily due to the downstream mobile device retail market and the demand for our mobile device distribution services under our others segment were negatively affected by macro-economic conditions and consumer demand in 2022.

Our gross profit margin decreased from 44.6% for the six months ended June 30, 2022 to 41.3% for the six months ended June 30, 2023, primarily due to a decrease in revenue contribution from advertising and system support services which typically records higher gross profit margin than other business segments and an increase in revenue contribution from merchandise wholesale and mobile device distribution services which typically record lower gross profit margin than other business segments.

Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of (i) POSs operation and development expenses, (ii) employee benefit expenses, (iii) logistics and transportation expenses, (iv) depreciation, (v) office and lease expenses, (vi) impairment loss of property and equipment and right-of-use assets, (vii) share-based payments and (viii) others. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, our selling and marketing expenses amounted to RMB1,023.7 million, RMB1,083.7 million, RMB1,077.4 million, RMB1,155.7 million, RMB546.7 million and RMB545.1 million, respectively, representing 37.5%, 57.0%, 40.3%, 45.9%, 47.8% and 43.5% of our total revenue for the same periods, respectively.

The following table sets forth a breakdown of our selling and marketing expenses 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*	*%*
									(unaudited)			
POSs operation and development expenses	574,570	56.1	553,170	51.0	585,920	54.4	587,354	50.8	263,936	48.3	261,155	47.9
Employee benefit expenses	172,563	16.9	168,206	15.5	151,386	14.1	170,190	14.7	84,073	15.4	63,303	11.6
Logistics and transportation expenses	108,480	10.6	97,243	9.0	138,277	12.8	156,637	13.6	77,222	14.1	88,642	16.3
Depreciation	98,564	9.6	177,787	16.4	137,068	12.7	186,927	16.2	90,150	16.5	102,693	18.8
Office and lease expenses	34,452	3.4	29,804	2.8	29,125	2.7	29,470	2.5	15,082	2.8	8,310	1.5
Impairment loss of property and equipment and right-of-use assets	1,240	0.1	27,573	2.5	1,449	0.1	–	–	–	–	–	–
Share-based payments	–	–	–	–	–	–	–	–	–	–	4,723	0.9
Others[1]	33,847	3.3	29,952	2.8	34,187	3.2	25,142	2.2	16,273	2.9	16,307	3.0
Total	**1,023,716**	**100.0**	**1,083,735**	**100.0**	**1,077,412**	**100.0**	**1,155,720**	**100.0**	**546,736**	**100.0**	**545,133**	**100.0**

Note:

1. Others primarily include promotional fees, traveling and entertainment expenses.

POSs operation and development expenses constituted the largest component of our selling and marketing expenses during the Track Record Period. POSs operation and development expenses primarily represented expenses paid or payable to POS site owners and POS partners for maintaining and expanding our Ubox POS network. The following table sets forth a breakdown of our POSs operation and development expenses by recipient 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* *(unaudited)*	*RMB'000*
Unmanned retail business	461,014	496,185	558,062	566,788	248,709	254,925
Site owners	*369,936*	*279,010*	*141,651*	*105,874*	*48,153*	*37,630*
POS partners	*91,078*	*217,175*	*416,411*	*460,914*	*200,556*	*217,295*
Others[(1)]	113,556	56,985	27,858	20,566	15,227	6,230
Total	**574,570**	**553,170**	**585,920**	**587,354**	**263,936**	**261,155**

Note:

1. In relation to karaoke booth operations.

POSs operation and development expenses for POSs under the direct operation model were either a fixed amount or determined based on certain percentages of the transaction GMV generated by the corresponding machine as agreed between us and individual POS site owners. POSs operation and development expenses for POSs under the partner model were typically determined based on certain percentages of the transaction GMV generated by the corresponding machine with other costs responsible by POS partners deducted. POSs operation and development expenses for POSs under the direct operation model as a percentage of the transaction GMV generated under the direct operation model amounted to 25.3%, 42.3%, 28.4%, 26.0%, 25.6% and 17.3% in 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively. POSs operation and development expenses for POSs under the partner model as a percentage of the transaction GMV under the partner model amounted to 34.7%, 25.0%, 25.3%, 25.6%, 24.1% and 23.9%, in 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively. The higher level under the partner model in 2019 was primarily because we offered POS partners a relatively higher share of the POSs' transaction GMV in the early stage of promoting the partner model. The higher level under the direct operation model in 2020 was primarily due to the decrease in transaction GMV per machine due to the impact of COVID-19 while POSs operation and development expenses with respect to certain POSs under the direct operation model were fixed.

In 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, POSs operation and development expenses accounted for 56.1%, 51.0%, 54.4%, 50.8%, 48.3% and 47.9% of our total selling and marketing expenses, respectively. The decrease in POSs operation and development expenses from 2019 to 2020 was primarily attributable to decrease in the number of Ubox POSs due to the negative impact of COVID-19 in 2020. The increase in POSs operation and development expenses from 2020 to 2021 was primarily attributable to the expansion of our POS network in 2021. The increase in POSs operation and development expenses from 2021 to 2022 was primarily due to the expansion of our POS network in 2022, in terms of monthly average number of Ubox POSs in 2022 as compared to that of 2021, despite the decrease in number of Ubox POSs from 85,139 to 66,232 as of December 31, 2021 and 2022, respectively. The decrease in POSs operation and development expenses for the six months ended June 30, 2023 as compared to the same period in 2022 was primarily due to the decrease in the number of our Ubox POSs. This was 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.

Employee benefit expenses under selling and marketing expenses primarily consist of salaries, wages, bonus, social security costs and housing benefits for our sales and marketing personnel.

Logistics and transportation expenses primarily represents logistics expenses incurred for establishment of POSs, restocking of merchandise across our network and maintenance and movement of our machines.

Depreciation represents depreciation of right-of-use assets and property and equipment in relation to our vending machines for our unmanned retail business. The increase in depreciation from 2019 to 2020 was primarily attributable to our larger number of vending machines at the end of 2019 to fuel our POS network expansion while our number of vending machines decreased in 2020 as a result of the impact of COVID-19.

Office and lease expenses represent short-term leases expenses for our office and warehouses and office expenses.

Impairment loss of property and equipment and right-of-use assets primarily represents the impairment loss of non-core types of machines such as orange juice machines and coconut juice machines in operation.

Share-based payments primarily represents expenses arising from granting options to eligible individuals under the Pre-[**REDACTED**] Incentive Scheme.

General and Administrative Expenses

Our administrative expenses primarily consist of (i) employee benefit expenses, (ii) depreciation and amortisation, (iii) bank and payment charges, (iv) [**REDACTED**] expenses, (v) office and lease expenses, (vi) travelling and transportation expenses, (vii) audit and consultation expenses, (viii) share-based payments, (ix) impairment loss of goodwill, (x) impairment loss of prepayments and intangible assets, and (xi) others. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, our general and administrative expenses amounted to RMB156.1 million, RMB511.0 million, RMB123.3 million, RMB127.4 million, RMB54.3 million and RMB95.1 million, respectively, representing 5.7%, 26.9%, 4.6%, 5.1%, 4.8% and 7.6% of our total revenue for the same periods, respectively.

The following table sets forth a breakdown of our general and administrative expenses 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* (*unaudited*)	*%*	*RMB'000*	*%*
Employee benefit expenses	81,746	52.4	56,895	11.1	40,747	33.0	42,258	33.2	23,004	42.4	15,725	16.5
Depreciation and amortisation	29,357	18.8	43,927	8.6	30,542	24.8	30,161	23.7	15,943	29.4	14,190	14.9
Bank and payment charges	12,582	8.1	10,855	2.1	17,116	13.9	13,340	10.5	6,541	12.0	7,252	7.6
[**REDACTED**] expenses	–	–	–	–	16,411	13.3	22,077	17.3	3,790	7.0	6,581	6.9
Office and lease expenses	11,249	7.2	7,714	1.5	8,531	6.9	7,337	5.8	2,999	5.5	5,167	5.4
Travelling and transportation expenses	6,730	4.3	4,041	0.8	3,729	3.0	3,664	2.9	1,069	2.0	1,306	1.4
Audit and consultation expenses	7,349	4.7	6,621	1.3	2,804	2.3	5,264	4.1	619	1.1	862	0.9
Share-based payments	–	–	210,918	41.3	1,500	1.2	–	–	–	–	43,754	46.0
Impairment loss of goodwill	–	–	158,386	31.0	–	–	–	–	–	–	–	–
Impairment loss of prepayments and intangible assets	6,063	3.8	9,728	1.9	–	–	–	–	–	–	–	–
Others	999	0.7	1,931	0.4	1,967	1.6	3,304	2.5	341	0.6	309	0.4
Total	**156,075**	**100.0**	**511,016**	**100.0**	**123,347**	**100.0**	**127,405**	**100.0**	**54,306**	**100.0**	**95,146**	**100.0**

The significant increase in our general and administrative expenses from RMB156.1 million in 2019 to RMB511.0 million in 2020 was primarily due to (i) an increase of RMB210.9 million in share-based payments primarily in relation to the share incentives granted to management and core employees in 2020, and (ii) impairment loss of goodwill of RMB158.4 million due to the COVID-19 outbreak which negatively affected the business and expansion of the freshly brewed beverage vending machine business and karaoke booth service business. See "— Selected Items from Consolidated Statements of Financial Position — Intangible Assets" for further details. The decrease in our general and administrative expenses from RMB511.0 million in 2020 to RMB123.3 million in 2021 was primarily due to one-off share-based payments and impairment loss of goodwill in 2020. The increase in our general and administrative expenses from RMB123.3 million in 2021 to RMB127.4 million in 2022 was primarily due to (i) the increase in [**REDACTED**] expenses of RMB5.7 million and (ii) the increase in audit and consultation expenses of RMB2.5 million. The increase in general and administrative expenses from RMB54.3 million for the six months ended June 30, 2022 to RMB95.1 million for the same period in 2023 was primarily due to an increase in share-based payments of RMB43.8 million recognized in the six months ended June 30, 2023 in relation to share incentives granted to our employees.

Research and Development Expenses

Our research and development expenses primarily consist of (i) employee benefit expenses for research and development personnel, (ii) outsourced research consulting service expenses, (iii) amortization of intangible assets allocated to research and development activities, (iv) office expenses in connection with research and development activities, (v) travelling expenses, and (vi) others. 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, representing 2.1%, 2.2%, 1.4%, 1.3%, 1.5% and 1.2% of our total revenue for the same periods, respectively.

The following table sets forth a breakdown of our research and development expenses 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* (*unaudited*)	*%*	*RMB'000*	*%*
Employee benefit expenses	19,363	33.8	29,727	71.7	15,782	42.9	23,057	73.1	13,384	75.8	9,948	65.9
Outsourced research consulting service expenses	25,665	44.8	599	1.4	10,714	29.1	–	–	–	–	–	–
Amortization of intangible assets	9,821	17.1	8,706	21.0	8,312	22.6	7,261	23.0	3,650	20.7	3,633	24.1
Office expenses	901	1.6	702	1.7	–	–	820	2.6	499	2.8	437	2.9
Travelling expenses	32	0.1	16	–	2	–	–	–	–	–	–	–
Share-based payments	–	–	–	–	–	–	–	–	–	–	1,050	7.0
Others[1]	1,519	2.6	1,734	4.2	1,951	5.4	418	1.3	135	0.7	30	0.1
Total	**57,301**	**100.0**	**41,484**	**100.0**	**36,761**	**100.0**	**31,556**	**100.0**	**17,668**	**100.0**	**15,098**	**100.0**

Note:

1. Others primarily include material costs, testing fees and service fees.

Our research and development expenses were higher in 2019 as compared to 2020 primarily due to outsourced research consulting service expenses of RMB25.7 million in 2019 in connection with our research and development projects including the application or development of biometric authentication on vending machines, customer service platform and advertisement platform. The decrease in research and development expenses from 2020 to 2021 was primarily due to the decrease of RMB13.9 million in employee benefit expenses due to the one-off employee benefit expenses incurred in 2020 to optimize our research and development personnel structure and the decrease in average headcount in 2021 as we outsourced certain research and development projects in 2021, partially offset by an increase of RMB10.1 million in outsourced research consulting service expenses in relation to outsourced research and development projects. See "Business — Research and Development." Our research and development expenses decreased from RMB36.8 million in 2021 to RMB31.6 million in 2022, primarily due to the decrease in outsourced research consulting service expenses of RMB10.7 million as there were no outsourced research and development projects in 2022. Our research and development expenses decreased from RMB17.7 million for the six months ended June 30, 2022 to RMB15.1 million for the same period in 2023, primarily due to the decrease of RMB3.4 million in employee benefit expenses as a result of the decrease in average headcount and number of research projects in the first half of 2023.

Net Impairment Losses on Financial Assets

Our net impairment losses on financial assets primarily comprised impairment losses on trade and other receivables, amounting to RMB10.9 million, RMB58.4 million, RMB28.2 million, RMB9.3 million, RMB6.9 million and RMB0.8 million in 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively. The significantly higher level of net impairment losses of financial assets in 2020 was primarily due to impairment losses recognized for trade and other receivables as a result of the COVID-19 outbreak and relevant concerns of collectability of receivables from our customers and business partners for advertising and system support services. The decrease in net impairment losses on financial assets from 2020 to 2021 was primarily due to the decrease in the balance of trade receivables as a result of our collection efforts, including communication with relevant customers and monitoring of credit terms in 2021. See "— Selected Items from Consolidated Statements of Financial Position — Trade Receivables." The decrease in impairment losses on financial assets from 2021 to 2022 was primarily because (i) we recorded impairment loss on financial assets in relation to other receivables of RMB20.8 million due from Beijing Youyang Technology Co., Ltd. (北京友陽科技有限公司) ("**Beijing Youyang**") in 2021 and (ii) we only made provision of impairment of approximately RMB9.3 million in 2022, primarily due to the decrease in balances of trade receivables and other receivables.

Other Income

Our other income consists of (i) additional deduction of input value-added tax, (ii) interest income arising from trade receivables and bank deposits, (iii) government grants, (iv) interest income from wealth management products, and (v) others. Additional deduction of input value-added tax represented the deduction policy that was effective from April 1, 2019 to December 31, 2021, where a taxpayer engaged in production or livelihood services is allowed to have a 10% weighted deduction of creditable input value-added tax in the current period from the tax amount payable. The government grants mainly represented value-added tax levied immediately returned and subsidies granted by local governments in relation to industry support policies and COVID-19. Such government grants were unconditional and were generally non-recurring in nature. While certain government grants, such as value-added tax refund and government grants for high-tech companies, were recurring in nature, there is no assurance that the PRC government will continue to provide such grants to us in the future. See "Risk Factors — We may not receive further government grants and the loss of which may affect our financial performance." Interest income arising from trade receivables and bank deposits primarily represented interest income derived from installment payments in relation to our machine sales. During the Track Record Period, we invested in certain wealth management products from which we derived interest income. See "— Selected Items from Consolidated Statements of Financial Position — Financial Assets at Fair Value through Profit or Loss" for details of our investments in wealth management products.

The following table sets forth the breakdown of our other income 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*	*%*
									(unaudited)			
Additional deduction of input value-added tax	599	3.5	3,023	15.0	5,949	48.5	4,795	39.9	530	12.8	418	14.3
Interest income arising from trade receivables and bank deposits	8,016	46.8	5,272	26.1	3,001	24.5	1,854	15.4	946	22.9	1,176	40.2
Government grants	3,322	19.4	5,392	26.7	1,701	13.9	5,117	42.5	2,532	61.2	1,166	39.9
Interest income from wealth management products	5,135	30.0	6,298	31.2	1,242	10.1	173	1.4	44	1.1	69	2.4
Others	40	0.3	214	1.0	376	3.0	88	0.8	88	2.0	94	3.2
Total	**17,112**	**100.0**	**20,199**	**100.0**	**12,269**	**100.0**	**12,027**	**100.0**	**4,140**	**100.0**	**2,923**	**100.0**

Other Gains/Losses, Net

Our other net gains/(losses) consists of (i) net losses on disposal of property and equipment, (ii) net gains/(losses) on disposal/deregistration of subsidiaries, (iii) fair value change on financial assets at fair value through profit or loss, (iv) net gains on disposal of investments accounted for using the equity method, and (v) others.

The following table sets forth the breakdown of our other net gains/(losses) 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* *(unaudited)*	*%*	*RMB'000*	*%*
Net losses on disposal of property and equipment	(2,059)	(18.2)	(7,216)	36.3	(5,418)	37.0	(5,408)	63.7	(421)	(51.3)	(395)	13.5
Net gains/(losses) on disposal/deregistration of subsidiaries	–	–	5,603	(28.2)	(2,315)	15.8	(199)	2.3	151	18.4	–	–
Fair value change on financial assets at fair value through profit or loss	(852)	(7.5)	(18,258)	92.0	(1,940)	13.2	3,300	(38.9)	3,400	414.1	(1,600)	54.8
Net gains on disposal of investments accounted for using the equity method	14,141	124.7	–	–	–	–	–	–	–	–	–	–
Others[(1)]	114	1.0	27	(0.1)	(4,982)	34.0	(6,181)	72.9	(2,309)	(281.2)	(925)	31.7
Total	**11,344**	**100.0**	**(19,844)**	**100.0**	**(14,655)**	**100.0**	**(8,488)**	**100.0**	**821**	**100.0**	**(2,920)**	**100.0**

Notes:

1. Others primarily include fines, late fees and liquidated damages.

Finance Costs

Our finance costs consist of (i) interest expenses on lease liabilities and (ii) interest expenses on borrowings. In 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, we recorded finance costs of RMB58.7 million, RMB32.3 million, RMB13.5 million, RMB13.3 million, RMB7.3 million and RMB4.6 million, respectively. The following table sets forth the breakdown of our finance costs 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* *(unaudited)*	*RMB'000*
Interest expenses on lease liabilities	36,170	29,883	10,619	7,085	4,242	1,973
Interest expenses on borrowings	22,518	2,461	2,898	6,246	3,018	2,611
Total	**58,688**	**32,344**	**13,517**	**13,331**	**7,260**	**4,584**

Share of Results of Investments Accounted for Using the Equity Method

We have invested in a number of companies such as operators of different types of vending machines and other FMCG retail businesses, and developers of relevant software and hardware, that could potentially be expanded through our POS network or create synergies. Our share of losses in investments accounted for using the equity method were RMB7.2 million, RMB3.5 million, RMB4.1 million, RMB15.3 million, RMB4.8 million and RMB3.8 million in 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively. None of our joint ventures and associates was individually material to our Group in 2019, 2020, 2021, 2022 and the six months ended June 30, 2023. We expect that our share of results of investments accounted for using the equity method will not have a significant impact on our results of operations. See Note 20 to the Accountant's Report as set out in Appendix I for details.

