Application Proof of

PU'ER LANCANG ANCIENT TEA CO., LTD.
普洱瀾滄古茶股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

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PU'ER LANCANG ANCIENT TEA CO., LTD.
普洱瀾滄古茶股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

[REDACTED]

Total number of [REDACTED] under the [REDACTED]	**:**	**[REDACTED] H Shares (subject to the [REDACTED])**
Number of [REDACTED]	**:**	**[REDACTED] H Shares (subject to adjustment)**
Number of [REDACTED]	**:**	**[REDACTED] H Shares (subject to adjustment and the [REDACTED])**
Maximum [REDACTED]	**:**	**HK$[REDACTED] per H Share, plus brokerage of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and Accounting and Financial Reporting Council transaction levy of 0.00015% (payable in full on application and subject to refund on [REDACTED])**
Nominal value	**:**	**RMB1.00 per H Share**
[REDACTED]	**:**	**[REDACTED]**

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[REDACTED]

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[REDACTED]

IMPORTANT

[REDACTED]

EXPECTED TIMETABLE[1]

[REDACTED]

EXPECTED TIMETABLE[1]

[REDACTED]

EXPECTED TIMETABLE[(1)]

[REDACTED]

EXPECTED TIMETABLE[1]

[REDACTED]

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SUMMARY

This summary aims to give you an overview of the information contained in this document and should be read in conjunction with the full text of this document. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document, including our financial statements and the accompanying notes, before you decide to [REDACTED] in the [REDACTED]. There are risks associated with any [REDACTED]. Some of the particular risks in [REDACTED] in the [REDACTED] are set out in "Risk Factors" in this document. You should read that section carefully before you decide to [REDACTED] in the [REDACTED].

OVERVIEW

We are the third largest Pu'er tea company in China in terms of revenue generated from Pu'er tea products with a market share of 2.4% in 2022, ranking after two players with market shares of 12.6% and 4.4%, respectively, according to the F&S Report. With stringent quality requirements running through the entire industrial chain, we are among the very few tea companies in China experienced in raw material management, product development, production, end customer reach and membership services, according to the F&S Report, which we believe sets us apart from our competitors. After twenty years of operation, we have established ourselves as one of the most famous Pu'er tea brands in China.

Tea is a traditional Chinese beverage with a history of several thousands of years and considered beneficial for health. The market size of China's tea leaf market in terms of revenue increased from RMB240.6 billion in 2017 to RMB331.8 billion in 2022 at a CAGR of 6.6%, and is expected to reach RMB441.2 billion in 2027 at a CAGR of 5.9% from 2022 to 2027; and in particular, the Pu'er tea market in China is expected to increase from RMB17.4 billion in 2022 to RMB24.4 billion in 2027 at a CAGR of 7.0%, according to the F&S Report. Leveraging our brand and market position, we believe we are able to capitalize on the growth opportunity in the relevant markets.

Over twenty years of operation, we have established *Lan Cang Gu Cha* (瀾滄古茶) as our core brand, under which we have developed and structured two product lines, *i.e.*, *1966* and *Tea Mama* (茶媽媽), and launched a new product line, *Iland Tea* (岩冷), in July 2022, to meet the various demands from different groups of consumers, such as Pu'er enthusiasts, sophisticated tea drinkers, broader mass consumers, and new middle-class consumers with stronger purchasing power, who are perceived to be more fashionable and more generous to themselves. The following table sets forth a breakdown of our revenue by product line for the periods indicated.

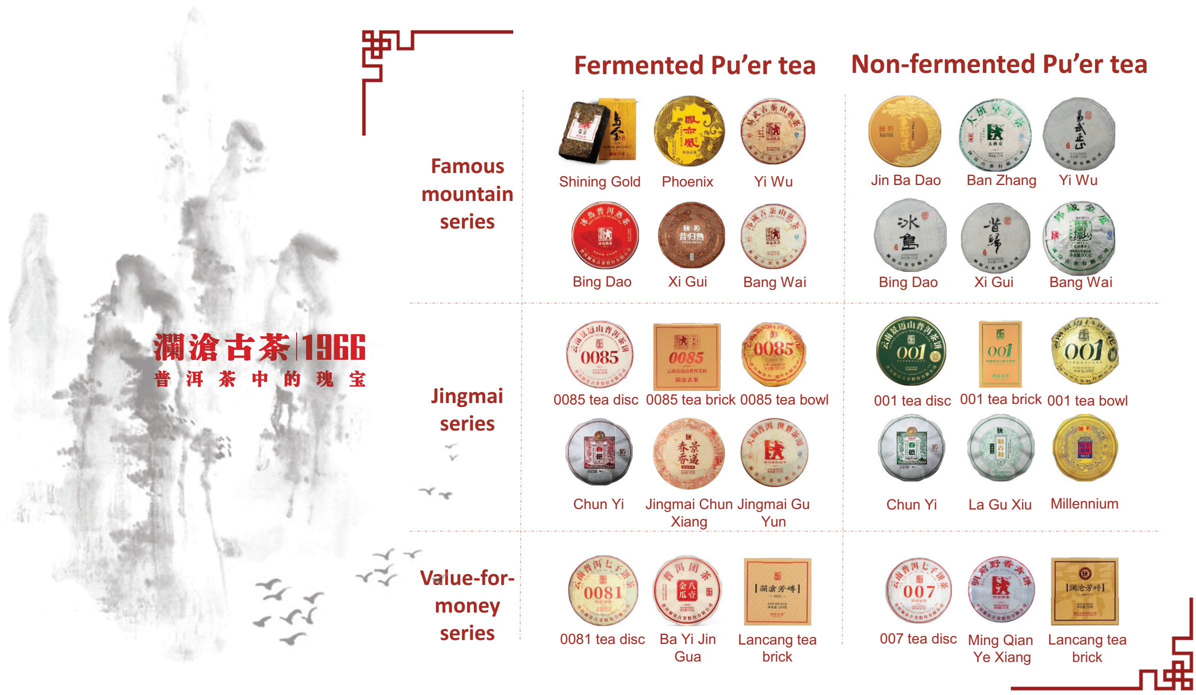
	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue
							(Unaudited)			
	(RMB in thousands except for percentages)									
Lan Cang Gu Cha — 1966	299,139	73.8	413,910	74.1	301,379	65.1	165,950	72.7	155,243	66.9
— Non-fermented Pu'er tea products	93,232	23.0	190,581	34.1	113,681	24.6	88,917	39.0	86,735	37.4
— Fermented Pu'er tea products	205,150	50.6	196,996	35.3	178,453	38.5	74,510	32.6	66,675	28.7
— Pu'er tea sets	757	0.2	26,333	4.7	9,245	2.0	2,523	1.1	1,833	0.8
Lan Cang Gu Cha — Tea Mama	94,763	23.4	126,715	22.7	144,429	31.2	52,773	23.1	69,909	30.1
Other services and products[(1)]	11,563	2.8	18,052	3.2	17,061	3.7	9,531	4.2	6,876	3.0
Total revenue	**405,465**	**100.0**	**558,677**	**100.0**	**462,869**	**100.0**	**228,254**	**100.0**	**232,028**	**100.0**

(1) Primarily including sales of tea wares and tea making utensils, teahouse services, and sales of *Iland Tea* products. We launched *Iland Tea* in July 2022 and generated an insignificant amount of revenue from sales of *Iland Tea* products.

SUMMARY

Focused on the development, manufacturing and sales of classic Pu'er tea leaf products, *1966* has historically experienced stable and sizable growth, serving as the bedrock of our business. *Tea Mama* was first introduced to the market as a consumer goods product line in 2014. We have capitalized on our rich product development experience in Pu'er tea and applied it to other types of teas, such as black tea, white tea and flavored tea, and creatively employed less traditional but more convenient product forms such as disposable tea cups and tea bags, enriching the product portfolio of *Tea Mama*. We believe that we have laid a solid foundation for the growth of *Tea Mama*, which is expected to become our next source of growth.

To better market different products according to their different features, we further classified our products under three product lines into various product series. During the Track Record Period, *1966* and *Tea Mama* had been our major sources of revenue. The following chart is an illustration of our product matrix.



We believe the quality of our products is key to our success. The Lancang flavor, which stands for our unique, recognizable and stable flavor feature, is attributable to our ability to source high quality rough tea leaves, our accumulation of unique production techniques and our stringent quality control measures. Harnessing our experience in fermentation and blending, which are the two core manufacturing procedures of Pu'er tea, we have accumulated a wealth of production data and unique production techniques, which allow us to exert control over the flavor of our tea leaf products and ensure stable product quality across different batches of production. Moreover, the vast majority of our tea leaves are sourced from Pu'er, Lincang and Xishuangbanna, the three major production areas of Pu'er tea in Yunnan, and in particular, Jingmai Mountain in Pu'er, which hosts some of the largest, oldest and best-preserved ancient tea tree plantations in the world and is currently nominated to be included in the World Heritage List for the ancient tea tree plantations in the region. According to the F&S Report, we were the largest purchaser of rough tea leaves from ancient tea trees in Jingmai Mountain in terms of procurement volume during the Track Record Period. With years of local presence, we have built strong and stable relationships with over 100 tea leaf cooperatives in the major production areas of Pu'er tea in Yunnan. As of June 30, 2023, we had over 3,700 tonnes of rough tea leaves and in-process tea leaves sourced in more than 15 different years stored in our specialized warehouses, which were sourced from tea plantations in major mountains in the three major production areas of Pu'er tea in Yunnan. Underpinned by our strong relationship with suppliers, adequate stock levels and specialized raw material inventory management, we are able to timely respond to constantly evolving market demands and see to the long-term stable production of our products, which may require blending of tea leaves sourced in different years and from different mountains.