Income Tax Expenses

Our income tax expenses comprised current tax expense and deferred tax expense. We had income tax expenses of RMB4.2 million, RMB12.7 million, RMB3.6 million, RMB10.8 million, RMB5.9 million and RMB0.7 million in 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively. Our effective tax rate, calculated by income tax expenses divided by profit before income tax, were approximately 9.6% in 2019, and were not applicable in 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023 as we recognized loss before income tax in these periods.

Pursuant to the PRC Corporate Income Tax Law and respective regulations (the "**CIT Law**"), the general corporate income tax rate in the PRC is 25%. We were approved as High and New Technology Enterprise in the PRC in 2017 and have renewed such qualification in 2020, and was therefore entitled to a preferential income tax rate of 15% in 2019, 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023. Two of our subsidiaries, namely Youbao Anglai and Shenzhen Youbaokesi, were approved as High and New Technology Enterprise in the PRC in 2016 and have renewed such qualification in 2019. As a result, Youbao Anglai and Shenzhen Youbaokesi were entitled to a preferential income tax rate of 15% in 2019, 2020, 2021 and the six months ended June 30, 2022. Shenzhen Youbaokesi has renewed the qualification as High and New Technology Enterprise in December 2022 and is entitled for a preferential income tax rate of 15% for 2022 and the six months ended June 30, 2023. Youbao Anglai has not applied for renewal of such qualification and thus was subject to general corporate income tax of 25% for 2022 and the six months ended June 30, 2023.

According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC that was effective from 2019 to 2022 onwards, enterprises engaging in research and development activities are entitled to claim 175% and 200% of their research and development expenses as deductible expenses from assessable profits from January 1, 2019 to September 30, 2022 and from October 1, 2022 to June 30, 2023, respectively. In addition, for those companies which qualified as Small and Medium-Sized Sci-tech Enterprise during the financial years from 2019 to 2021 could claim 175% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits during the Track Record Period. We and some of our subsidiaries that engage in research and development activities, such as Youbao Anglai and Shenzhen Youbaokesi, were entitled to such arrangements during the Track Record Period.

For risks relating to our preferential tax treatments, see "Risk Factors — Risks Relating to Our Business and Industry — If our preferential tax treatment becomes unavailable, our results of operations may be adversely affected." During the Track Record Period and up to the Latest Practicable Date, we had fulfilled all of our tax obligations and did not have any unresolved tax disputes.

Profit/Loss for the Year/Period

As a result of the foregoing, we recorded a net profit of RMB39.6 million in 2019, and recorded net losses of RMB1,184.2 million, RMB188.2 million, RMB283.1 million, RMB128.4 million and RMB147.4 million in 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively.

KEY FINANCIAL RATIOS

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

	For the year ended December 31,				For the six months ended June 30,	
	2019	2020	2021	2022	2022	2023
					(unaudited)	
Gross profit margin(1)	48.7%	29.4%	41.1%	42.7%	44.6%	41.3%
Net profit/(loss) margin(2)	1.5%	(62.3)%	(7.0)%	(11.2)%	(11.2)%	(11.8)%
Adjusted net profit/(loss) margin (non-HKFRS measure)(3)	1.5%	(51.2)%	(6.4)%	(10.4)%	(10.9)%	(7.3)%
Adjusted EBITDA margin (non-HKFRS measure)(4)	11.7%	(33.3)%	2.5%	0.8%	1.7%	3.5%

	As of December 31				As of June 30,
	2019	2020	2021	2022	2023
Current ratio(5)	2.4	1.7	1.3	1.0	1.0
Quick ratio(6)	2.1	1.4	1.0	0.8	0.8
Gearing ratio(7)	16.6%	22.4%	14.0%	12.9%	14.7%

Notes:

1. Gross profit margin equals gross profit for the year/period divided by revenue for the year/period and multiplied by 100%.

2. Net profit/(loss) margin equals profit/(loss) for the year/period divided by revenue for the year/period and multiplied by 100%.

3. Adjusted net profit/(loss) margin (non-HKFRS measure) equals adjusted net profit/(loss) for the year/period divided by revenue for the year/period and multiplied by 100%. See "— Consolidated Statements of Comprehensive Income — Non-HKFRS measures" for further details.

4. Adjusted EBITDA (non-HKFRS measure) margin equals adjusted EBITDA divided by revenue for the year/period and multiplied by 100%. See "— Consolidated Statements of Comprehensive Income — Non-HKFRS measures" for further details.

5. Current ratio is calculated by dividing current assets by current liabilities as of the year/period end date.

6. Quick ratio is calculated using total currents assets less inventories divided by total current liabilities as of the year/period end date.

7. Gearing ratio is calculated using total debt divided by total equity and multiplied by 100%.

For a discussion of factors affecting our gross profit margin, net profit/(loss) margin and non-HKFRS measures during the respective periods, see "— Period-to-Period Comparison of Results of Operations." Our current ratio and quick ratio continued to decrease during the Track Record Period, primarily due to the continued decrease in our current assets mainly attributable to our results of operations being negatively affected by COVID-19. See "— Period-to-Period Comparison of Results of Operations" and "— Selected Items from Consolidated Statements of Financial Position" for details.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022

Revenue

Our revenue increased by 9.6% from RMB1,143.1 million for the six months ended June 30, 2022 to RMB1,252.7 million for the six months ended June 30, 2023, primarily due to the movements of our operating results from the following lines of business:

- *Unmanned retail business.* 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. Specifically, excluding POSs of POS partners who are restaurant model partners, average monthly GMV of our vending machines increased from RMB2,449 per machine per month for the six months ended June 30, 2022 to RMB2,992 per machine per month for the same period in 2023.

- *Advertising and system support services.* Revenue from advertising and system support services decreased by 43.6% from RMB100.1 million for the six months ended June 30, 2022 to RMB56.5 million for the six months ended June 30, 2023, which was primarily attributable to the decrease in service fees from Alipay China for the advertising and promotion of its payment service products as the number of POSs opened during the six months ended June 30, 2023 was relatively lower as compared to the same period in 2022. For details of services fees from Alipay China, see "Connected Transactions — Partially-exempt Continuing Connected Transactions — Advertising Cooperation Framework Agreement." The decrease was also attributable to the fact that demand for our digital advertising services from advertisers has not fully recovered despite the relaxation of COVID-19 policies.

- *Merchandise wholesale.* Revenue from merchandise wholesale increased by 104.6% from RMB54.1 million for the six months ended June 30, 2022 to RMB110.7 million for the six months ended June 30, 2023, primarily due to the significant increase in the number of merchandise wholesale customers as a result of the initiation of our shared warehouse initiative since the second half of 2021 coupled with the increase in procurement from merchandise wholesale customers following the relaxation of COVID-19 policies in late 2022.

- *Vending machine sales and leases.* Revenue from vending machine sales and leases decreased by 27.5% from RMB16.1 million for the six months ended June 30, 2022 to RMB11.7 million for the six months ended June 30, 2023, primarily due to the decrease in number of vending machines sold or leased as the number of Non-Ubox POSs opened during the six months ended June 30, 2023 was relatively lower as compared to the same period in 2022.

- *Others.* Revenue from others segment increased by 46.6% from RMB59.4 million for the six months ended June 30, 2022 to RMB87.0 million for the six months ended June 30, 2023, primarily due to the increase in revenue of our mobile phones distribution service following the recovery of the downstream mobile device retail market in the six months ended June 30, 2023.

Cost of sales

Our cost of sales increased by 16.1% from RMB632.9 million for the six months ended June 30, 2022 to RMB734.7 million for the six months ended June 30, 2023, primarily due to the increase in of RMB123.2 million in cost of inventories sold, which was in line with the increase in our revenue from unmanned retail business, merchandise wholesale and mobile device distribution services.

Gross profit and gross profit margin

As a result of the changes in our revenue and cost of sales described above, our gross profit increased by 1.5% from RMB510.2 million for the six months ended June 30, 2022 to RMB518.0 million for the six months ended June 30, 2023. Our gross profit margin decreased from 44.6% for the six months ended June 30, 2022 to 41.3% for the six months ended June 30, 2023, primarily due to a decrease in revenue contribution from advertising and system support services which typically records higher gross profit margin than other business segments and an increase in revenue contribution from merchandise wholesale and mobile device distribution services which typically record lower gross profit margin than other business segments.

Our gross profit generated from unmanned retail business increased by 7.5% from RMB413.5 million for the six months ended June 30, 2022 to RMB444.5 million for the six months ended June 30, 2023. Our gross profit margin generated from unmanned retail business remained relatively stable at 45.3% and 45.0% for the six months ended June 30, 2022 and 2023, respectively.

Our gross profit generated from advertising and system support services decreased by 36.6% from RMB87.9 million for the six months ended June 30, 2022 to RMB55.8 million for the six months ended June 30, 2023. Our gross profit margin generated from advertising and system support services increased from 87.9% for the six months ended June 30, 2022 to 98.8% for the six months ended June 30, 2023, primarily attributable to the relatively higher subcontractor cost of advertising resources recorded in the six months ended June 30, 2022 and we required less subcontracted advertising services from third parties for the provision of advertising services in the six months ended June 30, 2023.

Our gross profit generated from merchandise wholesale increased by 40.8% from RMB2.8 million for the six months ended June 30, 2022 to RMB4.0 million for the six months ended June 30, 2023. Our gross profit margin generated from merchandise wholesale decreased from 5.2% for the six months ended June 30, 2022 to 3.6% for the six months ended June 30, 2023, primarily due to the increase in revenue contribution from our shared warehouse customers, which has a relatively lower gross profit margin.

Our gross profit generated from vending machine sales and leases remained relatively stable at RMB3.0 million and RMB3.2 million for the six months ended June 30, 2022 and 2023, respectively. Our gross profit margin generated from vending machine sales and leases increased from 18.5% for the six months ended June 30, 2022 to 27.0% for the six months ended June 30, 2023, primarily because we offered rent-free period to some of our POS partners in the six months ended June 30, 2022 to support their operations and maintain our POS network in light of the resurgence of COVID-19 in 2022.

Our gross profit generated from others segment increased by 257.8% from RMB3.0 million for the six months ended June 30, 2022 to RMB10.6 million for the six months ended June 30, 2023. Our gross profit margin generated from others segment increased from 5.0% for the six months ended June 30, 2022 to 12.2% for the six months ended June 30, 2023, mainly due to the decrease in depreciation of property and equipment from our karaoke booth business.

Selling and marketing expenses

Our selling and marketing expenses remained relatively stable at RMB546.7 million for the six months ended June 30, 2022 and RMB545.1 million for the six months ended June 30, 2023. Our selling and marketing expenses accounted for 47.8% and 43.5% of our revenue for the six months ended June 30, 2022 and 2023, respectively. The decrease in selling and marketing expenses as a percentage of total revenue from the six months ended June 30, 2022 to the same period in 2023 was primarily due to the decrease of RMB20.8 million in employee benefit expenses as we downsized our internal sales team.

General and administrative expenses

Our general and administrative expenses increased by 75.2% from RMB54.3 million for the six months ended June 30, 2022 to RMB95.1 million for the six months ended June 30, 2023, primarily due to share-based payments of RMB43.8 million recognized in 2023 in relation to share incentives granted to our employees. As a result of the foregoing, our general and administrative expenses as a percentage of total revenue increased from 4.8% for the six months ended June 30, 2022 to 7.6% for the same period in 2023.

Research and development expenses

Our research and development expenses decreased by 14.5% from RMB17.7 million for the six months ended June 30, 2022 to RMB15.1 million for the six months ended June 30, 2023, primarily due to the decrease of RMB3.4 million in employee benefit expenses as a result of the decrease in average headcount and number of research projects in the first half of 2023.

Net impairment losses on financial assets

Our net impairment losses on financial assets decreased from RMB6.9 million for the six months ended June 30, 2022 to RMB0.8 million for the six months ended June 30, 2023, primarily due to the decrease in expected loss rate for trade receivables with aging 0-12 months and other receivables attributable to a more optimistic outlook on macro-economic conditions as compared to that in the six months ended June 30, 2022.

Other income

Our other income decreased by 29.4% from RMB4.1 million for the six months ended June 30, 2022 to RMB2.9 million for the six months ended June 30, 2023, primarily due to the decrease of RMB1.4 million in government grants.

Other gains/(losses), net

We recorded net other gains of RMB0.8 million for the six months ended June 30, 2022 and net other losses of RMB2.9 million for the six months ended June 30, 2023, primarily due to the change in fair value on financial assets at fair value through profit or loss from RMB3.4 million for the six months ended June 30, 2022 to negative RMB1.6 million for the same period in 2023 in relation to our investments in unlisted equity securities.

Finance costs

Our finance costs decreased by 36.9% from RMB7.3 million for the six months ended June 30, 2022 to RMB4.6 million for the six months ended June 30, 2023, primarily due to a decrease of RMB2.3 million in interest expense on lease liabilities.

Share of results of investments accounted for using the equity method

Our share of losses of investments accounted for using the equity method decreased by 20.2% from RMB4.8 million for the six months ended June 30, 2022 to RMB3.8 million for the six months ended June 30, 2023, primarily due to the decrease in loss suffered by JR Vending Pte. Ltd. and Hangzhou Penguin Technology Co., Ltd.

Profit/Loss before income tax

As a result of the foregoing, we recorded a loss before income tax of RMB122.5 million and RMB146.6 million for the six months ended June 30, 2022 and 2023, respectively.

Income tax expenses

We recorded income tax expenses of RMB5.9 million and RMB0.7 million for the six months ended June 30, 2022 and 2023, respectively. The decrease in income tax expenses was primarily because we recognized RMB2.9 million of deferred income tax expenses for the six months ended June 30, 2022 while we recognized RMB3.5 million of deferred income tax credit for the same period in 2023 as a result of the increase in deferred income tax assets for unrealized profit resulting from intragroup transactions.

Profit/Loss for the period

As a result of the foregoing, we recorded a loss of RMB128.4 million and RMB147.4 million for the six months ended June 30, 2022 and 2023, respectively.

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

Revenue

Our revenue decreased by 5.9% from RMB2,676.2 million in 2021 to RMB2,519.2 million in 2022, primarily due to the movements of our operating results from the following lines of business:

- *Unmanned retail business*. Revenue from unmanned retail business increased by 3.1% from RMB1,915.1 million in 2021 to RMB1,974.7 million in 2022 primarily due to the expansion and optimization of our POS network, in terms of monthly average number of Ubox POSs in 2022 as compared to that of 2021, despite the decrease in number of Ubox POSs from 85,139 to 66,232 as of December 31, 2021 and 2022, respectively, mainly due to the regional resurgence of COVID-19 in mainland China which significantly affected consumer traffic in certain scenarios, especially restaurants.

- *Advertising and system support services*. Revenue from advertising and system support services decreased by 20.1% from RMB243.1 million in 2021 to RMB194.3 million in 2022, which was primarily attributable to the decrease in demand for such services from advertisers owing to the decrease in outdoor consumer traffic in light of the resurgence of COVID-19 in mainland China in 2022.

- *Merchandise wholesale*. Revenue from merchandise wholesale increased significantly by 225.3% from RMB40.5 million in 2021 to RMB131.8 million in 2022, primarily due to the significant increase in the number of shared warehouse customers as a result of the initiation of our shared warehouse initiative since the second half of 2021.

- *Vending machine sales and leases*. Revenue from vending machine sales and leases decreased by 23.5% from RMB44.2 million in 2021 to RMB33.8 million in 2022, primarily due to (i) the decrease in number of vending machines sold as a result of the development of our partner model and (ii) the decrease in revenue from machine leases as we offered rent-free period to some of our POS partners to support their operations and maintain our POS network in light of the resurgence of COVID-19 in 2022.

- *Others*. Revenue from others segment decreased by 57.4% from RMB433.2 million in 2021 to RMB184.7 million in 2022, primarily due to the decrease of RMB227.2 million in revenue from mobile device distribution services as the downstream mobile device retail market and the demand for our mobile device distribution services were negatively affected by macro-economic conditions and consumer demand in 2022.

Cost of sales

Our cost of sales decreased by 8.4% from RMB1,575.1 million in 2021 to RMB1,442.5 million in 2022, primarily due to (i) the decrease of RMB97.9 million in cost of inventories sold mainly in relation to the decrease in number of mobile devices sold as the downstream mobile device retail market and the demand for our mobile device distribution services under others segment were negatively affected by macro-economic conditions and consumer demand in 2022 and (ii) the decrease of RMB24.6 million in subcontractor cost of advertising resources as a result of the decrease in demand for advertising services from advertisers owing to the decrease in outdoor consumer traffic in light of the resurgence of COVID-19 in mainland China in 2022.

Gross profit and gross profit margin

As a result of the changes in our revenue and cost of sales described above, our gross profit decreased by 2.2% from RMB1,101.1 million in 2021 to RMB1,076.7 million in 2022 and our gross profit margin increased from 41.1% in 2021 to 42.7% in 2022, primarily due to the increased revenue contribution of our unmanned retail business, which has a relatively high gross profit margin.

Our gross profit generated from unmanned retail business remained relatively stable at RMB888.1 million in 2021 and RMB891.4 million in 2022. Our gross profit margin generated from unmanned retail business remained relatively stable at 46.4% in 2021 and 45.1% in 2022.

Our gross profit generated from advertising and system support services decreased by 13.1% from RMB184.4 million in 2021 to RMB160.2 million in 2022, primarily due to the decrease in revenue from advertising and system support services. Our gross profit margin generated from advertising and system support services increased from 75.9% in 2021 to 82.5% in 2022, mainly because the decrease in subcontractor cost of advertising resources was larger than the decrease in revenue from advertising and system support services as the advertising services provided in 2022 required less subcontracted advertising services from third parties.