We have established a national sales network, consisting of direct sales network and distributor sales network, which covers substantially all provincial administrative divisions across China. As of the Latest Practicable Date, we had 549 offline stores, among which 23 were self-operated stores and 526 were distributor-operated stores. Approximately 70% of our distributors as of June 30, 2023 had been part of our sales network for more than three years. During the Track Record Period and up to the Latest Practicable Date, we had been continuously making efforts on managing and optimizing our distributor sales network and distributors' overall performance, and at the same time expanded into online sales channels such as stores on e-commerce platforms. In the six months ended June 30, 2023, 10.3% of our total revenue was from sales made through our self-operated online stores.

Our Products

During the Track Record Period, we generally marketed our tea leaf products under our core brand, *Lan Cang Gu Cha*, under which we operated two product lines, *i.e.*, (1) *1966*, our classic product line focusing on Pu'er tea leaf products that target Pu'er enthusiasts and sophisticated tea drinkers, and (2) *Tea Mama*, our healthy lifestyle product line with a product portfolio that caters to a broader consumer base. We launched *Iland Tea*, a new product line targeting new middle-class consumers, in July 2022.

Lan Cang Gu Cha — 1966

As a classic product line positioned for Pu'er enthusiasts and sophisticated tea drinkers, *1966* is a tribute to our roots as our brand history traces back to 1966 in Jingmai Mountain, Yunnan Province. With years of geographic presence in one of the homes to Pu'er tea, we are able to maintain a stable supply of high-quality rough tea leaves and apply a proven set of Pu'er processing techniques to ensure the stable quality of *1966* products. Through *1966*, we have established ourselves as a leading Pu'er tea leaf brand well recognized among Pu'er enthusiasts in China, according to the F&S Report.

Pu'er tea products usually do not have an expiry date, and the longer Pu'er tea is preserved, the better it tastes and the higher value it possesses, according to F&S Report. *1966* offers a wide variety of fermented and non-fermented Pu'er tea leaf products, which can be further classified into three product series, i.e., famous mountain series, Jingmai series and value-for-money series. In 2022, there were 127 Pu'er tea leaf products sold under *1966*. With a rich product portfolio covering a broad spectrum of classic Pu'er tea products, we believe we have built *1966* into a well-rounded classic Pu'er tea product line that is able to cater to Pu'er enthusiasts' need for drinking, collection and gifting. Generally, our *1966* products are presented in the packaging forms of tea discs, tea bowls and tea bricks. The suggested retail prices of our major Pu'er tea leaf products produced in 2022 ranged from approximately RMB471 per kilogram to RMB50,420 per kilogram. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, the revenue generated from our *1966* products was RMB299.1 million, RMB413.9 million, RMB301.4 million, RMB166.0 million and RMB155.2 million, respectively, accounting for 73.8%, 74.1%, 65.1%, 72.7% and 66.9% of our total revenue in the same periods, respectively. The average selling price range of our major products under *1966* ranged from RMB125 to RMB13,390 per kilogram, RMB135 to RMB10,272 per kilogram, RMB145 to RMB15,969 per kilogram, RMB136 to RMB16,855 per kilogram and RMB139 to RMB11,254 per kilogram in 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively, calculated by dividing the total revenue from a given product in a given period with the total sales volume of such product in the same period. The majority of our products under *1966*, which contributed over 75% of our revenue from *1966* in 2022, had an average selling price range from RMB1,000 to RMB5,000 per kilogram in the same year.

Lan Cang Gu Cha — Tea Mama

With a brand image inspired by our founder, Ms. Du, who is nicknamed "tea mama," we established *Tea Mama* in 2014 with a mission to bring motherly love and care to our customers. *Tea Mama* embodies tea drinkers' pursuit of a healthy lifestyle and features a product portfolio that caters to a broader consumer base. Leveraging our profound experience in the Pu'er tea production, *Tea Mama* has successfully expanded its product portfolio into non-Pu'er tea products. In 2022, there were 126 products being sold under *Tea Mama*, covering various types of tea leaves including Pu'er tea, white tea, black tea and flavored tea, with a price range from RMB500 per kilogram to RMB15,800 per kilogram. Such product variety offered by *Tea Mama* allows us to attract more consumers with different tea drinking preferences. In addition, in order to adapt to modern consumers' fast-paced lifestyle, we present our *Tea Mama* products in different packaging forms, such as petit tea discs, tea bags and disposable tea cups, which are easily available for drink in their daily life. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, the revenue generated from our *Tea Mama* products was RMB94.8 million, RMB126.7 million, RMB144.4 million, RMB52.8 million and RMB69.9 million, respectively, accounting for 23.4%, 22.7%, 31.2%, 23.1% and 30.1% of our total revenue in the same periods, respectively. The average selling price range of our major products under *Tea Mama* ranged from RMB203 to RMB1,087 per kilogram, RMB295 to RMB1,067 per kilogram, RMB432 to RMB1,165 per kilogram, RMB409 to RMB1,097 per kilogram and RMB485 to RMB1,172 per kilogram in 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively. The majority of our products under *Tea Mama*, which contributed over 75% of our revenue from *Tea Mama* in 2022, had an average selling price range from RMB500 to RMB2,000 per kilogram in the same year.

Lan Cang Gu Cha — Iland Tea

With our in-depth industry insights, we believe that we have acutely identified the need among new middle-class consumers for tea products that are both tasty and aesthetically enjoyable and launched *Iland Tea* in July 2022 with suggested retail prices ranging from approximately RMB1,242 per kilogram to RMB4,363 per kilogram. We strive to build *Iland Tea* into a product line that features quality products, fashionable packaging and convenience in drinking. In 2022 and the six months ended June 30, 2023, we generated an insignificant amount of revenue from sales of *Iland Tea* products.

Other Services and Products

Other than tea leaf products, we also sold a variety of tea wares and tea making utensils and provided teahouse services to consumers in our stores during the Track Record Period. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, the revenue generated from such sales and services was RMB11.6 million, RMB18.1 million, RMB17.1 million, RMB9.5 million and RMB6.9 million, respectively, accounting for 2.8%, 3.2%, 3.7%, 4.2% and 3.0% of our total revenue in the same periods, respectively.

The following table sets forth a breakdown of our gross profit and gross profit margin by product line for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	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
							(Unaudited)			
	(RMB in thousands except for percentages)									
Lan Cang Gu Cha — 1966	229,406	76.7%	297,018	71.8%	224,938	74.6%	110,255	66.4%	101,731	65.5%
— Non-fermented Pu'er tea products	61,194	65.6%	131,532	69.0%	72,934	64.2%	54,270	61.0%	52,604	60.7%
— Fermented Pu'er tea products	167,622	81.7%	146,646	74.4%	147,060	82.4%	54,518	73.2%	47,922	71.9%
— Pu'er tea sets	590	77.9%	18,840	71.5%	4,944	53.5%	1,467	58.1%	1,205	65.7%
Lan Cang Gu Cha — Tea Mama	53,012	55.9%	65,999	52.1%	75,042	52.0%	25,450	48.2%	35,675	51.0%
Other services and products(1)	3,017	26.1%	5,423	30.0%	5,017	29.4%	3,253	34.1%	2,419	35.2%
Total	**285,435**	**70.4%**	**368,440**	**65.9%**	**304,997**	**65.9%**	**138,958**	**60.9%**	**139,825**	**60.3%**

(1) Primarily including sales of tea wares and tea making utensils, teahouse services, and sales of *Iland Tea* products. We launched *Iland Tea* in July 2022 and generated an insignificant amount of revenue from sales of *Iland Tea* products.

The following table sets forth a breakdown of our sales volume and average selling price per kilogram by product line for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	Sales volume	Average selling price per kilogram	Sales volume	Average selling price per kilogram	Sales volume	Average selling price per kilogram	Sales volume	Average selling price per kilogram	Sales volume	Average selling price per kilogram
	(tonne)	*(RMB)*	*(tonne)*	*(RMB)*	*(tonne)*	*(RMB)*	*(tonne)*	*(RMB)*	*(tonne)*	*(RMB)*
Lan Cang Gu Cha — 1966	396	756	551	751	440	685	281	591	248	625
— Non-fermented Pu'er tea products	132	708	173	1,099	156	729	114	780	100	868
— Fermented Pu'er tea products	264	778	361	546	263	678	163	457	145	460
— Pu'er tea sets	0	1,765	17	1,595	21	449	4	706	3	528
Lan Cang Gu Cha — Tea Mama	112	847	141	900	178	813	64	823	84	836
Total	**508**	**799**	**692**	**808**	**618**	**722**	**345**	**634**	**332**	**678**

Our Sales Network

We have a nationwide offline sales network, covering substantially all provincial administrative divisions across China. We engage distributors to distribute our products. In addition, we also sell directly to consumers through our self-operated stores. Since 2020, we have also expanded our sales network into key account channels including hypermarket chains and platform-operated online stores. The following table sets forth a breakdown of revenue contribution from our distributors, direct sale customers and key accounts for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue
							(Unaudited)			
	(RMB in thousands except for percentages)									
Sales to distributors	320,443	79.0	448,495	80.3	335,064	72.4	178,097	78.0	175,673	75.7
Sales to direct sale customers	84,452	20.8	93,912	16.8	116,276	25.1	47,326	20.7	50,137	21.6
— Offline sales to retail customers	33,159	8.2	51,815	9.3	62,042	13.4	19,719	8.6	26,204	11.3
— Online sales to retail customers	51,293	12.6	42,097	7.5	54,234	11.7	27,607	12.1	23,933	10.3
Sales to key accounts	570	0.2	16,270	2.9	11,529	2.5	2,831	1.3	6,218	2.7
Total	**405,465**	**100.0**	**558,677**	**100.0**	**462,869**	**100.0**	**228,254**	**100.0**	**232,028**	**100.0**

We sell our products through both offline channels and online channels. Our offline channels include self-operated stores, distributor-operated stores and hypermarket chains. As of December 31, 2020, 2021 and 2022 and June 30, 2023, we had 17, 26, 24 and 23 self-operated stores and 566, 531, 508 and 520 distributor-operated stores, respectively. The number of our distributor-operated stores generally experienced decreases during the Track Record Period mainly because we raised the threshold for distributor selection and terminated business relationships with certain distributors whose track record did not meet our enhanced distributor selection criteria. Online channels include our self-operated online stores on major e-commerce platforms in China, where we sell directly to our retail customers through such platforms, and platform-operated online stores as our key account customers in a buyer-seller relationship for the distribution of our products to their retail customers. The e-commerce platforms are responsible for the overall operation of their platform-operated online stores.

We engage distributors to distribute our products. Typically, our distributors sell our products directly to retail customers. Our relationship with distributors is a buyer and seller relationship as distributors acquire ownership of the products we deliver to them, and no return, exchange or refund is allowed except for limited circumstances such as quality defects or damage during transportation. We value our distributors' business operation capabilities and their cooperative relationships with us. As of June 30, 2023, approximately 70% of our distributors had been part of our sales network for more than three years.

The following table sets forth a breakdown of our revenue by geographic location for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue
							(Unaudited)			
	(RMB in thousands except for percentages)									
Offline sales	353,602	87.2	515,280	92.2	405,337	87.6	199,054	87.2	204,278	88.0
— South China	157,542	38.9	226,761	40.6	188,305	40.7	89,986	39.4	92,986	40.1
— East China	53,513	13.2	80,569	14.4	57,727	12.5	28,171	12.3	27,883	12.0
— Southwest China	43,745	10.8	66,541	11.9	57,093	12.3	25,749	11.3	31,004	13.4
— North China	38,037	9.4	53,039	9.5	44,392	9.6	23,006	10.1	19,546	8.4
— Northwest China	28,966	7.1	39,073	7.0	25,664	5.5	15,027	6.6	15,649	6.7
— Central China	16,353	4.0	25,614	4.6	18,681	4.0	9,612	4.2	10,352	4.5
— Northeast China	14,870	3.7	23,037	4.1	12,873	2.8	7,207	3.2	6,579	2.8
— Hong Kong, Macao and Taiwan	576	0.1	646	0.1	601	0.1	296	0.1	279	0.1
Online sales	51,863	12.8	43,397	7.8	57,532	12.4	29,200	12.8	27,750	12.0
Total	**405,465**	**100.0**	**558,677**	**100.0**	**462,869**	**100.0**	**228,254**	**100.0**	**232,028**	**100.0**

Raw Materials and Packaging Materials

The principal raw material we use in the production of our products is rough tea leaves, which are used in producing Pu'er tea, black tea, white tea and flavored tea. We take a holistic approach in making purchasing decisions of rough tea leaves. Factors affecting our purchasing decisions include the price, quality and origin of a certain batch of rough tea leaves as well as our long-term product development plan. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, purchase for rough tea leaves amounted to RMB99.9 million, RMB196.9 million, RMB165.1 million, RMB144.6 million and RMB100.7 million, respectively. The purchasing prices of our raw materials fluctuate due to a variety of factors, including supply and demand, our ability to negotiate prices with suppliers, logistics and others. Apart from raw materials, we also need packaging materials, which primarily consist of cardboard and metal packaging materials, to produce our products. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, purchase for packaging materials amounted to RMB16.5 million, RMB49.9 million, RMB37.9 million, RMB15.7 million and RMB10.9 million, respectively. During the Track Record Period, we did not experience any significant shortage of raw material and packaging material supplies, and the raw materials and packaging materials provided by our suppliers did not have any significant quality issues.

Our Suppliers

We primarily purchase raw materials such as rough tea leaves, packaging materials, logistics and transportation services, and processing services from suppliers for our business operations. We do not own any tea leaf plantations or any tea trees, but instead, source rough tea leaves from the tea leaf cooperatives in major tea production areas in Yunnan Province, where the soil quality and humidity are well suited to give these tea leaves their freshness and taste. We source such rough tea leaves for both Pu'er tea products and non-Pu'er tea products. Our suppliers for packaging materials are primarily located in Yunnan Province and Guangdong Province. Our independent third party processing partners primarily provide processing services for our flavored tea products, such as *Little Green Mandarin*, while we are responsible to provide adequate tea leaves and packaging materials. We have maintained long-term and stable business relationships with a large number of tea leaf cooperatives and expect to maintain amicable relationships with them. In the six months ended June 30, 2023, more than 50% of our purchase amount of rough tea leaves were attributable to tea leaf cooperatives with over five years' business relationship with us, and more than 30% of that were attributable to tea leaf cooperatives with over ten years' business relationship with us.

Production Bases

As of the Latest Practicable Date, we had two production bases, both located in Pu'er, Yunnan. Our production base in Lancang is our primary production base, where substantially all tea leaf products under *1966* are manufactured. Our production base in Simao is our secondary production base, which is mostly designed for the production of tea leaf products under *Tea Mama*, including black tea, white tea and flavored tea other than Chenpi Pu'er.

The following table sets forth the details of our production bases for the periods indicated.

Production base	Production capacity (tonnes)(1)				Production volume (tonnes)(2)				Utilization rate (%)(3)			
	2020	2021	2022	First six months in 2023	2020	2021	2022	First six months in 2023	2020	2021	2022	First six months in 2023
Lancang County, Pu'er City (普洱市瀾滄縣)	635.1	684.0(4)	1,124.2(5)	562.1	518.7	592.0	1,015.0	355.9	81.7	86.5	90.3	63.3
Simao District, Pu'er City (普洱市思茅區)	116.8	160.6(6)	160.6	80.3	22.1	40.9	64.6	27.5	18.9	25.4	40.2	34.2

(1) Production capacity is calculated based on the assumption that our production facilities operate 2,920 hours per year.

(2) During the Track Record Period, the Lancang production base was utilized for the production of tea leaves to be used in our Chenpi Pu'er products, the later production stage of which was outsourced to a third party processing partner. See "—Production Outsourced to Third Parties." The production of such tea leaves to be used in our Chenpi Pu'er products was not reflected in the production volume of the Lancang production base in the Track Record Period as such tea leaves to be used in Chenpi Pu'er products were not counted as finished goods.

(3) Utilization rate is calculated by dividing the production volume of a given period by the production capacity of the same period.

(4) The increase in capacity was the result of our addition of a new production facility in Lancang, which was completed in October 2021 with an annualized theoretical production capacity of 293.6 tonnes per year. The new facility was used for production for approximately two months in 2021, thereby increasing the production capacity of the Lancang production base by 7.7% from 635.1 tonnes in 2020 to 684.0 tonnes in 2021.

(5) The increase in capacity was primarily due to the capacity increase of the new production facility in Lancang after its ramp-up period.

(6) The capacity of the Simao production base increased by 37.5% from 116.8 tonnes per year in 2020 to 160.6 tonnes per year in 2021 due to our addition of new production equipment.

COMPETITIVE STRENGTHS

We believe the following competitive strengths have contributed to our success and differentiated us from our competitors: (1) one of the most famous Pu'er tea brands in China with high growth potential; (2) unique production techniques and sound research and development capabilities; (3) unmatched access to high quality raw materials and rich inventory of tea leaves; (4) comprehensive sales network with omni-channel reach; (5) stringent quality requirements and craftsmanship in production; and (6) entrepreneurial management laser-focused on our success in the tea leaf industry.

GROWTH STRATEGIES

We intend to enhance our competitive strengths and pursue the following strategies to expand our business: (1) enhance our inventory management and production capabilities; (2) continue to optimize our national sales network and enhance our sales and servicing capabilities; (3) further expand our business through strategic investments and acquisitions; (4) continue to promote our brand awareness and market visibility through differentiated strategies for different product lines; and (5) upgrade our information technology infrastructure and further strengthen our research and development capabilities.

RISKS AND CHALLENGES

Our business and [REDACTED] involve certain risks, which are set out in the section headed "Risk Factors" in this document. Some of the major risk factors that we face include: (1) shift in consumer demand, or any unexpected situation with a negative impact on consumer demand; (2) damage to our brand or reputation; (3) deterioration in relationships with distributors; (4) inability to manage our growth; (5) product quality issue; (6) fluctuations in prices and changes in the quality of raw materials; (7) dependence on tea leaf cooperatives for rough tea leaves; (8) inability to source adequate rough tea leaves from tea leaf cooperatives or failure to maintain good relationships with such cooperatives; (9) impact from COVID-19 pandemic; and (10) failure to upgrade our existing products or to launch new products. As different investors may have different interpretations and criteria when determining the significance of a risk, you should carefully read the "Risk Factors" section in its entirety before you decide to [REDACTED] in our [REDACTED].

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following is a summary of our historical financial information as of and for the years ended December 31, 2020, 2021 and 2022 and the six months ended June 30, 2022 and 2023, extracted from the Accountant's Report set out in Appendix I to this document. The summary below should be read in conjunction with the consolidated financial information in Appendix I, including the accompanying notes and the information set forth in the section headed "Financial Information" in this document. Our consolidated financial information was prepared in accordance with HKFRSs.