Our gross profit generated from merchandise wholesale increased by 76.2% from RMB3.0 million in 2021 to RMB5.2 million in 2022, primarily due to the increase in revenue from merchandise wholesale as a result of the initiation of our shared warehouse initiative since the second half of 2021. Our gross profit margin generated from merchandise wholesale decreased from 7.3% in 2021 to 4.0% in 2022, primarily due to the increase in revenue contribution from our shared warehouse customers, which has a relatively lower gross profit margin.

Our gross profit generated from vending machine sales and leases decreased by 22.3% from RMB13.9 million in 2021 to RMB10.8 million in 2022. Our gross profit margin generated from vending machine sales and leases remained stable at 31.4% in 2021 and 31.9% in 2022.

Our gross profit generated from others segment decreased by 22.9% from RMB11.8 million in 2021 to RMB9.1 million in 2022. Our gross profit margin generated from others segment increased from 2.7% in 2021 to 4.9% in 2022, mainly due to the decrease in revenue generated from mobile device distribution services, which has a substantially lower gross profit margin level.

Selling and marketing expenses

Our selling and marketing expenses increased by 7.3% from RMB1,077.4 million in 2021 to RMB1,155.7 million in 2022, primarily due to (i) the increase in depreciation of RMB49.9 million primarily attributable to newly purchased machines and warehouses in the fourth quarter of 2021 and in 2022, (ii) the increase in employee benefit expenses of RMB18.8 million primarily due to the increase in the headcount of our sales and marketing personnel, and (iii) the increase in logistics and transportation expenses of RMB18.4 million. As a result of the foregoing and the decrease in our revenue, our selling and marketing expenses accounted for 40.3% and 45.9% of our revenue in 2021 and 2022, respectively.

General and administrative expenses

Our general and administrative expenses increased by 3.3% from RMB123.3 million in 2021 to RMB127.4 million in 2022, primarily due to (i) the increase in [**REDACTED**] expenses of RMB5.7 million and (ii) the increase in audit and consultation expenses of RMB2.5 million. As a result of the foregoing, our general and administrative expenses as a percentage of total revenue remained relatively stable at 4.6% and 5.1% in 2021 and 2022, respectively.

Research and development expenses

Our research and development expenses decreased by 14.2% from RMB36.8 million in 2021 to RMB31.6 million in 2022, primarily due to the decrease in outsourced research consulting service expenses of RMB10.7 million as there were no outsourced research and development projects in 2022.

Net impairment losses on financial assets

Our net impairment losses on financial assets decreased by 67.2% from RMB28.2 million in 2021 to RMB9.3 million in 2022, primarily because (i) we recorded impairment loss on financial assets in relation to other receivables of RMB20.8 million due from Beijing Youyang in 2021 and (ii) we only made provision of impairment of approximately RMB9.3 million in 2022, primarily due to the decrease in balances of trade receivables and other receivables.

Other income

Our other income remained relatively stable at RMB12.3 million and RMB12.0 million in 2021 and 2022, respectively.

Other gains/(losses), net

Our net other losses decreased by 42.1% from RMB14.7 million in 2021 to RMB8.5 million in 2022, primarily because we recognized positive fair value change from our investments in certain unlisted equity securities as their performance improved. See also "— Selected Items from Consolidated Statements of Financial Position — Financial Assets at Fair Value through Profit or Loss."

Finance costs

Our finance costs remained stable at RMB13.5 million and RMB13.3 million in 2021 and 2022, respectively.

Share of results of investments accounted for using the equity method

Our share of losses of investments accounted for using the equity method increased by 272.8% from RMB4.1 million in 2021 to RMB15.3 million in 2022, primarily due to the increase in loss suffered by JR Vending Pte. Ltd. and Hangzhou Penguin Technology Co., Ltd in 2022.

Profit/Loss before income tax

As a result of the foregoing, we recorded a loss before income tax of RMB184.6 million and RMB272.3 million in 2021 and 2022, respectively.

Income tax expenses

We recorded income tax expenses of RMB3.6 million and RMB10.8 million in 2021 and 2022, respectively. The increase in income tax expenses was primarily due to (i) the increase in deferred income tax of RMB4.3 million as a result of the reversal of deferred tax assets and (ii) the increase in current income tax of RMB2.9 million due to increase in taxable income of our principal subsidiaries in the PRC with an applicable tax rate of 25%.

Profit/Loss for the year

As a result of the foregoing, we recorded a loss of RMB188.2 million and RMB283.1 million in 2021 and 2022, respectively.

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

Revenue

Our revenue increased by 40.7% from RMB1,902.0 million in 2020 to RMB2,676.2 million in 2021, primarily due to the movements of our operating results from the following lines of business:

- *Unmanned retail business*. Revenue from unmanned retail business increased by 43.3% from RMB1,336.8 million in 2020 to RMB1,915.1 million in 2021 primarily due to (i) the significant expansion of our POS network, particularly the net increase of our POSs from 75,626 in 2020 to 102,739 in 2021, and (ii) the increase in our sales of FMCG through our POS network as a result of the recovery of consumer traffic from the negative impact of the COVID-19 outbreak in 2021.

- *Advertising and system support services*. Revenue from advertising and system support services increased by 10.7% from RMB219.6 million in 2020 to RMB243.1 million in 2021, which was primarily attributable to the increase in demand for advertising services by advertisers, following mainland China's recovery from the negative impact of COVID-19 outbreak in 2021.

- *Merchandise wholesale*. Revenue from merchandise wholesale decreased by 64.9% from RMB115.5 million in 2020 to RMB40.5 million in 2021 as we strategically shifted focus to our unmanned retail business and the partner model.

- *Vending machine sales and leases*. Revenue from vending machine sales and leases decreased by 6.0% from RMB47.0 million in 2020 to RMB44.2 million in 2021, primarily due to (i) the decrease in number of vending machines sold as a result of the development of our partner model and (ii) the decrease in revenue from machine leases as we offered rent-free period to some of our POS partners to support our POS network expansion during the COVID-19 outbreak.

- *Others*. Revenue from others segment increased by 136.5% from RMB183.2 million in 2020 to RMB433.2 million in 2021 primarily due to our promotion of our mobile phones distribution service as a result of expansion of our customer base from seven mobile device resellers in 2020 to twelve in 2021 and the increase in transaction amounts with certain existing customers.

Cost of sales

Our cost of sales increased by 17.2% from RMB1,343.4 million in 2020 to RMB1,575.1 million in 2021, which reflected the growth of our business and was in line with the increase in our revenue. The increase was primarily due to (i) the increase of RMB407.7 million in cost of inventory sold, which was mainly due to our increased sales, and (ii) the increase of RMB57.6 million in subcontractor cost of advertising resources mainly due to our cooperation with third-party advertising service providers, partially offset by the decrease of RMB218.4 million in impairment loss we recognized in 2020.

Gross profit and gross profit margin

As a result of the changes in our revenue and cost of sales described above, our gross profit increased by 97.1% from RMB558.6 million in 2020 to RMB1,101.1 million in 2021 and our gross profit margin increased from 29.4% in 2020 to 41.1% in 2021, primarily attributable to the increase in gross profit margin of our unmanned retail business, merchandise wholesale, vending machine sales and leases, and others segment.

Our gross profit generated from unmanned retail business increased by 59.3% from RMB557.5 million in 2020 to RMB888.1 million in 2021. Our gross profit margin of unmanned retail business increased from 41.7% in 2020 to 46.4% in 2021 mainly due to (i) our efforts in merchandise management in early 2021 to refine our merchandise mix leading to higher portion of food products with higher gross profit margin sold during the year, and (ii) the increase in sales from high gross margin consumption scenarios such as public venues, transportation hubs and schools as COVID-19 had been largely contained in China in 2021 and foot traffic was gradually recovering.

Our gross profit generated from advertising and system support services decreased by 15.7% from RMB218.8 million in 2020 to RMB184.4 million in 2021. Our gross profit margin generated from advertising and system support services decreased from 99.7% in 2020 to 75.9% in 2021, primarily due to the increase in subcontractor cost of advertising resources from RMB0.5 million in 2020 to RMB58.1 million in 2021 as we engaged more subcontracted advertising services from third parties.

Our gross profit generated from merchandise wholesale decreased by 26.4% from RMB4.0 million in 2020 to RMB3.0 million in 2021 primarily due to the decrease in revenue from merchandise wholesale as we strategically shifted focus to our unmanned retail business and the partner model. Our gross profit margin generated from merchandise wholesale increased from 3.5% in 2020 to 7.3% in 2021 as a result of our improved management over wholesale prices.

We recorded negative gross profit of RMB32.2 million in 2020 and gross profit of RMB13.9 million in 2021 for vending machine sales and leases. Such change was primarily because we recognized impairment loss of inventories in 2020 as an impact of COVID-19 while no further impairment losses was recognized in 2021. Gross profit margin of vending machine sales and leases increased from negative 68.5% in 2020 to 31.4% in 2021, primarily due to the absence of impairment loss of inventories which was significant in 2020.

We recorded negative gross profit of RMB189.6 million in 2020 and gross profit of RMB11.8 million in 2021 for our others segment. We recorded negative gross profit margin for others segment of 103.5% in 2020 and gross profit margin of 2.7% for others segment in 2021. Such change was primarily due to (i) the decrease in depreciation of property and equipment and right-of-use assets attributable to our karaoke booth business, and (ii) the impairment loss of property and equipment and right-of-use assets recognized on karaoke booths in operation in 2020 in response to COVID-19. Gross profit from others segment in 2021 did not recuperate to the same level as in 2019 primarily because revenue from karaoke booths reduced as we believe people had became more cautious about contracting COVID-19 and would generally avoid confined public spaces, such as karaoke booths, while we continued to bear relevant overhead costs such as depreciation of property and equipment.

Selling and marketing expenses

Our selling and marketing expenses slightly decreased by 0.6% from RMB1,083.7 million in 2020 to RMB1,077.4 million in 2021, primarily due to (i) the decrease of RMB40.7 million in depreciation in 2021 as compared with 2020, primarily because impairment losses were recognized on non-core types of vending machines in 2020, which reduce carrying amount of the property and equipment and right-of-use assets leading to further decrease in depreciation, (ii) the decrease of RMB26.1 million in impairment loss of property and equipment and right-of-use assets as we recognized significant amounts of impairment loss for our non-core types of vending machines in 2020 in response to the COVID-19 pandemic, and (iii) the decrease of RMB16.8 million in employee benefit expenses as we shifted our marketing efforts to the partner model and downsized our internal sales team, partially offset by (i) the increase of RMB32.7 million in POSs operation and development expenses attributable to the expansion of our POS network, including the increase in the number of POSs under our partner model, (ii) the increase of RMB41.0 million in logistics and transportation expenses also due to our network expansion. Our selling and marketing expenses accounted for 57.0% and 40.3% of our revenue in 2020 and 2021, respectively. The decrease in selling and marketing expenses as a percentage of total revenue from 2020 to 2021 was primarily due to (i) the significant increase in average monthly GMV of each of our vending machines from RMB2,180 per machine per month for 2020 to RMB2,926 per machine per month for 2021 as the impact of COVID-19 wanes and (ii) the absence of impairment loss in 2021 which was recorded in 2020 as a result of COVID-19.

General and administrative expenses

Our general and administrative expenses decreased by 75.9% from RMB511.0 million in 2020 to RMB123.3 million in 2021 and general and administrative expenses as a percentage of revenue decreased from 26.9% in 2020 to 4.6% in 2021, primarily due to (i) the decrease of RMB209.4 million in share-based payment in relation to share incentives granted to management and core employees in 2020, while the corresponding amount in 2021 was RMB1.5 million, and (ii) the decrease of RMB158.4 million in impairment loss of goodwill we recognized in 2020 in response to the COVID-19 pandemic.

Research and development expenses

Our research and development expenses decreased by 11.4% from RMB41.5 million in 2020 to RMB36.8 million in 2021, primarily due to the one-off employee benefit expenses incurred in 2020 to optimize our research and development personnel structure and the decrease in average headcount in 2021 as we outsourced certain research and development projects to third-parties in 2021, partially offset by an increase of RMB10.1 million in outsourced research consulting service expenses in relation to research and development projects including our collaborations with Ant Group. See "Business — Research and Development."

Net impairment losses on financial assets

Net impairment losses on financial assets decreased by 51.7% from RMB58.4 million in 2020 to RMB28.2 million in 2021, primarily due to the decrease in the balance of trade receivables as a result of our collection efforts around the end of 2021.

Other income

Our other income decreased by 39.3% from RMB20.2 million in 2020 to RMB12.3 million in 2021, primarily due to (i) the decrease of RMB5.1 million in interest income from wealth management products, and (ii) the decrease of RMB3.7 million in government grants primarily in relation to COVID-19.

Other gains/(losses), net

We recorded net other losses of RMB19.8 million in 2020, as compared to net other losses of RMB14.7 million in 2021. The aforesaid change is primarily due to the decrease of RMB16.3 million in fair value loss on financial assets at fair value through profit or loss derived from the change of fair value of our investments in unlisted equity securities and wealth management products, partially offset by (i) the decrease in net gains on disposal/deregistration of subsidiaries of RMB7.9 million, primarily attributable to the losses recognized from deregistration of certain subsidiaries in 2021, while we recorded net gains in 2020 as a result of disposal of subsidiary, and (ii) a loss of RMB5.0 million in 2020 mainly attributable to fines and late fees.

Finance costs

Our finance costs decreased by 58.2% from RMB32.3 million in 2020 to RMB13.5 million in 2021, primarily due to a decrease in interest expenses on lease liabilities of RMB19.3 million as a result of decreased lease liabilities in relation to finance leases of vending machines and leases of warehouses and cars. In 2020 and 2021, the expansion of our POS network was primarily supported by our direct procurement of machines instead of using finance lease arrangements. Considering its flexibility, going forward, we still intend to leverage available finance lease arrangements to support our POS network expansion.

Share of results of investments accounted for using the equity method

Our share of losses of investments accounted for using the equity method increased by 17.9% from RMB3.5 million in 2020 to RMB4.1 million in 2021 primarily because our equity interest in JR Vending Pte. Ltd., which suffered loss, increased from 43.5% to 60.6%, partially offset by profit recognized from our interest in Hangzhou Penguin Technology Co., Ltd.

Profit/Loss before income tax

As a result of the foregoing, we recorded a loss before income tax of RMB1,171.5 million in 2020 and a loss before income tax of RMB184.6 million in 2021.

Income tax expenses

We recorded income tax expenses of RMB12.7 million and RMB3.6 million in 2020 and 2021, respectively. The decrease in income tax expenses was primarily due to (i) the reversal of deferred tax assets recognized in 2019, (ii) no recognition of new deferred income tax assets related to certain temporary differences such as impairment and share-based compensation expenses in 2020 as our management expected that taxable profits would be less than expected due to the negative impact of COVID-19, while there were no such items in 2021 and resulting to the decrease in deferred income tax expense, and (iii) the decrease in current income tax expenses due to utilization of deductible tax losses incurred in 2020 due to the negative impact of COVID-19.

Profit/Loss for the year

As a result of the foregoing, we recorded a loss of RMB1,184.2 million and RMB188.2 million in 2020 and 2021, respectively.

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

Revenue

Our revenue decreased by 30.3% from RMB2,727.5 million in 2019 to RMB1,902.0 million in 2020, primarily due to the movements of our operating results from the following lines of business:

- *Unmanned retail business*. Revenue from unmanned retail business decreased by 13.2% from RMB1,539.9 million in 2019 to RMB1,336.8 million in 2020 primarily due to significant decrease in overall outdoor consumer traffic as a result of the COVID-19 outbreak, leading to the decrease in both the aggregate number of our POSs in our POS network and average GMV per POS. Specifically, the number of Ubox POSs decreased from 63,451 as of December 31, 2019 to 58,467 as of December 31, 2020 and monthly average GMV per Ubox POS (excluding POSs of POS partners who are restaurant model partners) decreased from RMB3,382 in 2019 to RMB2,180 in 2020.

- *Advertising and system support services*. Revenue from advertising and system support services decreased significantly by 59.4% from RMB540.6 million in 2019 to RMB219.6 million in 2020, which was primarily attributable to (i) the decrease in revenue generated from operation system support from RMB21.7 million in 2019 to RMB16.5 million in 2020 due to the decrease in number of Non-Ubox POSs from 20,038 as of January 1, 2019 to 17,159 as of December 31, 2020 as a result of the COVID-19 outbreak, and (ii) the decrease in revenue generated from digital advertising services from RMB518.9 million in 2019 to RMB203.1 million in 2020 as a result of the decrease in demand for advertising services by advertisers due to the significant decrease in overall outdoor consumer traffic as a result of the COVID-19 outbreak.

- *Merchandise wholesale*. Revenue from merchandise wholesale decreased by 61.2% from RMB297.9 million in 2019 to RMB115.5 million in 2020, primarily attributable to a decrease in demand in 2020 as a result of the decrease in number of merchandise wholesale customers as we strategically shifted focus to our unmanned retail business and the partner model.

- *Vending machine sales and leases*. Revenue from vending machine sales and leases decreased by 48.6% from RMB91.5 million in 2019 to RMB47.0 million in 2020, primarily due to the decrease in number of machines sold or leased owing to the negative impact of COVID-19.

- *Others*. Revenue from others segment decreased by 28.9% from RMB257.6 million in 2019 to RMB183.2 million in 2020 primarily due to the impact of the COVID-19 outbreak.

Cost of sales

Our cost of sales decreased by 3.9% from RMB1,398.3 million in 2019 to RMB1,343.4 million in 2020, primarily due to (i) the decrease of RMB197.6 million in cost of inventory sold primarily because we procured less merchandise for sale during the COVID-19 outbreak, and (ii) the decrease of RMB49.8 million in subcontractor cost of advertising resources as we incurred additional advertising costs with third-party advertising service provider, which did not reoccur in 2020, partially offset by an increase of RMB215.8 million in impairment loss of inventories, property and equipment and right-of-use assets primarily attributable to non-core types of machines such as karaoke booths in operation and orange juice machines, coconut juice machines and karaoke booths held for sale as a result of the COVID-19 outbreak.

Gross profit and gross profit margin

As a result of the changes in our revenue and cost of sales described above, our gross profit decreased by 58.0% from RMB1,329.2 million in 2019 to RMB558.6 million in 2020 and our gross profit margin decreased from 48.7% in 2019 to 29.4% in 2020.