Summary of Results of Operations

The following table sets forth a summary of our results of operations for the periods indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
				(Unaudited)	
	(RMB in thousands)				
Revenue	**405,465**	**558,677**	**462,869**	**228,254**	**232,028**
Cost of sales	(120,030)	(190,237)	(157,872)	(89,296)	(92,203)
Gross profit	**285,435**	**368,440**	**304,997**	**138,958**	**139,825**
Profit before income tax	**140,019**	**146,282**	**85,449**	**34,532**	**27,032**
Profit for the year/period	**123,032**	**128,960**	**70,492**	**30,359**	**23,568**
Profit attributable to:					
Owners of the Company	122,882	131,006	72,205	30,907	24,366
Non-controlling interests	150	(2,046)	(1,713)	(548)	(798)
Profit for the year/period	**123,032**	**128,960**	**70,492**	**30,359**	**23,568**

Non-HKFRS Measures

In order to supplement our consolidated financial statements presented in accordance with the HKFRSs, we use adjusted net profit (non-HKFRS measure) as an additional financial measure, which is not required by, or not presented in accordance with HKFRSs. Our adjusted net profit (non-HKFRS measure) represents our profit for the year/period, adjusted to add back share-based payment expenses and [REDACTED] that we recognized in our consolidated statements of comprehensive income during the Track Record Period less related income tax expenses. Share-based payment expenses are adjusted for as they are non-cash in nature, and were not expected to result in future cash payments. We believe that non-HKFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain items. However, adjusted net profit (non-HKFRS measure) presented by us may not be comparable to the similar financial measure presented by other companies. There are limitations to the non-HKFRS measure used as an analytical tool, and you should not consider it in isolation or regard it as a substitute for our results of operation or financial position analysis that is in accordance with HKFRSs.

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
				(Unaudited)	
			(RMB in thousands)		
Profit for the year/period	123,032	128,960	70,492	30,359	23,568
Add:					
Share-based payment expenses	—	18,000	—	—	—
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Less:					
Income tax expenses in relation to above reconciled items	—	(2,700)	(218)	—	(179)
Adjusted net profit (non-HKFRS measure)	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

Our total revenue was RMB405.5 million, RMB558.7 million, RMB462.9 million, RMB228.3 million and RMB232.0 million in 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively. Our revenue increased by 37.8% from RMB405.5 million in 2020 to RMB558.7 million in 2021, primarily as a result of our continued efforts to grow our business, optimize sales channels and launch products that cater to the evolving consumer demand. Our revenue decreased by 17.1% from RMB558.7 million in 2021 to RMB462.9 million in 2022, primarily as a result of COVID-19 recurrences across the country in 2022, which caused disruptions to the operation of our stores in the affected regions. Our revenue increased by 1.7% from RMB228.3 million in the six months ended June 30, 2022 to RMB232.0 million in the six months ended June 30, 2023, primarily due to the increase in the revenue generated from *Tea Mama* in the six months ended June 30, 2023, partially offset by the decrease in revenue generated from *1966* in the same period.

In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, our cost of sales was RMB120.0 million, RMB190.2 million, RMB157.9 million, RMB89.3 million and RMB92.2 million, respectively, representing 29.6%, 34.1%, 34.1%, 39.1% and 39.7% of our total revenue for the same periods, respectively. Our cost of sales increased by 58.5% from RMB120.0 million in 2020 to RMB190.2 million in 2021. Such increase in our cost of sales was primarily due to (1) general growth of our business resulting in the revenue increase and (2) the increase in cost of raw materials mainly attributable to the launch of *Millennium* in 2021, a flagship non-fermented Pu'er tea product made from quality tea leaves sourced from Jingmai Mountain. Our cost of sales decreased by 17.0% from RMB190.2 million in 2021 to RMB157.9 million in 2022. Such decrease in our cost of sales was primarily due to (1) the general decrease in our revenue caused by the negative impacts of COVID-19 in 2022, and (2) the decrease in cost of raw materials as a result of our decreased sales volume in the same year. Our cost of sales increased by 3.3% from RMB89.3 million in the six months ended June 30, 2022 to RMB92.2 million in the six months ended June 30, 2023, primarily due to the increase in revenue generated from *Tea Mama* products, resulting in increases in consigned processing expenses and packaging expenses for such products.

In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, our gross profit was RMB285.4 million, RMB368.4 million, RMB305.0 million, RMB139.0 million and RMB139.8 million, respectively. During the same periods, our gross profit margin was 70.4%, 65.9%, 65.9%, 60.9% and 60.3%, respectively. Our gross profit margin decreased from 70.4% in 2020 to 65.9% in 2021, primarily due to more non-fermented Pu'er tea leaf products launched in 2021, which generally have a lower margin than fermented Pu'er tea leaf products. In 2022, our gross profit margin remained stable at 65.9%.

Our net profit increased from RMB123.0 million in 2020 to RMB129.0 million in 2021 and decreased to RMB70.5 million in 2022, mostly in line with the fluctuation of our gross profit in the relevant years. Our net profit decreased from RMB30.4 million in the six months ended June 30, 2022 to RMB23.6 million in the six months ended June 30, 2023, primarily due to increased expenses as a result of our expanded operation scale.

Summary of Consolidated Statements of Financial Position

The following table sets forth a summary of our consolidated statements of financial position as of the dates indicated.

	As of December 31,			As of June 30,
	2020	2021	2022	2023
		(RMB in thousands)		
Total non-current assets	241,520	367,455	463,128	437,402
Total current assets	663,307	827,030	947,773	984,596
Total current liabilities	146,885	172,249	386,531	372,371
Net current assets	516,422	654,781	561,242	612,225
Total assets less current liabilities	757,942	1,022,236	1,024,370	1,049,627
Total non-current liabilities	169,643	264,870	225,100	234,531
Net assets	588,299	757,366	799,270	815,096
Non-controlling interests	2,110	9,311	5,034	3,738

The general increase in our total non-current assets from RMB241.5 million as of December 31, 2020 to RMB463.1 million as of December 31, 2022 was primarily due to the increase in our right-of-use assets for the expansion of our business. Our total non-current assets decreased from RMB463.1 million as of December 31, 2022 to RMB437.4 million as of June 30, 2023, primarily due to the decrease in our right-of-use assets as a result of the depreciation during business operations.

The increase in our net current assets from RMB516.4 million as of December 31, 2020 to RMB654.8 million as of December 31, 2021 was in line with our business growth. Our net current assets decreased from RMB654.8 million as of December 31, 2021 to RMB561.2 million as of December 31, 2022, primarily due to (1) the increase in our trade and other payables as we slowed down the settlement for the purchase of rough tea leaves in light of the uncertainties relating to COVID-19, as well as (2) the increase in the current portion of our non-current bank borrowings, which was partially offset by the increase in our inventories. Our net current asset increased from RMB561.2 million as of December 31, 2022 to RMB612.2 million as of June 30, 2023, primarily due to (1) the increase in our inventories from RMB783.7 million as of December 31, 2022 to RMB834.6 million as of June 30, 2023, and (2) the decrease in borrowings from RMB134.9 million as of December 31, 2022 to RMB112.1 million as of June 30, 2023.

The general increase in our net assets from RMB588.3 million as of December 31, 2020 to RMB815.1 million as of June 30, 2023 was primarily due to the combined effect of (1) the profit generated and dividends paid in each year during the Track Record Period, (2) capital contributions from non-controlling interests and (3) the shares granted under the employee share scheme. In particular, our net profit was RMB123.0 million, RMB129.0 million, RMB70.5 million and RMB23.6 million in 2020, 2021, 2022 and the six months ended June 30, 2023, respectively; we declared dividends to our Shareholders of RMB16.8 million, RMB16.8 million, RMB23.9 million and RMB6.3 million in the same periods, respectively; we received capital contributions from non-controlling interests of RMB2.0 million, RMB9.1 million, nil and nil in the same periods, respectively; we granted shares under the employee share scheme of nil, RMB48.0 million, nil and nil in the same periods, respectively. For details of the employee share scheme, see Note 26(a) to the Accountant's Report in Appendix I to this document. See also consolidated statements of changes in equity in the Accountant's Report in Appendix I to this document.

Summary of Consolidated Statements of Cash Flows

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

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
				(Unaudited)	
			(RMB in thousands)		
Net cash generated from/(used in) operating activities	93,463	(8,984)	39,635	35,875	(1,799)
Net cash used in investing activities	(20,946)	(56,193)	(76,816)	(52,949)	(4,149)
Net cash (used in)/generated from financing activities	(59,380)	32,812	(14,338)	(20,709)	(18,430)
Cash and cash equivalents at end of the year	173,911	141,546	90,027	103,763	65,649

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios for the periods indicated.

	As of/for the year ended December 31,			As of/for the six months ended June 30,	
	2020	2021	2022	2022	2023
				(Unaudited)	
Profitability ratios					
Gross profit margin	70.4%	65.9%	65.9%	60.9%	60.3%
Net profit margin	30.3%	23.1%	15.2%	13.3%	10.2%
Return on equity	23.0%	19.2%	9.1%	N.M.	N.M.
Return on total assets	14.7%	12.3%	5.4%	N.M.	N.M.
Liquidity ratios					
Current ratio	4.5x	4.8x	2.5x	N/A	2.6x
Gearing ratio	16.2%	17.0%	20.9%	N/A	20.6%

See "Financial Information—Key Financial Ratios" for details.

OUR MARKET OPPORTUNITIES

With the raising health awareness among Chinese consumers, the tea leaf market in China, as a major segment and growth driver of China's tea market, has experienced steady growth. The total annual production volume of tea leaves in China increased from 2.5 million tonnes in 2017 to 3.4 million tonnes in 2022 at a CAGR of 6.7%, and is expected to reach 4.7 million tonnes in 2027 at a CAGR of 6.5% from 2022 to 2027. The market size of China's tea leaf market in terms of revenue increased from RMB240.6 billion in 2017 to RMB331.8 billion in 2022 at a CAGR of 6.6%, and is expected to reach RMB441.2 billion in 2027 at a CAGR of 5.9% from 2022 to 2027.