Our gross profit generated from unmanned retail business decreased by 18.4% from RMB683.5 million in 2019 to RMB557.5 million in 2020. Our gross profit margin of unmanned retail business slightly decreased from 44.4% in 2019 to 41.7% in 2020 primarily due to a decrease in revenue generated from high gross margin consumption scenarios such as transportation hubs, public venues and schools as such locations were particularly affected by lockdowns, standstills and other restrictive measures adopted by PRC government authorities in combating COVID-19.

Our gross profit generated from advertising and system support services decreased by 55.2% from RMB488.3 million in 2019 to RMB218.8 million in 2020. Our gross profit margin generated from advertising and system support services increased from 90.3% in 2019 to 99.7% in 2020, primarily attributable to the relatively higher subcontractor cost of advertising resources recorded in 2019 because we engaged subcontracted advertising services from third parties in 2019 in connection with our services provided to some of our customers.

Our gross profit generated from merchandise wholesale decreased by 72.5% from RMB14.7 million in 2019 to RMB4.0 million in 2020. Our gross profit margin generated from merchandise wholesale decreased from 4.9% in 2019 to 3.5% in 2020, primarily attributable to the increase in procurement costs of merchandise as a result of COVID-19.

We recorded gross profit of RMB15.1 million in 2019 and negative gross profit of RMB32.2 million in 2020 for vending machine sales and leases. Such change was primarily due to the increase in impairment losses of non-core types of machines held for sale such as orange juice machines, coconut juice machines and karaoke booths as a result of the COVID-19 outbreak. In addition, gross profit margin of vending machine sales and leases decreased from 16.6% in 2019 to negative 68.5% in 2020 primarily due to the increase in impairment losses non-core types of machines held for sale and karaoke booths in operation as a result of the COVID-19 outbreak.

We recorded gross profit of RMB127.6 million in 2019 and negative gross profit of RMB189.6 million in 2020 for others segment. Such change was primarily due to (i) impairment loss of property and equipment and right-of-use assets primarily attributable to our karaoke booths in operation as an impact of the COVID-19 outbreak, and (ii) the decrease in revenue generated from others segment, as a result of closure of our karaoke booths due to the outbreak COVID-19, while we still incurred costs in connection with karaoke booth services, including depreciation and amortization of karaoke booths. As a result, gross profit margin for others segment was 49.5% in 2019 and we recorded negative gross profit margin of 103.5% for others segment in 2020.

Selling and marketing expenses

Our selling and marketing expenses increased by 5.9% from RMB1,023.7 million in 2019 to RMB1,083.7 million in 2020, primarily due to an increase of RMB79.2 million in depreciation, including depreciation of property and equipment and right-of-use assets in relation to new vending machines purchased at the end of 2019, partially offset by a decrease of RMB21.4 million in POSs operation and development expenses primarily as a result of the number of POSs closed due to the negative impact of COVID-19 in 2020.

General and administrative expenses

Our general and administrative expenses increased from RMB156.1 million in 2019 to RMB511.0 million in 2020 and general and administrative expenses as a percentage of revenue increased significantly from 5.7% in 2019 to 26.9% in 2020, primarily due to (i) an increase of RMB210.9 million in share-based payments recognized in 2020 in relation to share incentives granted to our employees, and (ii) an increase of RMB158.4 million in impairment loss of goodwill due to the COVID-19 outbreak which negatively affected the business and expansion of the freshly brewed beverage vending machine business and karaoke booth service business we acquired. See "— Selected Items from Consolidated Statements of Financial Position — Intangible Assets" for further details.

Research and development expenses

Our research and development expenses decreased by 27.6% from RMB57.3 million in 2019 to RMB41.5 million in 2020, primarily due to (i) a decrease of RMB25.1 million in outsourced research consulting service expenses to RMB0.6 million in 2020, while we incurred RMB25.7 million in 2019 in connection with our research and development projects including biometric authentication, merchant service platform and advertisement platform, and (ii) a decrease of RMB1.1 million in amortisation of intangible assets in 2020 as certain intangible assets were fully amortized in 2019, partially offset by an increase of RMB10.4 million in employee benefit expenses mainly attributable to the one-off employee benefit expenses incurred in 2020 to optimize our research and development personnel structure.

Net impairment losses on financial assets

Net impairment losses on financial assets increased from RMB10.9 million in 2019 to RMB58.4 million in 2020, primarily due to impairment losses recognized for our trade and other receivables due from advertisers whose businesses were significantly affected by the outbreak of COVID-19 in 2020.

Other income

Our other income increased by 18.0% from RMB17.1 million in 2019 to RMB20.2 million in 2020, primarily due to (i) the increase of RMB2.4 million in additional deduction of input value-added tax, and (ii) the increase of RMB2.1 million in government grants, partially offset by a decrease of RMB2.7 million in interest income arising from trade receivables and bank deposits primarily attributable to interest income derived from installment payments in relation to our machine sales.

Other gains/(losses), net

We recorded net other gains of RMB11.3 million in 2019, as compared to net other losses of RMB19.8 million in 2020, primarily due to (i) the increase of RMB17.4 million in fair value loss on financial assets at fair value through profit or loss derived from the change of fair value of our investments in unlisted equity securities and wealth management products, (ii) we recorded RMB14.1 million of net gains on disposal of investments accounted for using equity method in 2019 as a result of our acquisition of additional equity interest in Shenzhen Youka, upon completion of which, Shenzhen Youka become a subsidiary of our Company, while we did not record any such gains in 2020, and (iii) the increase of RMB5.2 million of the net losses on disposal of property and equipment as a result of the negative impact of COVID-19, which was not prevailing in 2019.

Finance costs

Our finance costs decreased by 44.9% from RMB58.7 million in 2019 to RMB32.3 million in 2020, primarily due to (i) a decrease of RMB20.1 million in interest expenses on borrowings as a result of repayment of borrowings and lower effective interest rate in 2020, and (ii) a decrease of RMB6.3 million in interest expenses on lease liabilities in relation to expiration of lease terms for certain machines leased by us.

Share of results of investments accounted for using the equity method

Our share of losses of investments accounted for using the equity method decreased by 51.6% from RMB7.2 million in 2019 to RMB3.5 million in 2020 primarily because we did not record share of results of investments accounted for using the equity method in respect of Shenzhen Youka in 2020 as it became our subsidiary after we acquired 46.0% equity interest in Shenzhen Youka in December 2019. Upon completion of the acquisition, we held approximately 70.3% equity interest in Shenzhen Youka. Share of losses of investments accounted for using equity method of RMB3.5 million in 2020 was primarily attributable to the recognition of losses from our investments in joint ventures and associates which were in the early stage of their development.

Profit/Loss before income tax

As a result of the foregoing, we recorded profit before income tax of RMB43.8 million in 2019 and a loss before income tax of RMB1,171.5 million in 2020.

Income tax expenses

We recorded income tax expenses of RMB4.2 million and RMB12.7 million in 2019 and 2020, respectively. The increase in income tax expenses was primarily due to (i) the reversal of deferred tax assets recognized in 2019, (ii) no recognition of new deferred income tax assets related to certain temporary differences such as impairment and share-based compensation expenses in 2020 as our management expected that taxable profits would be less than expected due to the negative impact of COVID-19, both resulting to the increase of deferred income tax expense, partially offset by (iii) the decrease in current income tax expenses as we recorded less taxable profits in 2020 due to the negative impact of COVID-19.

Profit/Loss for the year

As a result of the foregoing, we recorded a profit of RMB39.6 million in 2019 and recorded a loss of RMB1,184.2 million in 2020.

SELECTED ITEMS FROM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth selected information from our consolidated statements of financial position as of the dates indicated, which have been extracted from our Group's audited consolidated financial statements included in Appendix I.

	As of December 31,				As of June 30,
	2019	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Property and equipment	589,483	305,242	398,795	296,338	223,570
Right-of-use assets	570,852	446,249	359,487	289,070	247,138
Intangible assets	318,366	136,156	118,580	102,881	95,206
Investments accounted for using the equity method	54,573	61,023	76,457	62,702	58,881
Financial assets at fair value through profit or loss	95,852	34,740	32,800	36,100	34,500
Prepayments, deposits and other receivables	79,317	135,551	123,285	177,106	196,143
Trade receivables	26,754	4,499	49	–	–

	As of December 31,				As of June 30,
	2019	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Deferred income tax assets	50,168	42,346	41,761	36,665	40,495
Total non-current assets	**1,785,365**	**1,165,806**	**1,151,214**	**1,000,862**	**895,933**
Current assets					
Inventories	231,158	150,163	186,779	143,887	126,834
Trade receivables	303,634	156,675	120,284	54,693	64,144
Prepayments, deposits and other receivables	799,901	402,987	303,447	188,514	174,269
Financial assets at fair value through profit or loss	286,634	132,078	–	–	–
Restricted cash	–	–	2,500	2,735	3,126
Cash and cash equivalents	222,347	191,015	172,386	128,178	269,485
Total current assets	**1,843,674**	**1,032,918**	**785,396**	**518,007**	**637,858**
Total assets	**3,629,039**	**2,198,724**	**1,936,610**	**1,518,869**	**1,533,791**
EQUITY					
Share capital	757,259	757,259	757,259	757,259	757,259
Reserves	1,765,801	1,767,571	1,765,917	1,765,917	1,815,444
Retained earnings/ (Accumulated losses)	99,297	(1,073,164)	(1,258,164)	(1,542,693)	(1,695,173)
Equity attributable to owners of the Company	**2,622,357**	**1,451,666**	**1,265,012**	**980,483**	**877,530**
Non-controlling interests	28,987	17,252	19,154	21,453	26,544
Total equity	**2,651,344**	**1,468,918**	**1,284,166**	**1,001,936**	**904,074**
LIABILITIES					
Non-current liabilities					
Lease liabilities	194,274	112,359	41,025	21,287	14,759
Other payables and accruals	1,279	451	7	–	–
Deferred income tax liabilities	1,846	1,596	1,925	2,050	2,450
Total non-current liabilities	**197,399**	**114,406**	**42,957**	**23,337**	**17,209**

	As of December 31,				As of June 30,
	2019	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Current liabilities					
Lease liabilities	214,675	126,199	77,543	38,390	29,481
Trade payables	261,297	168,523	250,093	214,666	234,585
Other payables and accruals	247,858	218,071	210,386	159,475	217,899
Contract liabilities	14,747	10,421	8,592	7,496	37,575
Current income tax liabilities	10,719	1,342	1,893	3,569	3,918
Borrowings	31,000	90,844	60,980	70,000	89,050
Total current liabilities	**780,296**	**615,400**	**609,487**	**493,596**	**612,508**
Total liabilities	**977,695**	**729,806**	**652,444**	**516,933**	**629,717**
Total equity and liabilities	**3,629,039**	**2,198,724**	**1,936,610**	**1,518,869**	**1,533,791**

Inventories

Our inventories include merchandise and machines held for sale and raw materials such as components for vending machines. To minimize the risk of inventory build-up, we review our inventory levels on a regular basis. The value of our inventories accounted for 12.5%, 14.5%, 23.8%, 27.8% and 19.9% of our total current assets as of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, respectively. The following table sets forth the details of our inventories as of the dates indicated:

	As of December 31,				As of June 30,
	2019	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	55,838	57,865	61,294	52,753	43,987
Merchandise	95,516	75,135	117,730	92,366	83,025
Machines held for sale	82,334	73,605	53,509	43,253	37,545
Less: provision of impairment on raw materials	–	(8,258)	(8,258)	(8,214)	(8,211)
provision of impairment on machines held for sale	(2,530)	(48,184)	(37,496)	(36,271)	(29,512)
Total	**231,158**	**150,163**	**186,779**	**143,887**	**126,834**

Our inventories decreased by 35.0% from RMB231.2 million as of December 31, 2019 to RMB150.2 million as of December 31, 2020, primarily due to (i) the significant increase in provision of impairment from RMB2.5 million as of December 31, 2019 to RMB56.4 million as of December 31, 2020, primarily attributable to provision of impairment recognized for inventories in relation to orange juice machines, coconut juice machines and karaoke booths as these machines became less desired as a result of the COVID-19 outbreak and (ii) the decrease in merchandise resulting from the decrease in demand and drop in foot traffic as a result of the COVID-19 outbreak. Our inventories increased by 24.4% from RMB150.2 million as of December 31, 2020 to RMB186.8 million as of December 31, 2021. The increase was primarily attributable to the increase in merchandise of RMB42.6 million resulting from the increase in demands as a result of our POS network expansion and the gradual alleviation of COVID-19 in mainland China, partially offset by the decrease in machines held for sale of RMB20.1 million due to disposal or impairment of machines such as karaoke booths. Our inventories decreased by 23.0% from RMB186.8 million as of December 31, 2021 to RMB143.9 million as of December 31, 2022 as a result of (i) a decrease in merchandise primarily due to the reduced procurement as sales of merchandise were negatively affected in by the regional resurgences of COVID-19 in mainland China in December 2022, (ii) a decrease in raw materials due to natural wear and tear and (iii) a decrease in machines held for sale as we ceased promoting sales of machines in 2021. Our inventories decreased by 11.9% from RMB143.9 million as of December 31, 2022 to RMB126.8 million as of June 30, 2023, primarily due to (i) the decrease of RMB9.3 million in merchandise as a result of increased sales at our POSs during the six months ended June 30, 2023 and (ii) a decrease of RMB8.8 million in raw materials as we consumed in the normal course of business.

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

	For the years ended December 31,				For the six months ended June 30,
	2019	2020	2021	2022	2023
		(days)			
Inventory turnover days[1]	55	60	51	53	43

Note:

1. Inventory turnover days for a period are calculated using the average of open balance and closing balance of the inventories for such period divided by cost of sales for the relevant period and multiplied by 365 days for 2019, 2020, 2021 and 2022 and by 180 days for the six months ended June 30, 2023.

Our inventory turnover days remained relatively stable during the Track Record Period. The decrease in our inventory turnover days from 53 days in 2022 to 43 days for the six months ended June 30, 2023, was primarily due to the increase in sales following the relaxation of COVID-19 policies in late 2022 and overall recovery of consumer traffic and business activities. Our inventory turnover days remained stable at 51 days in 2021 and 53 days in 2022. The slight decrease from 60 days in 2020 to 51 days in 2021 was primarily due to the gradual alleviation of the COVID-19 outbreak in mainland China which led to increased foot traffic and increased sales. The slight increase in inventory turnover days from 55 days in 2019 to 60 days in 2020 was due to reduction in cost of sales as a result of the temporary decline in consumer demand and drop in foot traffic during the COVID-19 outbreak.

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

	As of December 31,				As of June 30,
	2019	**2020**	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	119,599	69,655	96,647	79,690	78,094
1 to 3 months	34,136	14,919	11,735	19,972	9,121
4 to 12 months	21,642	44,255	36,936	17,612	6,686
Over 12 months[1]	55,781	21,334	41,461	26,613	32,933
	231,158	**150,163**	**186,779**	**143,887**	**126,834**

Note:

(1) Inventories aged over twelve months include raw materials and machines held for sale.

As of June 30, 2023, all the inventories aged over one year as of December 31, 2019, 2020 and 2021 had been subsequently sold or utilized. As of June 30, 2023, for the inventories aged over one year as of December 31, 2022, approximately RMB8.0 million, or 11.3%, had been subsequently sold or utilized. The majority of such remaining inventories were spare parts used in the regular repair and maintenance of our machines which do not have an expiry date and are expected to be used in due course in our ordinary course of business. As such, based on our assessment, we believe there is no recoverability issue for inventories aged over one year. We assessed the net realisable value of the inventories as of each balance sheet date in order to determine whether any impairment provision is required to be made. Based on our best estimate, as of each balance sheet date, the net realisable value of the inventories should exceed the carrying values. Thus, we believe we have recorded sufficient provision for inventories aged over one year to account for any future liabilities, write-offs or contingencies consistent with HKFRS.

As of the Latest Practicable Date, RMB83.2 million, or 50.6%, of our inventories as of June 30, 2023 had been subsequently sold or utilized.

Trade Receivables

Trade receivables represent outstanding amounts receivable by us from customers primarily in connection with the provision of advertising and system support services, merchandise wholesale and vending machine sales and leases in the ordinary course of business. The following table sets forth the details of our trade receivables as of the dates indicated:

	As of December 31,				As of June 30,
	2019	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	361,990	200,654	144,477	77,443	75,918
Less: allowance for impairment	(31,602)	(39,480)	(24,144)	(22,750)	(11,774)
Total	**330,388**	**161,174**	**120,333**	**54,693**	**64,144**

Our trade receivables, before considering allowance for impairment, decreased from RMB362.0 million as of December 31, 2019 to RMB200.7 million as of December 31, 2020, and to RMB144.5 million as of December 31, 2021 and further decreased to RMB77.4 million as of December 31, 2022 and RMB75.9 million as as of June 30, 2023. The decrease from 2019 to 2020 was primarily due to (i) trade receivables in connection with sales of vending machines being gradually settled and the decrease in number of vending machines sold as a result of the development of our partner model, and (ii) decrease in trade receivables in connection with the provision of advertising and system support services to advertisers in 2020 attributable to the decrease in demand for such services as a result of the COVID-19 outbreak. The decrease in 2021 was primarily attributable to the decrease in sales of machines in 2021, coupled with our enhanced collection efforts in 2021, including reviewing status of our trade receivables on a monthly basis and proactive communication with relevant customers, monitoring of credit terms, seek legal advice and take legal actions if necessary and appropriate. The decrease from 2021 to 2022 was primarily due to (i) the decrease in trade receivables in connection with the provision of advertising and system support services to advertisers in 2022 attributable to the decrease in demand for such services as a result of the COVID-19 and (ii) the decrease in trade receivables as we recovered certain trade receivables with long ages and improved trade receivables management. The slight decrease from December 31, 2022 to June 30, 2023 was primarily because we recovered certain trade receivables in relation to our advertising and system support services as a result of our improved trade receivables management.

Allowance for impairment increased from RMB31.6 million as of December 31, 2019 to RMB39.5 million as of December 31, 2020, which was primarily attributable to the COVID-19 outbreak and relevant concerns of collectability of trade receivables due from our customers. Allowance for impairment subsequently decreased to RMB24.1 million as of December 31, 2021, RMB22.8 million as of December 31, 2022 and further to RMB11.8 million as of June 30, 2023, primarily because we wrote-off uncollectible receivables of RMB19.2 million in 2021, RMB6.0 million in 2022 and RMB13.3 million in the six months ended June 30, 2023. See Note 3.1(b) to the Accountant's Report as set out in Appendix I and "Risk Factors — Risks Relating to Our Business and Industry — We are exposed to credit risk of our customers and we may experience delays or defaults in settling our trade and other receivables."