Pu'er tea in China has experienced general growth, indicating a healthy growth potential. The market size of China's Pu'er tea market in terms of revenue increased from RMB11.5 billion in 2017 to RMB17.4 billion in 2022 at a CAGR of 8.6%, and is expected to reach RMB24.4 billion in 2027 at a CAGR of 7.0% from 2022 to 2027. Depending on whether rough tea leaves have been artificially fermented, Pu'er tea products can be further classified into fermented and non-fermented Pu'er tea. Fermented Pu'er tea market has been a key growth driver of the Pu'er tea market, and its market size in terms of revenue increased from RMB2.7 billion in 2017 to RMB4.7 billion in 2022 at a CAGR of 11.7%, and is expected to reach RMB7.3 billion in 2027 at a CAGR of 9.1% from 2022 to 2027.

OUR CONTROLLING SHAREHOLDER GROUP

As of the Latest Practicable Date, Ms. Du and Ms. Wang, who have entered into the acting-in-concert arrangements, were entitled to control the exercise of 47.96% voting rights at the general meetings of our Company, including (i) 18.07% beneficially owned by Ms. Du directly, (ii) 2.66% and 6.12% beneficially owned by Mr. Shi Yue (石躍) (Ms. Du's husband) and Ms. Shi Ailing (石艾靈) (Ms. Du's daughter), respectively, whose voting rights at the general meeting of our Company are controlled by Ms. Du pursuant to the family arrangements, (iii) 13.22% beneficially owned by Ms. Wang directly, and (iv) 7.89% beneficially owned by Guangzhou Tiansu, which is controlled by Ms. Wang as its controlling shareholder. Upon the [REDACTED], Ms. Du and Ms. Wang will be entitled to control the exercise of [REDACTED]% voting rights at the general meetings of our Company, including (i) [REDACTED]% beneficially owned by Ms. Du directly, (ii) [REDACTED]% beneficially owned by Mr. Shi Yue and [REDACTED]% beneficially owned by Ms. Shi Ailing, (iii) [REDACTED]% beneficially owned by Ms. Wang directly, and (iv) [REDACTED]% beneficially owned by Guangzhou Tiansu, assuming [REDACTED] is not exercised. Therefore, Ms. Du, Ms. Wang, Mr. Shi Yue, Ms. Shi Ailing and Guangzhou Tiansu constituted as of the Latest Practicable Date and will continue to constitute upon the [REDACTED] a group of controlling shareholders of our Company pursuant to the Listing Rules. See "History and Corporate Structure — Acting in Concert" for details of the acting-in-concert arrangements between Ms. Du and Ms. Wang.

CONNECTED TRANSACTIONS

We have entered into certain transactions with persons that will, upon [REDACTED], become our connected persons (as defined under Chapter 14A of the Listing Rules). Accordingly, following [REDACTED], the transactions contemplated thereunder will constitute continuing connected transactions under Chapter 14A of the Listing Rules. See "Connected Transactions" for details of the connected transactions.

[REDACTED] INVESTMENTS

To fund our rapid business expansion and diversify our Shareholder base, since February 2018, our Company have conducted several [REDACTED] investments with reputable institutional and individual investors, such as Gongqingcheng Kaiyi Hengzheng Investment Management Partnership (Limited Partnership) (共青城凱易恒正投資管理合夥企業(有限合夥), Pingyang Juanquan Xinben Investment Partnership (Limited Partnership) (平陽浚泉信本投資合夥企業(有限合夥), Pingyang Junquan Shenshi Equity Investment Partnership (平陽浚泉慎始股權投資合夥企業(有限合夥), Dr. Zheng Wenping (鄭文平) and Mr. Wu Zhize (吳志澤). See "History and Corporate Structure — [REDACTED] Investments" for details of the principal terms of our [REDACTED] Investments and the identity and background of our [REDACTED] Investors.

APPLICATION FOR [REDACTED] ON THE STOCK EXCHANGE

We have applied to the [REDACTED] of the Stock Exchange for the grant of the [REDACTED] of, and permission to [REDACTED], our H Shares to be issued pursuant to [REDACTED] (including any H Shares which may be issued pursuant to the exercise of the [REDACTED]), on the basis that, among other things, we satisfy the profit test under Rule 8.05(1) of the Listing Rules.

[REDACTED]

We expect to incur a total of RMB[REDACTED] million of [REDACTED] (assuming an [REDACTED] of HK$[REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED] range between HK$[REDACTED] and HK$[REDACTED], and assuming that the [REDACTED] is not exercised) until the completion of [REDACTED]. We recognized [REDACTED] of RMB[REDACTED] million and RMB[REDACTED] million in our consolidated statement of comprehensive income for the year ended December 31, 2022 and the six months ended June 30, 2023, respectively. We estimate that RMB[REDACTED] million of [REDACTED] will be charged to our consolidated statement of comprehensive income after the Track Record Period. The remaining RMB[REDACTED] million is directly attributable to the [REDACTED] of our Shares to the [REDACTED] and is expected to be deducted from equity.

[REDACTED] include RMB[REDACTED] million of fees for legal advisors and the Reporting Accountant, RMB[REDACTED] million of other fees unrelated to [REDACTED], and RMB[REDACTED] million of [REDACTED] payable to [REDACTED] and transaction fees (including SFC transaction levy, AFRC transaction levy, and Stock Exchange trading fee) in connection with the [REDACTED] of

[REDACTED] under [REDACTED]. The [REDACTED] above represent approximately [REDACTED]% of our [REDACTED] from [REDACTED] and are the best estimate as of the Latest Practicable Date and for reference only. The actual amount may differ from this estimate.

[REDACTED] STATISTICS

All statistics in the following table are based on the fact that (1) [REDACTED] has been completed and [REDACTED] are issued pursuant to [REDACTED]; and (2) [REDACTED] is not exercised.

	Based on an [REDACTED] Price of HK$[REDACTED] per [REDACTED]	Based on an [REDACTED] Price of HK$[REDACTED] per [REDACTED]
[REDACTED] of our Shares(1)	HK$[REDACTED] million	HK$[REDACTED] million
Unaudited [REDACTED] adjusted net tangible asset per Share(2)	HK$[REDACTED]	HK$[REDACTED]

(1) The calculation of [REDACTED] is based on [REDACTED] Shares expected to be in issue immediately upon completion of [REDACTED] (assuming [REDACTED] is not exercised).

(2) The unaudited [REDACTED] net tangible assets per Shares is arrived at after adjusting for the estimated [REDACTED] from [REDACTED] and on the basis that [REDACTED] Shares were in issue assuming that [REDACTED] has been completed on June 30, 2023 but takes no account of any Shares which may be allotted and issued pursuant to the exercise of [REDACTED] or any Shares which may be issued or repurchased by the Company.

FUTURE PLANS AND [REDACTED]

We estimate the [REDACTED] of the [REDACTED] which we will receive, assuming an [REDACTED] of HK$[REDACTED] per [REDACTED] (being the mid-point of the [REDACTED] range stated in this document), will be approximately HK$[REDACTED] million, after deduction of [REDACTED] and [REDACTED] and other estimated expenses in connection with [REDACTED] assuming [REDACTED] is not exercised. We intend to use the [REDACTED] of [REDACTED] for the following purposes: (1) approximately [REDACTED]%, or HK$[REDACTED] million for building modernized logistics and warehousing centers and new production facilities and upgrading our current production facilities; (2) approximately [REDACTED]%, or HK$[REDACTED] million for sales channel building; (3) approximately [REDACTED]%, or HK$[REDACTED] million for brand building and product marketing; (4) approximately [REDACTED]%, or HK$[REDACTED] million for strategic investments in and acquisitions of business opportunities in the tea industry; (5) approximately [REDACTED]%, or HK$[REDACTED] million for upgrading our information technology infrastructure and further strengthening our research and development capabilities; and (6) approximately [REDACTED]%, or HK$[REDACTED] million for working capital and other general corporate purposes.

See "Future Plans and [REDACTED]" for further information relating to our future plans and [REDACTED] from [REDACTED], including the adjustment on the allocation of the [REDACTED] in the event that [REDACTED] is fixed at a higher or lower level compared to the midpoint of the estimated [REDACTED] range.

DIVIDENDS

According to the Articles of Association and applicable laws and regulations, our profit distribution proposal is formulated by our Board, and upon approval by the Board and the Board of Supervisors, it is submitted to a Shareholders' general meeting for consideration where it must be passed by Shareholders representing more than half of the voting rights of the Shareholders who attend the general meeting. Our Board will declare dividends, if any, in RMB with respect to the H Shares on a per Share basis and will pay such dividends in Hong Kong dollars. All of our Shareholders have equal rights to distributable profits, and our profits will be distributed on a pro-rata basis.

Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the discretion of our Board. Both current and new Shareholders are entitled to our accumulated retained earnings prior to [REDACTED], subject to compliance with our Articles of Association and relevant regulatory requirements.

During the Track Record Period, we declared dividends to our Shareholders of RMB16.8 million, RMB16.8 million, RMB23.9 million and RMB6.3 million in 2020, 2021, 2022 and the six months ended June 30, 2023, respectively, in light of our cumulative business growth. All of such dividends declared during the Track Record Period had been fully settled by bank transfer to our Shareholders as of the Latest Practicable Date. See also Note 13 to the Accountant's Report in Appendix I to this document.

RECENT DEVELOPMENTS

No Material Adverse Change

Subsequent to the Track Record Period and up to the Latest Practicable Date, our business operation remained stable in all material aspects. During such period, the number of our self-operated stores remained stable at 23 and the number of our distributor-operated stores increased slightly from 520 as of June 30, 2023 to 526 as of the Latest Practicable Date. As of the Latest Practicable Date, most of our employees had recovered once or more from COVID-19 infections and all of our stores had resumed normal business operations. As of the same date, we had also resumed regular pace of our marketing campaigns, which were disrupted due to multiple outbreaks of new variants of COVID-19 across China in 2022. For example, we resumed *Journey Home*, our regular offline campaign held annually, joined by approximately 1,000 tea enthusiasts across the country. In the first half of 2023, we launched over 60 products, including, among others, *0081* and *007*, our bedrock products, as well as other newly designed or upgraded products. In February 2023, we were recognized by China Tea Marketing Association (中國茶葉流通協會) as the Innovative Benchmark Enterprise in Tea Marketing of 2022 (2022年度茶業流通創新標桿企業) and the Tea Industry Leading Enterprise of 2022 (2022年度茶業龍頭企業).

Our Directors confirmed that subsequent to the Track Record Period and up to the Latest Practicable Date, (1) there was no material adverse change in the market conditions and the regulatory environment in which our Group operates that would affect our financial or operating position materially and adversely; (2) there was no material adverse change in our business, revenue structure, profitability, cost structure, financial position and prospects; and (3) no event had occurred that would affect the information shown in our Accountant's Report in Appendix I to this document materially and adversely.

COVID-19 Outbreak and Effects on Our Business

The outbreak of COVID-19 that began in late 2019 has materially and adversely affected the global economy. In response to the pandemic, the Chinese government implemented necessary pandemic prevention measures from time to time during the past three years. While the pandemic came under control in China from the second quarter of 2020, there was a rise in COVID-19 cases, including the COVID-19 Delta and Omicron variant cases, in various cities in China in 2022.

Our Directors have carried out a holistic review of the impact of the COVID-19 on our operations and confirmed that as of the Latest Practicable Date, COVID-19 has, or may have, the following impacts on our business.

Throughout 2022, multiple outbreaks of new variants of COVID-19 across China repeatedly caused disruptions to the operation of our stores in the affected regions, including temporary store closures, reduced operating hours, reduced offline customer traffic and canceled tea tasting sessions. Most of our stores such as those in Shanghai, Changchun, Xi'an and Guangzhou experienced temporary closures for approximately one to two months. In addition, certain stores in Beijing, Chengdu and Hefei, among others, experienced reduced offline customer traffic throughout 2022 due to curtailed operating hours and canceled tea tasting sessions. Such impact on our brick-and-mortar presence represented an immense headwind on our business in 2022. We were also forced to wage certain marketing campaigns online instead of offline or even abandon the planned marketing campaigns. For example, we were forced to abandon our plan for *Journey Home* (回家之旅)[1] in 2022 due to lack of feasibility.

Our results of operations for 2022 were negatively affected by the COVID-19 pandemic in China, primarily due to (1) disruption in our business operations, such as disrupted offline store operations in affected regions and cancellation of certain offline campaigns, and (2) consumer pessimism in light of the pandemic which suppressed the demand for our products. Our results of operations were particularly affected by the outbreaks of COVID-19 in 2022, primarily due to the emergence and spread of the Omicron variant of COVID-19 that led to outbreaks across the country and resulted in dampened consumer confidence. Our revenue decreased by 17.1% from RMB558.7 million in 2021 to RMB462.9 million in 2022. Our net profit decreased by 45.3% from RMB129.0 million in 2021 to RMB70.5 million in 2022. The average purchasing amount per distributor from us decreased by 21.9% from RMB0.85 million in 2021 to RMB0.66 million in 2022.

In 2022, COVID-19 had slowed down and created hurdles for our overall expansion plan. In terms of our offline sales network expansion, we had taken a more cautious approach until the complete alleviation of the surge of COVID-19 infections that began in December 2022. The number of our self-operated stores and distributor-operated stores decreased slightly from 26 and 531 as of December 31, 2021 to 24 and 508 as of December 31, 2022, respectively. Since the alleviation of the pandemic and the adjustment of the pandemic prevention measures, all of our stores have resumed normal business operations. We have not observed significant impact that COVID-19 outbreaks have had on our supply chain or any abrupt decline in utilization rates of our production plants as Yunnan Province, where all of our production plants and most of our suppliers are located, was less affected by the outbreaks. Our logistics and transportation service providers in certain provinces in China were affected by COVID-19 outbreaks. For example, delivery of our products in affected cities, such as Xi'an, Guangzhou and Shanghai, were affected. While we were not subject to any claim due to delays in deliveries of our products as of the Latest Practicable Date, disrupted transportation experienced by our logistics and transportation service providers reduced the sales volume of our products and slowed down our expansion in certain affected provinces to certain extent. As of the Latest Practicable Date, most of our employees had recovered once or more from COVID-19 infections.

Given that the phase-out of the measures for pandemic prevention, we believe that while COVID-19 outbreaks may affect our short-term growth, we do not expect such outbreaks to have a material adverse effect on our long-term overall business and financial performance. In response to COVID-19 outbreaks, we had proactively taken measures to mitigate its potential impacts on us and our distributors, including adjusting our product launching plan, increasing spending on marketing and advertising, and providing more support to our offline stores. In spite of the impact from the COVID-19 pandemic, our management remains optimistic over the growth of our business as we continue to execute our growth strategies, such as building up our e-commerce operation team and adding a new logistics and e-commerce center in Foshan. See "Future Plans and [REDACTED]" for

(1) *Journey Home* is one of regular offline campaigns we organize annually. See "Business—Marketing and Branding—Online and Offline Campaigns."

details of our new logistics and e-commerce center in Foshan. Moreover, we continued to attract talents to join our company. The total number of employees increased from 693 as of December 31, 2021 to 846 as of the Latest Practicable Date.

In February 2023, the Chinese government declared its victory over COVID-19. However, the actual impact caused by the COVID-19 pandemic will depend on its subsequent development. We are closely monitoring the development of the COVID-19 pandemic and continuously evaluating any potential impact on our business operations. See "Risk Factors—Risks Relating to Our Business—The outbreak of COVID-19 adversely affected, and may continue to affect, the demand for our products and our business operations."

Regulatory Developments

Regulations on Overseas [REDACTED], Cybersecurity Review and Data Security

On December 28, 2021, the Cyberspace Administration of China (the "CAC") and several other PRC authorities jointly issued the Cybersecurity Review Measures (網絡安全審查辦法), which became effective on February 15, 2022. The Cybersecurity Review Measures provides that a critical information infrastructure operator purchasing network products and services, and platform operators carrying out data processing activities that affect or may affect national security, must apply for cybersecurity review. The Cybersecurity Review Measures also provides that a platform operator with more than one million users' personal information aiming to [REDACTED] abroad must apply for cybersecurity review. On November 14, 2021, the CAC published Regulations on Cyber Data Security Management (Draft for Comments) (網絡數據安全管理條例(徵求意見稿)) (the "Draft Regulations on Cyber Data Security Management") for public comments, which applies to activities relating to the use of networks to carry out data processing activities in China.

Our Directors and our PRC Legal Advisor are of the view that the Cybersecurity Review Measures and the Draft Regulations on Cyber Data Security Management, if implemented in current form, will not have material adverse effects on our business operations or the proposed [REDACTED] on the following basis:

(1) We have implemented comprehensive measures to ensure user privacy and data security and to comply with applicable cybersecurity and data privacy laws and regulations. See "Business—Data Privacy and Protection";

(2) During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material investigation, inquiry or sanction in relation to cybersecurity, data privacy or cybersecurity review from the CAC, the CSRC or any other relevant government authorities;

(3) During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material fines or other material penalties due to non-compliance with cybersecurity or data privacy laws or regulations;

(4) As advised by our PRC Legal Advisor, we had not been involved in any activities that might give rise to national security risks based on the factors set out in Article 10 of the Cybersecurity Review Measures during the Track Record Period and up to the Latest Practicable Date; and

(5) As advised by our PRC Legal Advisor and subject to any further official guidance and implementation rules relating to the Cybersecurity Review Measures, Article 7 of the Cybersecurity Review Measures requires a cybersecurity review for internet platform operators possessing personal information of over one million users and pursuing a foreign [REDACTED] (國外[REDACTED]).

As of the Latest Practicable Date, we had not received any notice or determination from relevant PRC authorities identifying us as a critical information infrastructure operator. However, as of the Latest Practicable Date, the scope of critical information infrastructure operators and the scope of network products or services or data processing activities that affect or may affect national security remain unclear and are subject to interpretation by relevant government authorities. The Draft Regulations on Cyber Data Security Management was released for public comment only and its final version and effective date may be subject to change and uncertainty. We cannot preclude the possibility that new regulations or rules in the future may impose additional compliance requirements on us. See "Risk Factors—Risks Relating to Our Business—We may be subject to additional cybersecurity review or inspection by government authorities."

If the Draft Regulations on Cyber Data Security Management was to be implemented in its current form, based on the foregoing and the analysis of provisions of the Cybersecurity Review Measures and the Draft Regulations on Cyber Data Security Management by our PRC Legal Advisor, our Directors and our PRC Legal Advisor do not foresee any material impediments for us to comply with the Cybersecurity Review Measures and the Draft Regulations on Cyber Data Security Management in all material aspects, since we have implemented internal policies, procedures and measures to ensure our compliance practice. We will closely monitor the legislative and regulatory development in connection with cybersecurity and data protection, including the Draft Regulations on Cyber Data Security Management and the interpretation or implementation rules of laws and regulations of cybersecurity and data protection, and we will adjust and enhance our data practices in a timely manner to ensure compliance once relevant regulations come into effect.

Regulations on Live Streaming

On June 8, 2022, the National Radio and Television Administration of China (the "NRTA") and the Ministry of Culture and Tourism of China issued the Code of Conduct for Streamers (網絡主播行為規範) (the "Code of Conduct"), which stipulates, among others, that: (1) for live streaming content that requires a high level of professional skills (such as medical and health care, finance, law and education), streamers shall obtain the corresponding practice qualifications and report the practice qualifications to the live streaming platforms, and the live streaming platforms should review and record the relevant qualifications; (2) during live streaming sessions, streamers shall not behave extravagantly or waste food, flaunt luxury goods, jewelry and other assets, or display sexually suggestive and provocative content; and (3) live streaming platforms shall establish comprehensive internal policies to manage their streamers, covering various aspects of operations, from recruitment, training, daily management, performance evaluation to violation record management, and shall provide incentives to streamers who display positive qualities and abide by the Code of Conduct, and reprimand and discipline streamers who have violated the Code of Conduct, and ban the account of streamers who have repeatedly violated the Code of Conduct or applicable rules and regulations.