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

	For the years ended December 31,				For the six months ended June 30,
	2019	**2020**	**2021**	**2022**	**2023**
		(days)			
Trade receivables turnover days[(1)]	108	183	85	77	54

Note:

1. Trade receivables turnover days for a period are calculated using the average of open balance and closing balance of the trade receivables for such period divided by revenue from advertising and system support services, merchandise wholesale and vending machine sales and leases as well as relevant revenue from our others segment for the relevant period and multiplied by 365 days for 2019, 2020, 2021 and 2022 and by 180 days for the six months ended June 30, 2023.

During the Track Record Period, we generally grant our customers a credit term of 30 to 180 days. Our trade receivable turnover days increased from 108 days in 2019 to 183 days in 2020, primarily due to the impact of the COVID-19 outbreak, especially the impact on trade receivables due from customers of our advertising and system support services, whose businesses were negatively affected, which accounted for a larger portion of our trade receivables in 2020. Our trade receivables turnover days decreased to 85 days in 2021, primarily due to recovery of trade receivables and our enhanced collection efforts in 2021. Our trade receivables turnover days decreased to 77 days in 2022, primarily due to the decrease in trade receivables due from customers of our advertising and system support services. Our trade receivables turnover days decreased to 54 days for the six months ended June 30, 2023, primarily due to the decrease in long-term trade receivables and recovery of certain trade receivables in relation to our advertising and system support services.

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

	As of December 31,				As of June 30,
	2019	**2020**	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
0 to 3 months	166,164	72,803	77,047	31,530	39,947
3 to 6 months	17,532	15,063	3,352	9,377	7,690
6 to 12 months	80,441	46,092	11,276	10,721	9,976
1 to 2 years	52,384	32,921	37,120	7,059	9,370
Over 2 years	45,469	33,775	15,682	18,756	8,935
	361,990	**200,654**	**144,477**	**77,433**	**75,918**

We have policies in place to ensure that sale of goods and service are made to customers with a good credit history. We also have other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. During the Track Record Period, a portion of our trade receivables were longer than the credit terms we typically offered to customers, which were mainly receivables due from our customers from vending machine sales and leases. We have further implemented certain procedures to strengthen our credit control. For instance, we are actively monitoring the credit terms given to our customers and follow up on collection of our trade receivables regularly. As such, barring any unforeseen circumstances, we do not expect to experience any material recoverability issues for trade receivables.

During the Track Record Period, to determine the recoverability and amount of impairment for our trade receivables, we assess expected credit losses of our trade receivables on individual basis or grouped based on shared credit risk characteristics and the days past due. See Note 3.1(b) to the Accountant's Report as set out in Appendix I for the determination of loss allowance provision. As a result, as of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, we had allowance for impairment of trade receivables of RMB31.6 million, RMB39.5 million, RMB24.1 million, RMB22.8 million and RMB11.8 million, respectively. Our Directors are of the view that we had recorded sufficient allowance for impairment of trade receivables during the Track Record Period.

Our trade receivables aged over one year primarily comprise of receivables from POS partners and non-Ubox POS operators with on-going business cooperations with our Group in connection with machine sales and leases, sales of merchandise and provision of operation support services. Based on the aforementioned policies and credit control procedures we have in place, the continuous decrease in trade receivables aged over one year throughout the Track Record Period, as well as our historical experience and on-going cooperation with the relevant customers, we do not believe there is a material recoverability issue for trade receivables aged over one year. As our POS partners and non-Ubox POS operators were directly affected by the negative impacts of COVID-19 and recovery from negative impacts of COVID-19 is a gradual process, we will gradually enhance our collection efforts in 2023 while maintaining amicable business relationships with POS partners and non-Ubox POS operators. As of June 30, 2023, RMB16.7 million, or 64.7%, of our trade receivables aged over one year as of December 31, 2022 had been subsequently settled. In addition, we believe we have recorded sufficient allowance for impairment of trade receivables for trade receivable aged over one year to account for any future liabilities, write-offs or contingencies consistent with HKFRS.

As of the Latest Practicable Date, RMB45.1 million, or 59.4%, of our trade receivables as of June 30, 2023 had been subsequently settled.

Prepayments, Deposits and Other Receivables

Our prepayments, deposits and other receivables comprise (i) prepayments for purchase of machines, (ii) prepayments for purchase of inventories, (iii) prepayments for POSs expenses, (iv) prepayments for [**REDACTED**] expenses, (v) deposits, (vi) amount due from POS partners, (vii) deductible input value-added tax, (viii) advances to a shareholder, (ix) advances to and receivables from business partners, (x) advances to staffs, and (xi) others. The following table sets forth details of our prepayments, deposits and other receivables as of the dates indicated:

	As of December 31,				As of June 30,
	2019	**2020**	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments					
Prepayments for purchase of machines	68,578	96,642	100,105	167,106	196,143
Prepayments for purchase of inventories	56,368	55,801	65,589	38,802	26,525
Prepayments for POSs expenses	111,846	25,416	31,298	26,242	22,606
Prepayments for [**REDACTED**] expenses	–	–	1,548	2,497	4,423
Others	17,631	10,741	16,225	15,293	4,281
	254,423	**188,600**	**214,765**	**249,940**	**253,978**
Deposits and other receivables					
Deposits(1)	136,654	107,335	68,618	49,934	49,833
Amount due from POS partners(2)	19,814	39,663	71,289	36,135	26,152
Deductible input value-added tax	97,611	66,416	34,505	26,453	23,438
Advances to a shareholder(3)	246,010	46,435	–	–	–
Advances to and receivables from business partners	80,017	103,055	78,594	59,268	68,723
Advances to staffs	60,192	37,170	25,131	5,404	4,348
Others	8,563	5,769	14,043	10,461	8,415
Less: allowance for impairment of deposits and other receivables(4)	(24,066)	(55,905)	(80,213)	(71,975)	(64,475)
Deposits and other receivables, net	624,795	349,938	211,967	115,680	116,434

	As of December 31,				As of June 30,
	2019	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments, deposits and other receivables	**879,218**	**538,538**	**426,732**	**365,620**	**370,412**
Less: non-current portion					
– Prepayment, deposits and other receivables	(79,317)	(135,551)	(123,285)	(177,106)	(196,143)
Current portion	**799,901**	**402,987**	**303,447**	**188,514**	**174,269**

Notes:

1. Represent security deposits paid under finance lease arrangements in connection with certain of our machines, and security deposits paid to POS site owners for our POSs.

2 Represent advances to POS partners for payment of POSs occupancy fees, which would be deducted from their share of transaction GMV and are typically settled on a monthly basis.

3. Represent the advances provided to a then shareholder with respect to the repurchase of our Shares in connection with our delisting from NEEQ. See Note 24 to the Accountant's Report as set out in Appendix I and "History and Development – Information on our Group – Our Company" for further details.

4. Allowance for impairment of deposits and other receivables were allocated as follows:

	As of December 31,				As of June 30,
	2019	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Deposits	4,861	4,309	946	895	543
Amount due from POS partners	2,284	5,098	11,975	10,636	3,751
Advances to and receivables from business partners	9,868	41,288	62,576	59,268	59,309
Advances to staffs	6,429	4,796	4,206	803	545
Others	624	414	510	373	327
Total	**24,066**	**55,905**	**80,213**	**71,975**	**64,475**

Our prepayments, deposits and other receivables slightly increased by 1.3% from RMB365.6 million as of December 31, 2022 to RMB370.4 million as of June 30, 2023, primarily due to (i) an increase in prepayments for purchase of machines of RMB29.0 million, as we made prepayments for new machines and upgrading of old machines during the six month ended June 30, 2023, (ii) an increase in advances to and receivables from business partners of RMB9.5 million, partially offset by (iii) a decrease in prepayments for purchase of inventories of RMB12.3 million, (iv) a decrease in others prepayments of RMB11.0 million, and (v) a decrease in amount due from POS partners of RMB10.0 million.

Our prepayments, deposits and other receivables decreased by 14.3% from RMB426.7 million as of December 31, 2021 to RMB365.6 million as of December 31, 2022, primarily due to a decrease of RMB96.3 million in deposits and other receivables, net which primarily comprised (i) a decrease in amount due from POS partners of RMB35.2 million, primarily because we recovered amounts due from POS partners as we enhanced our collection efforts, (ii) a decrease in advances to staffs of RMB19.7 million, primarily due to the development of our partner model, and (iii) a decrease in advances to and receivables from business partners of RMB19.3 million, primarily because we recovered outstanding loan and receivables, partially offset by an increase of RMB35.2 million in prepayments which primarily comprised an increase in prepayments for purchase of machines of RMB67.0 million, primarily because we made prepayments for new machines in 2022 which we preordered in 2021 and did not deploy in 2022 considering the overall business environment and negative impact of COVID-19 during the year.

Our prepayments, deposits and other receivables decreased by 20.8% from RMB538.5 million as of December 31, 2020 to RMB426.7 million as of December 31, 2021, primarily due to a decrease of RMB138.0 million in deposits and other receivables, net which primarily comprised (i) a decrease in advance to a shareholder of RMB46.4 million, primarily due to the settlement of advances provided to a then shareholder with respect to repurchase of our Shares in connection with our delisting from NEEQ, (ii) a decrease in deposits of RMB38.7 million, primarily due to the recovery of the security deposit upon expiry of finance lease arrangements, and (iii) an increase in allowance for impairment of deposits and other receivables of RMB24.3 million, primarily due to allowance recognized for impairment of receivables from a business partner, partially offset by an increase of RMB26.2 million in prepayments which primarily comprised (iv) an increase in prepayments for purchase of inventories of RMB9.8 million, primarily due to change of settlement terms with certain merchandise suppliers as they required prepayment, (v) an increase in prepayments for POSs expenses of RMB5.9 million, primarily due to arrangements with certain new POS site owners which required prepayment on a yearly basis, and (vi) an increase of RMB3.5 million in prepayments for purchase of machines, primarily comprise of prepayments for purchase of freshly brewed beverage vending machines.

Our prepayments, deposits and other receivables decreased by 38.7% from RMB879.2 million as of December 31, 2019 to RMB538.5 million as of December 31, 2020, primarily due to (i) a decrease in advance to a shareholder of RMB199.6 million mainly attributable to the settlement of the advance provided to a then shareholder in 2020 in connection with our delisting from NEEQ, (ii) a decrease in prepayments for POSs expenses of RMB86.4 million, primarily due to the development of our partner model in 2020 under which our POS partners are typically responsible for occupancy fees and utility costs, (iii) an increase in allowance for impairment of deposits and other receivables of RMB31.8 million, primarily due to allowance recognized for impairment of receivables from a business partner, partially offset by (iv) an increase in prepayments for purchase of machines of RMB28.1 million.

Our prepayments comprise (i) prepayments for purchase of machines, (ii) prepayments for purchase of inventories, (iii) prepayments for POSs expenses, (iv) prepayments for [**REDACTED**] expenses, and (v) others. Prepayments for purchase of machines arise from the contractual obligation with our suppliers when we procure new machines from them. Prepayments for purchase of inventories arise from the contractual obligation with merchandise suppliers as we submit estimated demands for merchandise for the next month to them and deposit the corresponding purchase price to suppliers' accounts in full or in part in accordance with the terms of the relevant contract in advance as prepayment. Prepayments for POSs expenses arise from the contractual obligations with site owners, pursuant to which we shall pay in advance the POSs operation expenses, which primarily include occupancy fees and utility costs, monthly, quarterly or semi-annually. Prepayment for [**REDACTED**] expenses relate to prepaid fees and expenses to legal advisors, accountant and the industry consultant pursuant to the relevant agreements. Others mainly comprise prepayments for logistics expenses, network expenses and rental expenses pursuant to relevant agreements with third parties while certain prepayments such as prepaid fuel cards could be discretionary.

As of the Latest Practicable Date, RMB92.9 million, or 21.9%, of our prepayments, deposits and other receivables as of June 30, 2023 had been subsequently settled.

Amount due from POS partners

Amount due from POS partners increased from RMB19.8 million in 2019 to RMB39.7 million in 2020 and further to RMB71.3 million in 2021 primarily due to the increase in total number of POS partners following our promotion of the partner model. Amount due from POS partners decreased from RMB71.3 million in 2021 to RMB36.1 million as of December 31, 2022 and further decreased to RMB26.2 million as of June 30, 2023, primarily due to collection of amounts due from POS partners as we enhanced our collection efforts. As of the Latest Practicable Date, RMB13.4 million, or 51.4%, of amount due from POS partners as of June 30, 2023 had been subsequently settled.

The following table sets forth an aging analysis of our amount due from POS partners as of the dates indicated:

	As of December 31,				**As of June 30,**
	2019	**2020**	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	15,350	31,976	53,571	23,273	16,016
1 to 2 years	3,973	3,835	11,742	5,787	3,910
2 to 3 years	477	3,693	3,495	4,280	2,738
3 to 4 years	14	145	2,409	2,507	1,277
4 to 5 years	–	14	58	124	1,977
Over 5 years	–	–	14	164	234
	19,814	**39,663**	**71,289**	**36,135**	**26,152**

As of June 30, 2023, RMB5.6 million, or 15.5%, of our amount due from POS partners aged over one year as of December 31, 2022 had been subsequently settled. We have ongoing business relationship and cooperation with our POS partners. Considering the historical relationship with our POS partners, our Directors believe there is no material recoverability issue in respect of our amounts due from POS partners aged over one year as of June 30, 2023. In addition, we believe we have recorded sufficient allowance for impairment of amount due from POS partners aged over one year to account for any future liabilities, write-offs or contingencies, which is consistent with HKFRS.

Advances to and receivables from business partners

Advances to and receivables from business partners primarily relate to (i) other receivables from Beijing Youyang, a former subsidiary of the Company, which amounted to nil, RMB78.3 million, RMB59.4 million, RMB59.3 million and RMB59.3 million as of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, respectively, (ii) other receivables from Hangzhou Penguin Technology Co., Ltd., which amounted to RMB9.5 million as of June 30, 2023, for further details, see "— Related Party Transactions", and (iii) other advances to or receivables from five potential vendors, each an Independent Third Party in relation to four potential acquisitions of equity interests, machines and/or operating rights with a view to support our business expansion, which amounted to RMB78.9 million, RMB23.5 million, RMB18.0 million, nil and nil as of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, respectively.

The other receivables from Beijing Youyang arose from the provision of advertising and system support services through Beijing Youyang to customers. For details of the disposal of Beijing Youyang, see "History — Evolution of Our Group — 5. Disposals and Deregistration during the Track Record Period and up to the Latest Practicable Date." We recorded allowance for impairment of such receivables of RMB38.5 million, RMB59.4 million, RMB59.3 million and RMB59.3 million in view of the recoverability as business of Beijing Youyang deteriorated in 2020, 2021, 2022 and the six months ended June 30, 2023, respectively, due to the COVID-19 outbreak.

Save as the other receivables from Beijing Youyang, for which impairment provisions has been made in full for the six months ended June 30, 2023, and the RMB9.5 million other receivables from Hangzhou Penguin Technology Co., Ltd. as of June 30, 2023, all other advances and receivables from business partners as of June 30, 2023 had been subsequently settled.

The following table sets forth an aging analysis of our advances to and receivables from business partners as of the dates indicated:

	As of December 31,				As of June 30,
	2019	**2020**	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	7,610	81,888	–	–	9,455
1 to 2 years	49,557	609	59,427	–	–
2 to 3 years	22,850	20,558	479	59,268	59,268
3 to 4 years	–	–	18,688	–	–
	80,017	**103,055**	**78,594**	**59,268**	**68,723**

Movements in advances to and receivables from business partners were as follows:

	As of December 31,				As of June 30,
	2019	**2020**	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	72,966	80,017	103,055	78,594	59,268
Increase in the year/period	7,610	81,888	–	–	9,455
Decrease in the year/period	(559)	(58,850)	(24,461)	(19,326)	–
At the end of the year/period	80,017	103,055	78,594	59,268	68,723

Advances to staff

Advances to staff represent the amounts advanced to sales staffs which draw down for payment of POS operation and development expenses as they source POSs under our direct operation model. Such advances are generally short-term and interest-free. Pursuant to our internal policies, relevant staffs are required to settle utilized amounts by repayment in full within one month from the date of utilisation or otherwise report to our finance department within one week of consummation of the relevant business. The time between utilisation and consummation of business depends on a number of factors, such as the number of POSs involved, negotiations with site owners and delays caused by COVID-19, and could take months. Our finance department will review the repayment status of advances to staff on a monthly basis. For advances that had not been repaid within three months, a portion of the relevant staff's monthly salary will be withheld, and will only be released to the relevant staff until the advance has been repaid in full. Although certain amounts aged beyond our normal settlement period, such amounts mainly related to advances for ongoing POS development projects coupled with the impacts of COVID-19 on some of our POS partners. We plan to conduct an overall review over those projects that were affected by COVID-19 before the end of 2022 and ask relevant staffs to settle outstanding advances of those that cannot continue. The overall decrease in advances to staffs during the Track Record Period was primarily due to the development of our partner model. In view of the continuing decrease in advances to staff during the Track Record Period, our Directors consider that the internal control policies of our Group are effective. Going forward, we will closely monitor the repayment status of our advances to staff and implement necessary measures to safeguard the interest of our Group and Shareholders as and when appropriate. As of the Latest Practicable Date, RMB3.7 million, or 86.1%, of advances to staff as of June 30, 2023 had been subsequently settled.

The following table sets forth an aging analysis of our advances to sales staff as of the dates indicated:

	As of December 31,				As of June 30,
	2019	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	49,943	30,775	17,381	4,740	3,757
1 to 2 years	4,108	4,625	3,472	490	234
2 to 3 years	3,409	282	2,977	90	227
3 to 4 years	2,732	1,488	279	38	46
Over 4 years	–	–	1,022	46	84
	60,192	**37,170**	**25,131**	**5,404**	**4,348**

Movements in advances to and receivables from staffs were as follows:

	As of December 31,				As of June 30,
	2019	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	63,768	60,192	37,170	25,131	5,404
Increase in the year/period	49,943	30,775	17,381	4,740	1,893
Decrease in the year/period	(53,519)	(53,797)	(29,420)	(24,467)	(2,949)
At the end of the year/period	60,192	37,170	25,131	5,404	4,348

Financial Assets at Fair Value through Profit or Loss

During the Track Record Period, our financial assets at fair value through profit or loss consist of wealth management products and unlisted equity securities. The movement of our financial assets at fair value through profit or loss was primarily due to the purchase or disposal of our investment in wealth management products. For details of fair value estimation, see Note 3.3 to the Accountant's Report as set out in Appendix I. The following table sets forth details of our financial assets at fair value through profit or loss as of the dates indicated:

	As of December 31,				As of June 30,
	2019	**2020**	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Investments in wealth management products	336,866	132,078	–	–	–
Investments in unlisted equity securities	45,620	34,740	32,800	36,100	34,500
	382,486	**166,818**	**32,800**	**36,100**	**34,500**
Less: non-current portion					
– Investments in wealth management products	50,232	–	–	–	–
– Investments in unlisted equity securities	45,620	34,740	32,800	36,100	34,500
Current portion	**286,634**	**132,078**	**–**	**–**	**–**

During the Track Record Period, we purchased wealth management products from reputable licensed commercial banks in China. During the Track Record Period, we purchased wealth management products with low level of risk as part of our cash management. Our finance managers are responsible for managing our investments in wealth management products. In accordance with our treasury management policy, our finance managers formulate and execute plans for cash allocation among different wealth management products within the approved scope of our investment structure and select the relevant banks and products. The proposed investment must not interfere with our daily operational and investment activities. Pursuant to our internal policies, the wealth management products invested by us shall typically be limited to those with low risks and high liquidity offered by large scale, reputable and licensed banks. The expected return rate should be higher than the bank deposit interest rate for the same period and the term of such products shall generally be less than one year. In addition, any investment less than RMB10.0 million must be approved by our chief financial officer, any investment exceeding RMB10.0 million but less than RMB50.0 million must be approved by our chief executive officer and Chairman of our Board, and any investment exceeding RMB50.0 million must be approved by our Board. Our management is primarily responsible for approving revisions of our treasury management policy and adjusting our investment structure and our Board is responsible for reviewing our treasury management policy each year. When investing in wealth management products, we aim to (i) maintain the principal balance of cash and investments, (ii) maintain sufficient liquidity and minimize risks, and (iii) achieve reasonable yield. We make investment decisions related to wealth management products on a case-by-case basis after due and careful consideration of a number of factors, including our overall financial condition, market and investment conditions, investment costs, duration of investment, and the expected returns and potential risks of such investment.

During the Track Record Period we invested in substantial amounts of wealth management products. As of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, our investments in wealth management products amounted to RMB336.9 million, RMB132.1 million, nil, nil and nil, respectively. During the Track Record Period, the net realized gains generated from such wealth management products was RMB5.1 million in 2019, RMB6.3 million in 2020, RMB1.2 million in 2021, RMB0.2 million in 2022 and RMB0.07 million, and the net unrealized gains of such wealth management products was RMB2.3 million in 2019, RMB4.6 million in 2020, nil in 2021, nil in 2022 and nil for the six months ended June 30, 2023. The returns on all of these wealth management products are not guaranteed, and therefore we designated them as financial assets at fair value through profit or loss. Fair value of our financial assets at fair value through profit or loss is estimated by using valuation techniques and on the basis of market observable and unobservable inputs. The use of unobservable inputs renders valuation uncertain, as changes of unobservable inputs such as expected return rate may change the fair value of wealth management products we purchased. The fluctuation of our financial assets at fair value through profit or loss may continue to affect our results of operations in the future. See "Risk Factors — Our financial assets at fair value through profit or loss are subject to fair value fluctuations and the valuation of such assets is subject to uncertainties due to the use of valuation techniques and market observable and unobservable inputs, which may in turn adversely affect our financial performance."

After the [**REDACTED**], we intend to continue our investments in wealth management products strictly in accordance with our internal polices, Articles of Association, and the requirements under Chapter 14 of the Listing Rules.

We have been in the past, and expect to continue, prudently evaluating and considering a wide array of potential investments in emerging businesses that are complementary to our business to implement our long-term growth strategy. We invest in targets whose principal businesses are complementary to our Group's core business segments which we consider will provide considerable investment returns to our Shareholders and be conducive to the sustainable growth and development of our Group. During the Track Record Period, we made minority equity investments in certain private companies, which are measured as financial assets at fair value through profit or loss. As of June 30, 2023, we had investments in two unlisted PRC companies and the following table sets forth select details of such investments:

	Place of incorporation and business	Particulars of issued capital	Proportion of ownership interests and voting rights held by the Group as of					Fair value of investment as of June 30, 2023	Principal activities
			December 31, 2019	December 31, 2020	December 31, 2021	December 31, 2022	June 30, 2023		
								(RMB million)	
Shenzhen Daozhong Innovation Technology Co., Ltd. (深圳市道中創新科技有限公司)	PRC	RMB13.0 million	10.00%	10.00%	19.2857%	19.29%	19.29%	22.9	Research and development of artificial intelligence technology; research, development and sales of robots; technology development of internet of things and internet technology
Fuzhou Youxi Intelligent Internet of Things Co., Ltd. (福州友洗智能物聯網科技有限公司)	PRC	RMB1.3 million	10.00%	10.00%	9.90%	9.70%	9.70%	11.6	Vehicle cleaning services with IOT technology deployed

Level 3 of fair value measurement

Our level 3 financial instruments included investments in wealth management products and unlisted equity securities measured at fair value through profit or loss. As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including discounted cash flow model and market approach etc.

In relation to the valuation of our level 3 financial instruments, our Directors adopted the following procedures: (i) created the annual budget for wealth management products; (ii) engaged an independent qualified third-party valuer to appraise the fair value of unlisted equity securities, and performed valuation assessments for wealth management products based on their expected returns; (iii) considered and discussed with valuers the financial and operating data, as well as the development and the business plans of the investees; (iv) reviewed and agreed on the valuation approaches adopted and key assumptions and inputs used, including equity value/revenue ratio and discount rate for lack of marketability etc.; and (v) reviewed the valuation working papers and results prepared by the independent valuer. Based on the above procedures, our Directors are of the view that the valuation analysis performed by us is fair, reasonable and adequate with reference to the "Guidance note on directors' duties in the context of valuations in corporate transactions" issued by the SFC, and our financial statements are properly prepared.

Details of the fair value measurement of level 3 financial instruments, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs and the relationship of unobservable inputs to fair value, are disclosed in Note 3.3 to the Accountant's Report set forth in Appendix I prepared by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountant's opinion on the Historical Financial Information of our Group for the Track Record Period as a whole is set out on [I-1] to [I-3] of Appendix I.

In relation to the valuation of our level 3 financial instruments, the Joint Sponsors have conducted relevant due diligence work, including but not limited to, (i) review of the terms of wealth management products and terms of investment agreements; (ii) review of relevant notes in the Accountant's Report set forth in Appendix I; (iii) discussed with us to understand (a) the procedures performed for such valuation, (b) the key factors, valuation methodologies, and key assumptions taken into account by us as advised by the independent valuer with respect to our investments in unlisted equity securities, and (c) the internal control process undertaken by us for reviewing the relevant valuation; (iv) review of the professional qualification of the independent valuer engaged by us through desktop search; and (v) discussed with the Reporting Accountant on its work performed in this regard. Having considered the work done by the Directors and Reporting Accountant and the relevant due diligence done as stated above, nothing has come to the attention of the Joint Sponsors that would reasonably cause them to disagree with the views of the Directors and the Reporting Accountant in respect of the valuation of level 3 financial instruments.

Trade Payables

Our trade payables mainly represent payables to our suppliers for our machines and merchandise. Our trade payables decreased by 35.5% from RMB261.3 million as of December 31, 2019 to RMB168.5 million as of December 31, 2020, primarily due to the decrease in procurement of merchandise and machines as a result of the impact of the COVID-19 outbreak. Our trade payables increased by 48.4% from RMB168.5 million as of December 31, 2020 to RMB250.1 million as of December 31, 2021 in line with the expansion and recovery of our business. Our trade payables decreased by 14.2% from RMB250.1 million as of December 31, 2021 to RMB214.7 million as of December 31, 2022 primarily due to the decrease in procurement of merchandise which was mainly attributable to slower sales at our POSs in December 2022 as compared to December 2021 as a result of the resurgence of COVID-19 in 2022. Our trade payables increased by 9.3% from RMB214.7 million as of December 31, 2022 to RMB234.6 million as of June 30, 2023, primarily due to the increase in procurement of merchandise in line with the recovery of our business following the relaxation of COVID-19 policies and also in anticipation of the peak season in summer.

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

	As of December 31,				As of June 30,
	2019	**2020**	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
0 to 3 months	195,289	112,349	198,278	196,264	214,136
3 to 6 months	20,447	19,551	2,097	10,938	490
6 to 12 months	37,195	27,654	44,648	1,494	14,633
1 to 2 years	5,108	4,544	938	4,543	3,915
Over 2 years	3,258	4,425	4,132	1,427	1,411
	261,297	**168,523**	**250,093**	**214,666**	**234,585**

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

	For the years ended December 31,				For the six months ended June 30,
	2019	**2020**	**2021**	**2022**	**2023**
		(days)			
Trade payables turnover days[1]	55	58	49	59	55

Note:

1. Trade payables turnover days for a period are calculated using the average of open balance and closing balance of the trade payables for such period divided by cost of sales for the relevant period and multiplied by 365 days for 2019, 2020, 2021 and 2022 and by 180 days for the six months ended June 30, 2023.

Our trade payables turnover days remained stable at 55 days in 2019 and 58 days in 2020. Our trade payables turnover days decreased to 49 days in 2021, primarily due to the change of settlement terms with certain suppliers as we agreed to their requests for prepayment in exchange for favourable pricing terms, which were determined after arm's length negotiations between our Group and the relevant suppliers. Our trade payables turnover days increased to 59 days in 2022, primarily due to a decrease in our cost of sales which was generally in line with a decrease in our revenue. Our trade payables turnover days remained stable at 59 days in 2022 and 55 days for the six months ended June 30, 2023.

As of the Latest Practicable Date, RMB142.8 million, or 60.9% of our trade payables outstanding as of June 30, 2023 had been settled.

Other Payables and Accruals

Other payables and accruals comprise (i) accrued and payments of POSs operation expenses, (ii) salaries, wages, and bonuses payables, (iii) deposits, (iv) other taxes payables, (v) [**REDACTED**] expenses payables, and (vi) others. The following table sets forth a breakdown of our other payables and accruals as of the dates indicated:

	As of December 31,				As of June 30,
	2019	**2020**	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Accrued and payments of POSs operation expenses	167,872	139,613	112,719	55,932	97,140
Salaries, wages, and bonuses payables	26,665	28,704	35,814	33,956	32,138
Deposits(1)	26,030	30,139	31,966	31,007	31,484
Other taxes payables	12,616	10,040	9,612	9,683	28,672
[**REDACTED**] expenses payables	–	–	5,738	11,811	9,432
Others(2)	15,954	10,026	14,544	17,086	19,033
	249,137	218,522	210,393	159,475	217,899
Less: non-current portion					
Others	(1,279)	(451)	(7)	–	–
Total	**247,858**	**218,071**	**210,386**	**159,475**	**217,899**

Notes:

1. The amounts of deposits mainly represent various deposits received from POS partners and Non-Ubox POS operators in relation to vending machine business cooperation.

2. Represent short term rental payable and reimbursements payable to employees.

Other payables and accruals increased by 36.6% from RMB159.5 million as of December 31, 2022 to RMB217.9 million as of June 30, 2023, primarily due to the increase in accrued and payments of POSs operation expenses of RMB41.2 million as a result of the increase in sales at our POSs during the six months ended June 30, 2023.

Our other payables and accruals decreased by 24.2% from RMB210.4 million as of December 31, 2021 to RMB159.5 million as of December 31, 2022, primarily due to the decrease in accrued and payments of POSs operation expenses of RMB56.8 million as a result of slower sales at our POSs in December 2022 as compared to December 2021.

Other payables and accruals remained stable at RMB218.1 million as of December 31, 2020 and RMB210.4 million as of December 31, 2021.

Other payables and accruals decreased by 12.0% from RMB247.9 million as of December 31, 2019 to RMB218.1 million as of December 31, 2020, primarily due to a decrease of RMB28.3 million in accrued and payments of POSs operation expenses, which was due to our reduced selling and marketing activities amidst the COVID-19 outbreak.

Property and Equipment

Our property and equipment consist of (i) vending machines, (ii) motor vehicles, (iii) leasehold improvements, (iv) electronic equipment, and (v) office equipment and others. The following table sets forth a breakdown of the net book amount of our property and equipment as of the dates indicated:

	As of December 31,				As of June 30,
	2019	**2020**	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Vending machines	535,914	258,034	363,589	274,071	208,130
Motor vehicles	32,873	29,143	21,988	13,857	8,803
Leasehold improvements	10,628	10,098	6,786	3,466	2,192
Electronic equipment	5,966	4,918	4,115	3,213	3,095
Office equipment and others	4,102	3,049	2,317	1,731	1,350
Total	**589,483**	**305,242**	**398,795**	**296,338**	**223,570**

Our property and equipment decreased by 24.6% from RMB296.3 million as of December 31, 2022 to RMB223.6 million as of June 30, 2023, primarily due to the decrease of RMB65.9 million in vending machines as a result of depreciation charges on vending machines during the period.

Our property and equipment decreased by 25.7% from RMB398.8 million as of December 31, 2021 to RMB296.3 million as of December 31, 2022, primarily due to the decrease of RMB89.5 million in vending machines as a result of depreciation charges on vending machines during the year.

Our property and equipment increased by 30.6% from RMB305.2 million as of December 31, 2020 to RMB398.8 million as of December 31, 2021, primarily due to an increase of RMB77.6 million in vending machines, as we procured more vending machines to accommodate our business expansion.

Our property and equipment decreased by 48.2% from RMB589.5 million as of December 31, 2019 to RMB305.2 million as of December 31, 2020, primarily due to a decrease in vending machines of RMB277.9 million as a result of impairment recognized for certain types of our machines, such as karaoke booths, orange juice machines and coconut juice machines. See Note 16 to the Accountant's Report as set out in Appendix I for details of recognizing impairment on property and equipment.

Right-of-use Assets

Our right-of-use assets comprise the initial measurement of the corresponding lease liability in relation to our vending machines, properties used as offices and warehouses, and vehicles.

As of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, our right-of-use assets were RMB570.9 million, RMB446.2 million, RMB359.5 million, RMB289.1 million and RMB247.1 million, respectively. The decrease in our right-of-use assets during the Track Record Period was primarily due to the expiry of lease terms for our leased machines and direct procurement of machines without finance lease arrangement.

Intangible Assets

Our intangible assets consist of (i) goodwill, (ii) internally generated software, and (iii) purchased software.

Our intangible assets decreased from RMB318.4 million as of December 31, 2019 to RMB136.2 million as of December 31, 2020, primarily due to a decrease in goodwill. Goodwill of our Group mainly arose from the acquisition of Shenzhen Youka for its freshly brewed beverage vending machine business in 2019 and acquisition of karaoke booth service business and other vending machine businesses prior to the Track Record Period. See Note 33 to the Accountant's Report as set out in Appendix I for details of the acquisition of Shenzhen Youka.

During the Track Record Period, we performed impairment review for goodwill annually or more frequently if events or changes in circumstances indicate that it might be impaired. Impairment review on goodwill has been conducted by the management as of December 31, 2019, 2020, 2021, 2022 and June 30, 2023. For the purpose of goodwill impairment review, the recoverable amount of a cash-generation unit (or groups of cash-generating units) is the higher of its fair value less cost of disposal and its value in use.

In 2020, goodwill impairment arose with respect to our freshly brewed beverage vending machine business and karaoke booth service business primarily due to the COVID-19 pandemic. Based on the result of impairment testing for such businesses, impairment provision of goodwill of RMB147.6 million and RMB10.8 million was recognized for the freshly brewed beverage vending machine business and karaoke booth service business, respectively, in 2020.

Our intangible assets decreased from RMB136.2 million as of December 31, 2020 to RMB118.6 million as of December 31, 2021 and further decreased to RMB102.9 million as of December 31, 2022 and to RMB95.2 million as of June 30, 2023, primarily due to amortization charges on software.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity and Working Capital

During the Track Record Period and up to the Latest Practicable Date, we have funded our working capital principally from cash generated from our business operations, bank borrowings and capital contributions from our shareholders. After the [**REDACTED**], we intend to finance our future capital requirements through similar sources of funds, together with the net [**REDACTED**] to be received from the [**REDACTED**]. We do not anticipate any changes to the availability of financing to fund our operations in the future. We currently do not expect any significant changes in the mix and the relative costs of our capital resources.

As of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, we had cash and cash equivalents and restricted cash of RMB222.3 million, RMB191.0 million, RMB174.9 million, RMB130.9 million and RMB272.6 million, respectively. Our cash and cash equivalents consist of cash at bank and cash on hand.