Our Directors and our PRC Legal Advisor are of the view that the Code of Conduct has not caused and will not cause material adverse effects on our business operations on the following basis:

(1) We hold live streaming sessions for the purposes of marketing and selling our products online. As advised by our PRC Legal Advisor, our employees who stream online for such purposes are not required to possess any practice qualifications as such live streaming sessions do not require a high level of professional skills; and

(2) We require our employees who stream online for marketing and selling our products to adhere to a positive and healthy streaming style and to oppose undesirable behaviors, such as money worship, waste of food and flaunting of extravagant lifestyle, in order to comply with the requirement stipulated under the Code of Conduct.

DEFINITIONS

In this document, unless the context otherwise requires, the following terms and expressions have the meanings set forth below.

"AFRC"	Accounting and Financial Reporting Council
"affiliate"	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"Articles of Association" or "Articles"	the articles of association of our Company, as amended, which shall become effective on the [REDACTED], a summary of which is set out in Appendix III to this document
"Audit Committee"	audit committee of our Board
"Board" or "Board of Directors"	the Board of Directors of our Company
"Business Day" or "business day"	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business to the public
"CAGR"	compound annual growth rate
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

DEFINITIONS

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
"China" or "PRC"	the People's Republic of China, excluding, for the purpose of this document only, Hong Kong, Macau and Taiwan
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies (Winding up and Miscellaneous Provisions) Ordinance"	the Companies (Winding up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company", "our Company" or "Lancang Ancient Tea"	Pu'er Lancang Ancient Tea Co., Ltd. (普洱瀾滄古茶股份有限公司), incorporated under the PRC laws on September 11, 2002 under the name of Lancang County Ancient Tea Co., Ltd. (瀾滄縣古茶有限公司) as a limited liability company and converted into a joint stock company under the PRC laws on February 13, 2018

DEFINITIONS

"Company Law" or "PRC Company Law"	Company Law of the People's Republic of China (中華人民共和國公司法) as amended, supplemented or otherwise modified from time to time, which was lately amended on October 26, 2018 to take effective on the same date
"Controlling Shareholder Group"	Ms. Du, Ms. Wang, Mr. Shi Yue (石躍), Ms. Shi Ailing (石艾靈) and Guangzhou Tiansu, being a group of controlling shareholders of our Company pursuant to the Listing Rules
"CSRC"	the China Securities Regulatory Commission (中國證券監督管理委員會)
"Director(s)"	the director(s) of our Company
"Domestic Shares"	ordinary Shares in the share capital of our Company with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB and are unlisted Shares not currently listed or traded on any stock exchange
"EIT Law"	Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), as amended, supplemented or otherwise modified from time to time
[REDACTED]	[REDACTED]
"Extreme Conditions"	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
"F&S Report"	an industry report commissioned by us and independently prepared by Frost & Sullivan on the tea leaf market
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., the industry consultant of our Company
"GAAP"	Generally Accepted Accounting Principles
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
"Group," "our Group," "we" or "us"	our Company and its subsidiaries (or our Company and any one or more of its subsidiaries, as the context may require)

DEFINITIONS

"Guangzhou Tiansu"	Guangzhou Tiansu Information Technology Co., Ltd. (廣州天速信息科技有限公司), a company with limited liability incorporated under the PRC laws on November 4, 2005 and and a member of our Controlling Shareholder Group
[REDACTED]	[REDACTED]
"H Share(s)"	overseas-[REDACTED] foreign shares in the share capital of our Company with nominal value of RMB1.00 each, which are to be [REDACTED] in HK dollars and are to be [REDACTED] on the Stock Exchange
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
"HKFRSs"	Hong Kong Financial Reporting Standards
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

DEFINITIONS

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
"independent third party(ies)"	person(s) or company(ies), who/which, to the best of our Directors' knowledge having made all reasonable enquiries, is/are not connected person(s) of our Company within the meaning ascribed thereto under the Listing Rules
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

DEFINITIONS

[REDACTED]	[REDACTED]
"Joint Sponsors"	China Securities (International) Corporate Finance Company Limited and China Merchants Securities (HK) Co., Limited
"Latest Practicable Date"	August 13, 2023, being the latest practicable date for the purpose of ascertaining certain information contained in this document prior to its publication
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Main Board"	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
"MOF"	the Ministry of Finance of the PRC (中華人民共和國財政部)
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"Ms. Du"	Ms. Du Chunyi (杜春嶧), our founder, executive Director, chairlady of our Board and a member of our Controlling Shareholder Group
"Ms. Wang"	Ms. Wang Juan (王娟), our executive Director, general manager and a member of our Controlling Shareholder Group
"NASDAQ"	the National Association of Securities Dealers Automated Quotations Stock Market
"NDRC"	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"Nomination Committee"	the nomination committee of our Board
"NPC"	the National People's Congress of the PRC (中華人民共和國全國人民代表大會)

DEFINITIONS

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
"PBOC"	The People's Bank of China (中國人民銀行), the central bank of the PRC
"PRC GAAP"	generally accepted accounting principles of the PRC
"PRC Legal Advisor"	Beijing Kangda Law Firm, the legal advisor to our Company as to PRC law in connection with the [REDACTED]
"[REDACTED] Investors"	the investor(s) from whom our Company obtained several investments, details of which are set out in the section headed "History and Corporate Structure — [REDACTED] Investments" in this document
[REDACTED]	[REDACTED]

DEFINITIONS

[REDACTED]	[REDACTED]
"Regulation S"	Regulation S under the U.S. Securities Act
"Remuneration and Appraisal Committee"	the remuneration and appraisal committee of our Board
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SAFE"	the State Administration of Foreign Exchange of the PRC (中國國家外匯管理局)
"SAT"	the State Administration of Taxation of the PRC (中國國家稅務總局)
"Securities Law"	the Securities Law of the PRC (中華人民共和國證券法), as amended, supplemented or otherwise modified from time to time
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary shares in the capital of our Company with a nominal value of RMB1.00 each, comprising Domestic Shares and H Shares
"Shareholders(s)"	holder(s) of the Share(s)
"Special Regulations"	the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), promulgated by the State Council on August 4, 1994, as amended from time to time
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
"State Council"	the State Council of the PRC (中華人民共和國國務院)

DEFINITIONS

"Stock Exchange"	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"Strategy Committee"	the strategy committee of our Board
"Supervisor(s)"	member(s) of our Supervisory Committee
"Supervisory Committee"	the supervisory committee of our Company
"Track Record Period"	the period consisting of the three years ended December 31, 2022 and the six months ended June 30, 2023
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"U.S. Securities Act"	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"US$", "USD" or "U.S. dollars"	United States dollars, the lawful currency of the United States
"%"	percent

In this document, the terms "associate," "close associate," "connected person," "core connected person," "connected transaction," "subsidiaries" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

Certain amounts and percentage figures included in this document have been subject to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

For ease of reference, the names of the PRC established companies or entities, laws or regulations have been included in this document in both the Chinese and English languages; in the event of any inconsistency, the Chinese versions shall prevail.

GLOSSARY

This glossary contains certain technical terms used in this document in connection with us and our business. Such terms and their meaning may not correspond to standard industry definitions or usage.

"ancient tea trees"	tea trees aged 100 years and above
"authorized stores"	distributor-operated stores where distributors are authorized to sell one or more of our products but have the autonomy to decide what other products can be sold in such stores
"black tea"	a fully fermented tea, prepared from tea leaves that have been allowed to oxidize, or ferment, to form a reddish brew, which is generally stronger in flavor than other teas
"blending"	the process of blending tea leaves in a certain proportion according to production requirements, which takes advantages of rough tea leaves with different origins, seasons, grades and storage years complementing each other, forming layers of flavors
"Chenpi"	sun-dried mandarin orange peel used as a traditional food, seasoning in Chinese cooking and medicine, whose quality increases the longer it is aged
"distributor-operated stores"	our retail stores that are controlled and operated by our distributors
"exclusive stores"	distributor-operated stores where distributors are not allowed to sell products other than ours without our permission
"fermentation"	the process of oxidative fermentation and accelerated aging of rough tea leaves, during which physical and chemical qualities of rough tea leaves are changed
"fermented Pu'er tea"	Pu'er tea that has been artificially fermented to expedite its aging process, which gives Pu'er tea a rich, strong taste
"flavored tea"	a type of tea products that have been reprocessed with floral, fruity or other ingredients that add to the flavor of such tea