Cash Flows

The following table sets forth a summary of our cash flows 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* *(unaudited)*	*RMB'000*
Operating cash flows before movements in working capital	328,978	(145,904)	90,556	23,919	23,057	42,867
Movements in working capital	305,800	127,106	88,678	132,234	132,639	146,269
Interest received	1,885	1,327	1,829	1,681	631	700
Income taxes paid	(23,270)	(14,477)	(2,114)	(3,916)	(469)	(3,825)
Net cash generated from/(used in) operating activities	613,393	(31,948)	178,949	153,918	155,858	186,011
Net cash (used in)/ generated from investing activities	(717,349)	189,171	(22,742)	(105,250)	(89,799)	(36,022)
Net cash generated from/(used in) financing activities	20,908	(188,557)	(174,836)	(92,876)	(13,683)	(8,682)
Net (decrease)/ increase in cash and cash equivalents	**(83,048)**	**(31,334)**	**(18,629)**	**(44,208)**	**52,376**	**141,307**
Cash and cash equivalents at the beginning of the year/period	305,394	222,347	191,015	172,386	172,386	128,178
Effects of exchange rate changes on cash and cash equivalents	1	2	–	–	–	–
Cash and cash equivalents at the end of the year/period	**222,347**	**191,015**	**172,386**	**128,178**	**224,762**	**269,485**

Net cash generated from/(used in) operating activities

For the six months ended June 30, 2023, our net cash generated from operating activities amounted to RMB186.0 million, which was primarily attributable to our loss before income tax of RMB146.6 million, as adjusted by (i) positive movement of operating cash flow before movements in working capital, which primarily comprised depreciation of property and equipment of RMB74.1 million, share-based compensation expenses of RMB49.5 million and depreciation of right-of-use assets of RMB47.7 million, (ii) changes in working capital, (iii) interest received, and (iv) income taxes paid of RMB3.8 million. Positive changes in working capital primarily consisted of (i) an increase in other payables and accruals of RMB58.4 million, primarily due to an increase in accrued and payments of POS operation expenses as a result of the increase in sales at our POSs during the six months ended June 30, 2023, (ii) an increase in contract liabilities of RMB30.1 million, primarily due to the advancement from Hangzhou Huanxu Information Technology Co., Ltd., for advertising and promotion of its payment service products (iii) an increase in trade payables of RMB26.3 million, primarily due to the increase in procurement of merchandise in line with the recovery of our business following the relaxation of COVID-19 policies and also in anticipation of the peak season in summer, and (iv) a decrease in inventories of RMB23.8 million, primarily due to the decrease in merchandise mainly attributable to increased sales at our POSs.

In 2022, our net cash generated from operating activities amounted to RMB153.9 million, which was primarily attributable to our loss before income tax of RMB272.3 million, as adjusted by (i) positive movement of operating cash flow before movements in working capital, which primarily comprised depreciation of property and equipment of RMB144.1 million and depreciation of right-of-use assets of RMB98.0 million, (ii) changes in working capital, (iii) interest received, and (iv) income taxes paid of RMB3.9 million. Positive changes in working capital primarily consisted of (i) a decrease in prepayments and deposits and other receivables of RMB105.1 million primarily due to the decrease in prepayment for purchase of inventories and the decrease in amount due from POS partners, and (ii) a decrease in trade receivables of RMB61.0 million as we recovered certain trade receivables with long ages and improved trade receivables management, partially offset by a decrease in other payables and accruals of RMB50.9 million, primarily due to a decrease in accrued and payments of POSs operation expenses as a result of slower sales at our POSs in December 2022 as compared to December 2021.

In 2021, our net cash generated from operating activities amounted to RMB178.9 million, which was primarily attributable to our loss before income tax of RMB184.6 million, as adjusted by (i) positive movement of operating cash flow before movements in working capital, which primarily comprised depreciation of property and equipment of RMB102.0 million, depreciation of right-of-use assets of RMB100.3 million and net impairment losses on financial assets of RMB28.2 million, (ii) changes in working capital, (iii) interest received, and (iv) income taxes paid of RMB2.1 million. Positive changes in working capital primarily consisted of (i) an increase in trade payables of RMB81.6 million in line with the expansion of our business, and (ii) a decrease in trade receivables of RMB36.9 million primarily due to our enhanced collection efforts including communication with relevant customers and monitoring of credit terms, partially offset by an increase in inventories of RMB26.9 million primarily due to an increase in demands for merchandise sold through our POS network as COVID-19 had been largely contained in China.

In 2020, our net cash used in operating activities amounted to RMB31.9 million, which was primarily attributable to our loss before income tax of RMB1,171.5 million, as adjusted by (i) positive movement of operating cash flow before movements in working capital, which primarily comprised impairment of non-financial assets of RMB414.0 million, share-based compensation expenses of RMB210.9 million, depreciation of property and equipment of RMB158.1 million, depreciation of right-of-use assets of RMB118.5 million, and net impairment losses on financial assets of RMB58.4 million, (ii) changes in working capital, (iii) interest received, and (iv) income taxes paid of RMB14.5 million. Positive changes in working capital primarily consisted of (i) a decrease in trade receivables of RMB147.1 million, primarily due to trade receivables in connection with sales of vending machines being gradually settled and the decrease in number of vending machines sold as a result of the development of our partner model, and decrease in demand for advertising and system support services as a result of the COVID-19 outbreak, (ii) a decrease in prepayments and deposits and other receivables of RMB80.7 million, primarily due to decrease in prepayments for POSs expenses, and (iii) a decrease in inventories of RMB27.1 million, primarily due to the decrease in procurement of merchandise and machines as a result of COVID-19, partially offset by (iv) a decrease in trade payables of RMB92.8 million, primarily due to the decrease in procurement of merchandise and machines as a result of the impact of the COVID-19 outbreak, and (v) a decrease in other payables and accruals of RMB30.6 million, primarily due to our reduced selling and marketing activities amidst the COVID-19 outbreak.

In 2019, our net cash generated from operating activities amounted to RMB613.4 million, which was primarily attributable to our profit before income tax of RMB43.8 million, as adjusted by (i) positive movement of operating cash flow before movements in working capital, which primarily comprised depreciation of property and equipment of RMB101.9 million and depreciation of right-of-use assets of RMB101.8 million, (ii) changes in working capital, (iii) interest received, and (iv) income taxes paid of RMB23.3 million. Positive changes in working capital primarily consisted of (i) a decrease in prepayments and deposits and other receivables of RMB238.5 million, primarily due to the use of deductible input value-added tax resulting in the decrease in the deductible input-value added tax, and (ii) an increase in trade payables of RMB89.1 million due to the increase in payables due to suppliers for our purchase of machines, partially offset by (iii) an increase in inventories of RMB50.6 million primarily due to the increase in procurement of raw materials, including biometric authentication modules, for enhancement of our vending machines procurement of merchandise in anticipation of favorable market conditions.

Net cash (used in)/generated from investing activities

For the six months ended June 30, 2023, our net cash used in investing activities amounted to RMB36.0 million, which was primarily attributable to (i) payments for purchase of property and equipment of RMB45.7 million in relation to the purchase of machines, which mainly comprise intelligent cabinets, (ii) payments for purchase of financial assets at fair value through profit or loss of RMB20.0 million in relation to our purchase of wealth management products, and as adjusted by (iii) proceeds from disposal of financial assets at fair value through profit or loss of RMB20.0 million in relation to our disposal of wealth management products.

In 2022, our net cash used in investing activities amounted to RMB105.3 million, which was primarily attributable to (i) payments for purchase of property and equipment of RMB145.7 million in relation to the purchase of machines to support our network expansion, (ii) payments for purchase of financial assets at fair value through profit or loss of RMB70.0 million in relation to our purchase of wealth management products, and as adjusted by (iii) proceeds from disposal of financial assets at fair value through profit or loss of RMB70.0 million in relation to our disposal of wealth management products.

In 2021, our net cash flows used in investing activities amounted to RMB22.7 million, which was primarily attributable to (i) payments for purchase of financial assets at fair value through profit or loss of RMB240.0 million in relation to our investments in wealth management products, (ii) payments for purchase of property and equipment of RMB223.8 million, primarily as a result of the expansion of our POS network, and as adjusted by (iii) proceeds from disposal of financial assets at fair value through profit or loss of RMB372.1 million in relation to our disposal of wealth management products, and (iv) proceeds from repayment of advances to a shareholder and business partners of RMB83.1 million mainly in relation to the advances provided to a then shareholder with respect to purchase of our Shares in connection with our delisting from NEEQ. For further details of the advances to a then shareholder in connection with our delisting from NEEQ, see Note 24 to the Accountant's Report as set out in Appendix I and "History and Development — Information on our Group — Our Company."

In 2020, our net cash flows generated from investing activities amounted to RMB189.2 million, which was primarily attributable to (i) proceeds from disposal of financial assets at fair value through profit or loss of RMB635.4 million in relation to our disposal of wealth management products, and (ii) proceeds from repayment of advances to a shareholder and business partners of RMB58.3 million mainly in relation to the advances provided to a then shareholder with respect to purchase of our Shares in connection with our delisting from NEEQ, as adjusted by (iii) payments for purchase of financial assets at fair value through profit or loss of RMB438.0 million in relation to our investments in wealth management products, and (iv) payments for purchase of property and equipment of RMB76.7 million primarily as a result of the expansion of our POS network to support our business growth, and (v) payments for investment in associates in the amount of RMB40.0 million.

In 2019, our net cash flows used in investing activities amounted to RMB717.3 million, which was primarily attributable to (i) payments for purchase of financial assets at fair value through profit or loss of RMB2,508.0 million primarily in relation to our investments in wealth management products, (ii) payments for purchase of property and equipment of RMB420.6 million, primarily as a result of the expansion of our POS network, (iii) advances to a shareholder and business partners of RMB416.0 million mainly in relation to the advances provided to a then shareholder with respect to purchase of our Shares in connection with our delisting from NEEQ, (iv) payments for acquisition of subsidiaries, net of cash received of RMB112.8 million, (v) payments for purchase of intangible assets of RMB59.7 million in relation to our purchase of software for our pick-and-go cabinets, as adjusted by (vi) proceeds from disposal of financial assets at fair value through profit or loss of RMB2,540.5 million in relation to disposal of wealth management products, (vii) proceeds from repayment of advances to a shareholder and business partners of RMB162.4 million, and (viii) proceeds from disposal of property and equipment of RMB116.0 million.

Net cash generated from/(used in) financing activities

For the six months ended June 30, 2023, our net cash used in financing activities amounted to RMB8.7 million, which was primarily attributable to (i) repayments of borrowings of RMB40.0 million, and (ii) principal elements and interest element of lease payments of RMB23.2 million, as adjusted by proceeds from borrowings of RMB59.1 million.

In 2022, our net cash flows used in financing activities amounted to RMB92.9 million, which was primarily attributable to (i) principal elements and interest element of lease payments of RMB93.5 million, and (ii) repayments of borrowings of RMB71.9 million, as adjusted by proceeds from borrowings of RMB80.9 million.

In 2021, our net cash flows used in financing activities amounted to RMB174.8 million, which was primarily attributable to (i) principal elements and interest element of lease payments of RMB144.2 million, and (ii) repayments of borrowings of RMB94.9 million, as adjusted by proceeds from borrowings of RMB65.0 million.

In 2020, our net cash flows used in financing activities amounted to RMB188.6 million, which was primarily attributable to (i) principal elements and interest element of lease payments of RMB245.9 million and (ii) repayments of borrowings of RMB37.4 million, as adjusted by proceeds from borrowings of RMB97.2 million.

In 2019, our net cash flows generated from financing activities amounted to RMB20.9 million, which was primarily attributable to (i) proceeds from issuance of new shares of RMB1,200.0 million in relation to the 2019 Capital Increase, (ii) proceeds from transfer of repurchased shares of RMB150.0 million in connection with our delisting from NEEQ, as adjusted by (iii) repayment of loans from non-financial institutions of RMB700.0 million and (iv) principal elements and interest element of lease payments of RMB584.1 million.

Current Assets and Current Liabilities

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

	As of December 31,				As of June 30,	As of August 31
	2019	**2020**	**2021**	**2022**	**2023**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Current Assets						
Prepayments, deposits and other receivables	799,901	402,987	303,447	188,514	174,269	202,315
Inventories	231,158	150,163	186,779	143,887	126,834	152,078
Cash and cash equivalents	222,347	191,015	172,386	128,178	269,485	164,957
Trade receivables	303,634	156,675	120,284	54,693	64,144	54,445
Restricted cash	–	–	2,500	2,735	3,126	622
Financial assets at fair value through profit or loss	286,634	132,078	–	–	–	20,001
Total current assets	**1,843,674**	**1,032,918**	**785,396**	**518,007**	**637,858**	**594,418**
Current Liabilities						
Trade payables	261,297	168,523	250,093	214,666	234,585	212,050
Other payables and accruals	247,858	218,071	210,386	159,475	217,899	186,952
Lease liabilities	214,675	126,199	77,543	38,390	29,481	26,121
Borrowings	31,000	90,844	60,980	70,000	89,050	109,050
Contract liabilities	14,747	10,421	8,592	7,496	37,575	36,110
Current income tax liabilities	10,719	1,342	1,893	3,569	3,918	2,558
Total current liabilities	**780,296**	**615,400**	**609,487**	**493,596**	**612,508**	**572,841**
Net current assets	**1,063,378**	**417,518**	**175,909**	**24,411**	**25,350**	**21,577**

Our net current assets remained relatively stable at RMB25.4 million as of June 30, 2023 and RMB21.6 million as of August 31, 2023.

Our net current assets remained relatively stable at RMB24.4 million as of December 31, 2022 and RMB25.4 million as of June 30, 2023.

Our net current assets decreased from RMB175.9 million as of December 31, 2021 to RMB24.4 million as of December 31, 2022, primarily due to (i) a decrease in prepayments, deposits and other receivables of RMB114.9 million primarily due to the decrease in prepayment for purchase of inventories and the decrease in amount due from POS partners, (ii) a decrease in trade receivables of RMB65.6 million primarily due to recovery of certain trade receivables with long ages and our improved trade receivables management generally, (iii) a decrease in cash and cash equivalents of RMB44.2 million, and (iv) a decrease in inventories of RMB42.9 million primarily due to a decrease in merchandise as a result of reduced procurement as sales were negatively affected in December 2022 by regional resurgences of COVID-19, partially offset by (v) a decrease in other payables and accruals of RMB50.9 million primarily due to the decrease in accrued and payments of POSs operation expenses, (vi) a decrease in lease liabilities of RMB39.2 million primarily due to the expiration of our leases for vending machines in 2021 under finance lease agreement as there were no new finance lease of machinery and equipment in 2021 and 2022, respectively, and (vii) a decrease in trade payables of RMB35.4 million primarily due to the decrease in procurement of merchandise and machines.

Our net current assets decreased from RMB417.5 million as of December 31, 2020 to RMB175.9 million as of December 31, 2021, primarily due to (i) a decrease in financial assets at fair value through profit or loss of RMB132.1 million, primarily due to disposal of our investment in wealth management products, (ii) a decrease in prepayments, deposits and other receivables of RMB99.5 million primarily due to the further development of our partner model since 2020 under which our POS partners typically bear the occupancy fee for machine spaces, (iii) an increase in trade payables of RMB81.6 million in line with the expansion of our business, and (iv) a decrease in trade receivables of RMB36.4 million due to our enhanced collection efforts, partially offset by (v) an increase in inventories of RMB36.6 million, primarily due to increased demands for our merchandise, and (vi) a decrease in lease liabilities of RMB48.7 million, primarily due to the expiration of our leases for vending machines in 2021 under finance lease agreements.

Our net current assets decreased by 60.7% from RMB1,063.4 million as of December 31, 2019 to RMB417.5 million as of December 31, 2020, primarily due to (i) a decrease in prepayments, deposits and other receivables of RMB396.9 million, primarily due to the development of our partner model in 2020 under which our POS partners typically bear the occupancy fee for machine spaces, (ii) a decrease in financial assets at fair value through profit or loss of RMB154.6 million, primarily due to disposal of our investment in wealth management products, (iii) a decrease in trade receivables of RMB147.0 million, primarily due to the decrease in trade receivables from third-parties including advertisers for our advertising and system support services and Non-Ubox POS operators in connection with our sale of vending machines, and (iv) a decrease in inventories of RMB81.0 million, primarily because we reduced the stock of merchandise in light of the COVID-19 outbreak, partially offset by (v) a decrease in trade payables of RMB92.8 million, primarily due to the decrease in procurement needs as a result of the impact of COVID-19 outbreak, and (vi) a decrease in lease liabilities of RMB88.5 million, primarily due to the expiration of our leases for vending machines in 2020 under finance lease agreements.

Working Capital Statement

Taking into account the estimated net [**REDACTED**] from the [**REDACTED**] and the financial resources presently available to us, including our cash and cash equivalents, cash flows from operating activities and our available banking facilities, our Directors are of the opinion that we have sufficient funds to meet our working capital requirements for at least the next 12 months from the date of this document.

INDEBTEDNESS

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

	As of December 31,				As of June 30,	As of August 31,
	2019	**2020**	**2021**	**2022**	**2023**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Non-current						
Lease liabilities	194,274	112,359	41,025	21,287	14,759	11,632
Current						
Lease liabilities	214,675	126,199	77,543	38,390	29,481	26,121
Bank borrowings	31,000	90,844	40,980	50,000	69,050	89,050
Other borrowings	–	–	20,000	20,000	20,000	20,000
Total	**439,949**	**329,402**	**179,548**	**129,677**	**133,290**	**146,803**

As of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, our bank and other borrowings amounted to RMB31.0 million, RMB90.8 million, RMB61.0 million, RMB70.0 million and RMB89.1 million, respectively. Such bank and other borrowings were all denominated in RMB and bore a weighted average interest rate of 5.2475%, 4.7699%, 4.6758%, 5.6691% and 5.5795% respectively and were guaranteed by certain parties, including our Company, Mr. Wang, the chairman of the Board and a member of the Single Largest Group of Shareholders, companies within our Group and Mr. Yang Ling, a substantial shareholder and legal representative of Shenzhen Youbao Online Technology Co., Ltd. (深圳市優寶在線科技有限公司), a subsidiary of our Group. For further details, see Note 32 to the Accountant's Report as set out in Appendix I. The guarantees provided by Mr. Wang and Mr. Yang Ling are expected to be released prior to [**REDACTED**]. Our other borrowings represent a borrowing from a non-bank financial institution, wholly-owned by a financial services institution established by the Shenzhen government and an Independent Third Party, in 2021, which is secured by a charge over certain intellectual property rights of Shenzhen Youbaokesi. The borrowing is interest-bearing at a fixed rate of 4.9% per annum, and has been repaid as it fell due in July

2022. The borrowing was entered into by our Group having considered that pursuant to relevant policies promulgated by the Shenzhen government, by taking out such a loan from this financial institution, we could benefit from a certain loan interest subsidy from the Shenzhen government which renders the actual interest rate of such loan lower than the average interest rate of our bank borrowings.

As of the Latest Practicable Date, we had unutilized banking facilities of RMB411.0 million.

We recognized total lease liabilities of RMB408.9 million, RMB238.6 million, RMB118.6 million, RMB59.7 million and RMB44.2 million as of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, respectively. For further information regarding our lease liabilities, see Note 17 to the Accountant's Report as set out in Appendix I. Among our total lease liabilities, RMB393.1 million, RMB209.5 million, RMB57.2 million, RMB6.5 million and RMB1.6 million as of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, respectively, were guaranteed by Mr. Wang. Such guarantees provided by Mr. Wang are expected to be released prior to [**REDACTED**]. See Note 36(d) to the Accountant's Report as set out in Appendix I.

Except for our indebtedness as disclosed above, as of August 31, 2023, being the latest practicable date for determining our indebtedness, we did not have any outstanding mortgages, charges, debentures or other loan capital (issued or agreed to issue), bank overdrafts, loans, liabilities under acceptance or acceptance credits, or other similar indebtedness, finance lease commitments, hire purchase commitments, any guarantees or other material contingent liabilities.

Our Directors confirm that as of the Latest Practicable Date, the agreements for our bank borrowings or other borrowings did not contain any covenant that would have a material adverse effect on our ability to make additional borrowings or issue debt or equity securities in the future. Our Directors further confirm that we had no material defaults in payment of our liabilities, and/or breaches of financial covenants during the Track Record Period, and there is no material change in our indebtedness since August 31, 2023 up to the Latest Practicable Date. We currently do not have any plans for material additional external financing other than the [**REDACTED**].

CONTINGENT LIABILITIES

As of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, we did not have any material contingent liabilities.

CAPITAL EXPENDITURES AND COMMITMENTS

Capital Expenditures

Our capital expenditures primarily consist of payments for purchase of property and equipment, payments for purchase of intangible assets. The following table sets forth our capital expenditures for the periods indicated:

	For the year ended December 31,				For the six months ended June 30,
	2019	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Payments for purchase of property and equipment	420,628	76,655	223,847	145,749	45,720
Payments for purchase of intangible assets	59,742	4,625	–	143	–
Total	**480,370**	**81,280**	**223,847**	**145,892**	**45,720**

During the Track Record Period and up to the Latest Practicable Date, we had funded our capital expenditures principally from cash generated from our business operations, bank borrowings and capital contributions from our shareholders. We plan to fund our planned capital expenditures using cash generated from operating activities and net [**REDACTED**] received from the [**REDACTED**]. See "Future Plans and Use of [**REDACTED**]" for further details. We may reallocate the fund to be utilized on capital expenditures based on our ongoing business needs.

Capital Commitments

The following table sets forth our capital commitments contracted for but not yet incurred as of the dates indicated:

	As of December 31,				As of June 30,
	2019	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Equity investment	30,000	19,526	–	–	–

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into a number of related party transactions in relation to sales and purchase of goods and services. See Note 36 to the Accountant's Report as set out in Appendix I for details.

The following table sets forth our major related party transactions by nature 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* *(unaudited)*	*RMB'000*
Sales of goods						
Associates of the Group	**2,365**	**7,099**	**7,576**	**6,664**	**2,979**	**2,837**
Provision of services						
Alipay China	89,358	30,288	34,957	29,930	23,939	25
Associates of the Group	735	2,208	1,489	2,579	1,341	496
Joint ventures of the Group	–	153	–	–	–	–
Hangzhou Huanxu Information Technology Co., Ltd.	–	–	–	786	–	445
Ant Hainan	–	–	–	25	25	–
	90,093	**32,649**	**36,446**	**33,320**	**25,305**	**966**
Purchase of goods						
Associates of the Group	2,595	–	–	–	–	–
Ant Hainan	–	–	12,372	–	–	–
Joint ventures of the Group	–	–	–	–	–	2
	2,595	**–**	**12,372**	**–**	**–**	**2**
Purchase of services						
Alipay China	**3,378**	**9,262**	**11,996**	**11,638**	**5,022**	**6,091**
Interest income						
Associates of the Group	**–**	**–**	**–**	**–**	**–**	**502**

The following table sets forth the outstanding balances with related parties as of the dates indicated:

	As of December 31,				As of June 30,
	2019	**2020**	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade in nature and included in:					
Trade receivables					
Alipay China	20,355	739	27,268	9	–
Associates of the Group	2,777	9,962	3,532	4,060	4,989
	23,132	10,701	30,800	4,069	4,989
Other receivables					
Alipay China	1	46	46	–	–
Associates of the Group	–	700	703	700	700
	1	746	749	700	700
Trade payables					
Ant Hainan	–	–	8,178	9,786	9,786
Contract liabilities					
Hangzhou Huanxu Information Technology Co., Ltd.(i)	–	–	–	–	27,833
Other payables					
Associates of the Group	957	6,024	–	157	770
Non-trade in nature and included in:					
Prepayments					
Associates of the Group(ii)	–	–	10,000	10,000	–
Other receivables					
Associates of the Group(ii)	–	–	–	–	9,455

Notes:

(i) The balance represents advancement from Hangzhou Huanxu Information Technology Co., Ltd. for advertising and promotion of its payment service products (for example, biometric authentication payment services and merchandise recognition services) on our vending machines.

(ii) The balance represents prepayment made to Hangzhou Penguin Technology Co., Ltd. to subscribe for its further 5.88% equity interest. As relevant closing conditions under the investment agreement had not been met, the Group entered into a supplemental agreement to the investment agreement with Hangzhou Penguin Technology Co., Ltd. on June 6, 2023, pursuant to which the parties have agreed not to proceed with closing under the investment agreement and Hangzhou Penguin Technology Co., Ltd. shall repay the prepayments of RMB10.0 million, together with an utilisation fee calculated with reference to the bank deposit interest rate for the same period, in six instalments based on the schedule agreed by both parties before December 31, 2023. As a result, the balance and accrued interest was reclassified to other receivables as of June 30, 2023.

Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance. Our Directors confirm that all loans or guarantees provided by or to our related parties, if any, will be fully repaid or released before the [**REDACTED**]. The non-trade balances with related parties, which represent prepayments of RMB10.0 million made to Hangzhou Penguin Technology Co., Ltd. to subscribe for its further 5.88% equity interest. Pursuant to the investment agreement, we agreed to subscribe for, in aggregate, 20% equity interests in Hangzhou Penguin Technology Co., Ltd. in three tranches at a total cash consideration of RMB60,000,000 subject to the terms and conditions set out therein. As of the Latest Practicable Date, the subscription of 14.12% equity interests in Hangzhou Penguin Technology Co., Ltd. has completed and we held 14.12% of its equity interests. As relevant closing conditions under the investment agreement had not been met, we entered into a supplemental agreement to the investment agreement with Hangzhou Penguin Technology Co., Ltd. on June 6, 2023, pursuant to which the parties have agreed not to proceed with closing to subscribe for the remaining 5.88% equity interests in Hangzhou Penguin Technology Co., Ltd under the investment agreement and Hangzhou Penguin Technology Co., Ltd. shall repay the prepayments of RMB10.0 million, together with an utilisation fee calculated with reference to the bank deposit interest rate for the same period, in six instalments based on the schedule agreed by both parties before December 31, 2023. As of the Latest Practicable Date, two instalments had been settled. As a result, the balance and accrued interest was reclassified to other receivables as of June 30, 2023.

OFF-BALANCE SHEET ARRANGEMENTS

During the Track Record Period and as of the Latest Practicable Date, we had not entered into any off-balance sheet arrangements.

FINANCIAL RISK DISCLOSURE

The main risks arising from our financial instruments are market risk, credit risk and liquidity risk. Our Board of Directors reviews and agrees policies for managing each of these risks which are summarized below.

Market Risk

We are exposed to the risk of changes in foreign exchange and fair value interest rate.

Our businesses are principally conducted in RMB, which is exposed to foreign currency risk with respect to transactions denominated in currencies other than RMB.

Our income and operating cash flows are substantially independent of changes in market interest rates and we have no significant interest-bearing assets except for cash and cash equivalents and restricted cash. Our exposure to changes in interest rates is mainly attributable to our borrowings. Borrowings carried at floating rates are subject to cash flow interest rate risk whereas those carried at fixed rates are subject to fair value interest rate risk. All of our borrowings were carried at fixed rates which does not expose us to cash flow interest rate risk. As of December 31, 2019, 2020, 2021, 2022 and June 30, 2023, our borrowings which were bearing at fixed rates amounted to approximately RMB31.0 million, RMB90.8 million, RMB61.0 million, RMB70.0 million and RMB89.1 million, respectively.

Credit Risk

We are exposed to credit risk primarily in relation to our cash and cash equivalents and restricted cash, trade receivables and other receivables.

For cash and cash equivalents and restricted cash, our management manage the credit risk by placing deposits in state-owned financial institutions in the PRC or reputable banks and financial institutions having high-credit-quality in the PRC.

For trade and other receivables, we have policies in place to ensure that sale of goods and service are made to customers with an appropriate credit history. We also have other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts.

The carrying amounts of cash and cash equivalents and restricted cash, trade and other receivables and contract assets represent our maximum exposure to credit risk in relation to the assets.

We consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis during the Track Record Period. A default on financial asset is when the counterparty fails to make contractual payments when they fall due. To assess whether there is a significant increase in credit risk, we compare risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the third-party debtor's ability to meet its obligations;
- actual or expected significant changes in the operating results of the customers;
- significant changes in the expected performance and behavior of the debtor, including changes in the payment status of debtor.

For further details of our exposure to credit risk, see Note 3.1(b) to the Accountant's Report as set out in Appendix I.

Liquidity Risk

To manage the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our senior management to finance our operations and mitigate the effects of fluctuations in cash flows.

The table below analyzes our financial liabilities into relevant maturity grouping based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	**Between 1 and 5 years**	**Total contractual cash flows**	**Carrying amount Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As of December 31, 2019				
Trade payables	261,297	–	261,297	261,297
Other payables and accruals (excluding salaries, wages, and bonuses payables and other taxes payables)	208,577	1,279	209,856	209,856
Lease liabilities	291,024	199,779	490,803	408,949
Borrowings	31,742	–	31,742	31,000
	792,640	**201,058**	**993,698**	**911,102**

	Less than 1 year	Between 1 and 5 years	Total contractual cash flows	Carrying amount Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As of December 31, 2020				
Trade payables	168,523	–	168,523	168,523
Other payables and accruals (excluding salaries, wages, and bonuses payables and other taxes payables)	179,327	451	179,778	179,778
Lease liabilities	145,446	117,680	263,126	238,558
Borrowings	92,124	–	92,124	90,844
	585,420	**118,131**	**703,551**	**677,703**
As of December 31, 2021				
Trade payables	250,093	–	250,093	250,093
Other payables and accruals (excluding salaries, wages, and bonuses payables and other taxes payables)	164,960	7	164,967	164,967
Lease liabilities	83,903	41,346	125,249	118,568
Borrowings	63,708	–	63,708	60,980
	562,664	**41,353**	**604,017**	**594,608**
As of December 31, 2022				
Trade payables	214,666	–	214,666	214,666
Other payables and accruals (excluding salaries, wages, and bonuses payables and other taxes payables)	115,836	–	115,836	115,836
Lease liabilities	40,048	20,984	61,032	59,677
Borrowings	71,708	–	71,708	70,000
	442,258	**20,984**	**463,242**	**460,179**

	Less than 1 year	Between 1 and 5 years	Total contractual cash flows	Carrying amount Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As of June 30, 2023				
Trade payables	234,585	–	234,585	234,585
Other payables and accruals (excluding salaries, wages, and bonuses payables and other taxes payables)	157,089	–	157,089	157,089
Lease liabilities	31,086	14,873	45,959	44,240
Borrowings	91,646	–	91,646	89,050
	514,406	**14,873**	**529,279**	**524,964**

DIVIDEND

We do not currently have a fixed dividend policy and may declare dividends from time to time as our Board considers appropriate in compliance with our Articles of Association and the applicable laws and regulations. Distribution of dividends will be formulated by our Board at is discretion and will be subject to shareholders' approval. Under the PRC Company Law and our Articles of Association, all of our Shareholders holding the same class of shares have equal rights to dividends and other distributions proportionate to their shareholding.

A decision to declare or pay any dividends in the future, and the amount of any dividend, will depend on, among other things, our results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP or HKFRS (whichever is lower), our Articles of Association, the PRC Company Law and any other applicable PRC Law and other factors that our Directors may consider relevant. In any event, we will pay dividends out of our profit after tax only after we made the following allocations:

- recovery of accumulated losses, if any;
- allocation to the PRC statutory reserve an amount equivalent to 10% of our profit after tax, as determined under PRC GAAP; and
- allocation, if any, to a discretionary common reserve fund an amount approved by the shareholders in a shareholders' meeting.

The minimum allocation to the PRC statutory reserve is 10% of our profit after tax, as determined under PRC GAAP. When the statutory common reserve fund reaches and is maintained at or above 50% of our registered capital, no further allocation to this PRC statutory reserve will be required. Any distributable profits that are not satisfied in any given year will be retained and become available for distribution in subsequent years.

As confirmed by our PRC Legal Advisor, according to relevant PRC Law, we cannot pay any dividends considering our accumulated losses position. No dividends were paid to the shareholders of the Company during the Track Record Period. Any future declaration of dividends may or may not reflect our prior declarations of dividends.

DISTRIBUTABLE RESERVES

As of June 30, 2023, our Group did not have any distributable reserves.

UNAUDITED [REDACTED] ADJUSTED NET TANGIBLE ASSETS

The following unaudited [**REDACTED**] adjusted consolidated net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the [**REDACTED**] on the consolidated net tangible assets of the Group attributable to the owners of the Company as of June 30, 2023 as if the [**REDACTED**] had taken place on that date.

The unaudited [**REDACTED**] adjusted consolidated net tangible assets has been prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the [**REDACTED**] been completed as of June 30, 2023 or any future dates.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as of June 30, 2023	Estimated net [REDACTED] from the [REDACTED]	Unaudited [REDACTED] adjusted consolidated net tangible assets attributable to the owners of the Company as of June 30, 2023	Unaudited [REDACTED] adjusted consolidated net tangible assets per Share	
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
Based on an [**REDACTED**] of [**REDACTED**] per [**REDACTED**]	782,324	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Based on an [**REDACTED**] of [**REDACTED**] per [**REDACTED**]	782,324	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]

Notes:

(1) Our audited consolidated net tangible assets of the Group attributable to the owners of our Company as of June 30, 2023 is extracted from the Accountant's Report set out in Appendix I, which is based on the audited consolidated net assets of the Group attributable to the owners of the Company as of June 30, 2023 of RMB877,530,000 with an adjustment for the intangible assets of RMB95,206,000.

(2) The estimated net [**REDACTED**] from the [**REDACTED**] are based on the indicative [**REDACTED**] of [**REDACTED**] and [**REDACTED**] per [**REDACTED**], respectively, after deduction of the [**REDACTED**] fees and other related expenses (excluding [**REDACTED**] expenses of approximately RMB45,069,000 which have been accounted for during the Track Record Period) paid or payable by our Company and takes no account of any Shares which may be issued upon the exercise of options [granted] under the Pre-[**REDACTED**] Incentive Scheme, any Shares which may fall to be issued upon the exercise of the [**REDACTED**] or any Shares which may be issued or repurchased by our Company pursuant to the general mandates.

(3) The unaudited [**REDACTED**] adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that [**REDACTED**] Shares were in issue assuming that the [**REDACTED**] have been completed on June 30, 2023 but takes no account of any Shares which may be issued upon the exercise of options [granted] under the Pre-[**REDACTED**] Incentive Scheme, any Shares which may fall to be issued upon the exercise of the [**REDACTED**] or any Shares which may be issued or repurchased by our Company pursuant to the general mandates.

During the six months ended June 30, 2023, the Group granted share options to 27 grantees in accordance with the Pre-[**REDACTED**] Incentive Scheme to subscribe for a total of 37,750,000 shares of the Company at a price of RMB1.99 per share. The grantees will be entitled to exercise the share options by batch after the [**REDACTED**] subject to satisfaction of the relevant conditions of exercise. However, had such 37,750,000 shares issued per the exercise of the share options granted been taken into account, such that [**REDACTED**] shares are in issue following the completion of the [**REDACTED**], the unaudited [**REDACTED**] adjusted net tangible assets per Share would have been [**REDACTED**] (equivalent to [**REDACTED**]) and [**REDACTED**] (equivalent to [**REDACTED**]) based on the [**REDACTED**] of [**REDACTED**] per [**REDACTED**] and [**REDACTED**] per [**REDACTED**], respectively.

(4) For the purpose of this unaudited [**REDACTED**] adjusted consolidated net tangible assets per Share, the amounts stated in Renminbi are converted into Hong Kong dollars at the rate of RMB0.9166 to HK$1.00. No representation is made that Renminbi has been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(5) Except as disclosed above, no adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to June 30, 2023.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

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

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, as of the date of this document, there has been no material adverse change in our financial and trading positions or prospects since June 30, 2023, being the end of the period reported on in the Accountant's Report as set out in Appendix I.

[**REDACTED**] EXPENSES

The [**REDACTED**] expenses in connection with the [**REDACTED**] are estimated to be [**REDACTED**] (including [**REDACTED**]-related expenses of approximately [**REDACTED**], and non-[**REDACTED**] related expenses of approximately [**REDACTED**], which consists of fees and expenses of legal advisors and accountant of approximately [**REDACTED**] and other fees and expenses of approximately [**REDACTED**], assuming the [**REDACTED**] is not exercised and based on an [**REDACTED**] of [**REDACTED**] per [**REDACTED**], being the mid-point of the proposed [**REDACTED**] range), representing [**REDACTED**] of the gross [**REDACTED**] from the [**REDACTED**] of [**REDACTED**] based on the [**REDACTED**] of [**REDACTED**] per [**REDACTED**], being the mid-point of the proposed [**REDACTED**] range. During the Track Record Period, we incurred [**REDACTED**] expenses of RMB46.4 million, of which RMB45.1 million was recognized in the consolidated statement of comprehensive income and RMB1.3 million was recognized as prepayments in the consolidated statement of financial position which will be accounted for as a deduction from equity upon [**REDACTED**]. Subsequent to the Track Record Period, we expect to further incur [**REDACTED**] expenses of [**REDACTED**] prior to and upon completion of the [**REDACTED**], of which (i) [**REDACTED**] is expected to be recognized as expenses in our consolidated statement of comprehensive income; and (ii) [**REDACTED**] is expected to be accounted for as a deduction from equity upon [**REDACTED**] under the relevant accounting standard.