"HACCP"	Hazard Analysis and Critical Control Points, a systematic preventative approach to food safety that addresses physical, chemical and biological hazards as a means of prevention rather than finished product inspection. HACCP is used in the food industry to identify potential food safety hazards, so that key actions, known as Critical Control Points can be taken to reduce or eliminate the risk of the hazards being realized. The system is used at all stages of food production and preparation processes. HACCP principles have been promoted and incorporated into food safety legislation in many countries around the world
"*Iland Tea*"	*Lan Cang Gu Cha — Iland Tea* (瀾滄古茶 — 岩冷)
"ISO 9001"	the international standard that specifies requirements for a quality management system and helps organizations ensure they meet customer and other stakeholder needs within statutory and regulatory requirements related to a product or service
"mu"	a Chinese measurement unit of area. One square meter is equal to 0.0015 mu; one mu is equal to approximately 666.7 square meter
"new tier-1 cities"	Hangzhou, Chengdu, Suzhou, Nanjing, Chongqing, Wuhan, Tianjin, Changsha, Xi'an, Qingdao, Zhengzhou, Ningbo, Foshan, Dongguan and Hefei
"non-fermented Pu'er tea"	Pu'er tea that has not gone through any artificial fermentation process
"our stores"	offline retail stores in our sales network, including self-operated and distributor-operated stores
"preliminary process"	the production process of rough tea leaves from fresh tea leaves, which includes picking, spreading (攤青), fixation (殺青), rolling (揉捻) and drying
"Pu'er tea"	a variety of tea traditionally produced in Yunnan Province, China and named after the market town in which it was first developed, made from larger leaf strains of camellia sinensis, as defined in the national standard for Pu'er tea (GB/T 22111–2008) issued by Administration of Quality Supervision, Inspection and Quarantine of People's Republic of China and Standardization Administration of China. Depending on whether it has been artificially fermented, Pu'er tea can be further classified into fermented and non-fermented Pu'er tea
"refined tea leaves"	tea leaves that have undergone the refinement process and can be sold as finished products

"refinement process"	the stage in which rough tea leaves are made into refined tea leaves through a series of technological processes, including fermenting (only for the refinement of fermented Pu'er tea), sieving, sorting, blending, pressing and drying
"rough tea leaves"	tea leaves that have undergone the preliminary process but are usually required to undergo the refinement process for improving quality
"self-operated stores"	our retail stores that are controlled and operated by us
"tea leaf cooperatives"	legal entities jointly owned and managed by tea farmers, which allow tea farmers to pool their tea leaf resources and collectively conduct the preliminary processing of fresh tea leaves and sales of rough tea leaves
"*Tea Mama*"	*Lan Cang Gu Cha — Tea Mama* (瀾滄古茶 — 茶媽媽)
"tea sommeliers"	professional tea sommeliers who are well trained in tea ceremony and knowledgeable in tea culture and received certifications from us demonstrating their knowledge and skills in tea tasting, tea ceremony and tea culture in general
"tier-1 cities"	Beijing, Shanghai, Guangzhou and Shenzhen
"*1966*"	*Lan Cang Gu Cha — 1966* (瀾滄古茶 — 1966)

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this document. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements. Forward-looking statements can be identified by words such as "may," "will," "should," "would," "could," "believe," "expect," "anticipate," "intend," "plan," "continue," "seek," "estimate," or the negative of these terms or other comparable terminology. Examples of forward-looking statements include, but are not limited to, statements we make regarding our projections, business strategy and development activities as well as other capital spending, financing sources, the effects of regulation, expectations concerning future operations, margins, profitability and competition. The foregoing is not an exclusive list of all forward-looking statements we make.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. We give no assurance that these expectations and assumptions will prove to have been correct. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our results may differ materially from those contemplated by the forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. We caution you therefore against placing undue reliance on any of these forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global political, economic, business, competitive, market and regulatory conditions and the following:

- our business prospects;
- our business strategies and plans to achieve these strategies;
- future developments, trends and conditions in and competitive environment for the industries and markets in which we operate;
- general economic, political and business conditions in locations where we operate;
- our financial condition and performance;
- our capital expenditure plans;
- our dividend policy;
- changes to the regulatory environment, policies, operating conditions of and general outlook in the industries and markets in which we operate;
- our expectations with respect to our ability to acquire and maintain regulatory licenses or permits;

- the amount and nature of, and potential for, future development of our business;
- the actions of and developments affecting our competitors;
- the actions of and developments affecting our major customers and suppliers; and
- certain statement in the sections headed "Risk Factors," "Industry Overview," "Regulatory Overview," "Business," "Financial Information," "Relationship with our Controlling Shareholder Group" and "Future Plans and [REDACTED]" with respect to trends in interest rates, foreign exchange rates, prices, volumes, operations, margins, risk management and overall market trends.

Any forward-looking statement made by us in this document speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. Subject to the requirements of applicable laws, rules and regulations, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future developments or otherwise. All forward-looking statements contained in this document are qualified by reference to this cautionary statement.

Potential [REDACTED] should read and consider carefully all the information set out in this document, and, in particular, should evaluate the following risks and uncertainties before deciding to make any [REDACTED] in our H Shares. You should pay particular attention to the fact that we conduct our operations in China, the legal and regulatory environment of which in some respects may differ from that in Hong Kong. Any of the risks and uncertainties listed below could have a material adverse effect on our business, results of operations, financial condition or on the [REDACTED] of our H Shares and could cause you to lose all or part of your [REDACTED].

RISKS RELATING TO OUR BUSINESS

Our business relies on consumer demand for our products. Any shift in consumer demand, or any unexpected situation with a negative impact on consumer demand may materially and adversely affect our business and results of operations.

Our business relies on consumer demand for our products, which depends substantially on factors such as (1) consumer spending patterns, (2) consumer preferences and tastes, (3) consumer income, (4) consumer perceptions of and confidence in our product quality and food safety, and (5) consumer awareness of healthy lifestyle. Driven by increasing consumer demand for healthy lifestyle, increasing disposable income and consumption upgrade, the demand for tea leaf products has been growing continuously. Changes in any of the above at any time could result in decline in consumer demand for our products. In particular, a general slowdown in economic activities over a sustained period of time could lead to a decrease in consumer income, which may result in changes in consumer spending patterns, such as a significant increase in spending for necessities. As the competition in the beverage industry becomes more fierce than ever with frequent introduction of new types of products to the market, consumers may change their preferences and tastes as our products may be substituted by other kinds of beverages, including tea beverages and non-tea beverages. For example, ready-to-drink tea products, such as bottled tea with added flavors, have become increasingly popular on the market due to its variety of flavors created by various combinations of ingredients. In addition, while consumer awareness of healthy lifestyle is a significant factor driving the demand for our products, it can be affected by various factors, such as false media campaigns and marketing schemes. Consumer perceptions of and confidence in our product quality and food safety may affect consumer demand for our products. Any incidents involving food-related illnesses, tampering, adulteration, contamination or mislabeling, whether or not accurate, as well as adverse public or medical opinions about the health effects of consuming our products, could negatively affect consumer confidence in our product quality and food safety.

Our business development will depend partly on our ability to (1) anticipate, identify or adapt to such changes, (2) introduce new attractive products and marketing strategies in a timely manner, and (3) develop appropriate sales and distribution networks accordingly. Although we dedicate manpower and financial resources to consumer-centric market research and data analysis to upgrade our existing products and to develop, design and launch new products, we cannot assure you that our product portfolio will lead the market trends. Any changes in consumer preferences and tastes may impose downward pressure on sales and pricing of our products or lead to increases in selling and distribution expenses.

Any damage to our brand or reputation may materially and adversely affect our business and results of operations.

Our business relies on consumers' recognition of and their trust in our brand. Our brand and reputation may be damaged by distributors' improper conduct, counterfeit of our products, product defects, product liability claims, consumer complaints, negative rumors, negative media coverage or any other forms of negative publicity. In particular, we engage distributors to distribute our products and authorize such distributors to use our brand name and images in their course of distribution for our products. In the six months ended June 30, 2023, the revenue generated from our distributors as a percentage of our total revenue was 75.7%. Any improper conduct of our distributors may materially and adversely affect our business and results of operations. In addition, after twenty years of operation, we have established ourselves as one of the most famous Pu'er tea brands in China. Counterfeiters may illegally manufacture and market tea leaf products under our brand. The occurrence of such incidents may have a negative impact on our reputation and brands.

Publicity about our business creates the possibility of heightened attention from the public, regulators and the media. Heightened regulatory and public concerns over customer protection and customer safety issues may subject us to additional legal and social responsibilities and increased scrutiny and negative publicity over these issues, due to our large number of transactions and continued business expansion. Any negative report regarding our business, financial condition and results of operations, regardless of its truthfulness, could damage our brand image and severely affect the sales of our products and possibly lead to product liability claims, litigations or damages. For example, after our submission of previous A share listing application in 2020, we became the subject of various negative reports that were inaccurate and misleading. Such inaccurate and misleading reports primarily related to our financial condition, relationship with distributors and food safety issues. Such reports or reports of similar nature may cause damage to our brand image and reputation. In addition, improper behaviors or statements of our spokespersons, endorsers and other celebrities we have cooperated with and our employees may result in substantial harm to our brand, reputation and operations. There is no assurance that we would not become a target for regulatory or public scrutiny in the future or that scrutiny and public exposure would not severely damage our reputation as well as our business and prospects.

We depend on sales to our distributors for most of our revenue, and distributors are expected to remain important in our sales network. If distributors are not able to operate successfully or we fail to maintain good relationships with such distributors, our business, financial condition and results of operations could be materially and adversely affected.

Our distributors are important to our business. As of December 31, 2020, 2021 and 2022 and June 30, 2023, there were 566, 531, 508 and 520 distributors in our distribution network, respectively. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, revenue from our distributors accounted for 79.0%, 80.3%, 72.4%, 78.0% and 75.7% of our total revenue, respectively. Although the revenue generated from direct sale customers also experienced considerable growth during the Track Record Period, we expect that distributorship will remain an important component of our retail sales network.

Our distributors may not be able to market and sell our products successfully or maintain their competitiveness as a result of various factors. For example, our distributors may not be able to find suitable locations to operate retail points, and they may not be able to renew their leasing contracts with lessors upon expiration, both of which may adversely affect our distributors' operations and competitiveness. If the sales volumes of our products to consumers are not maintained at a satisfactory level, our distributors may not place orders for new products with us, or they may reduce orders or ask for discount on the purchase price. The loss of our distributors, or reduced orders from them, could adversely affect our access to consumers and our sales volume and revenue.

Although we require our distributors to comply with their distribution agreements with us, non-compliance with the distribution agreements by any of our distributors could disrupt our sales and may even affect our results of operations. We also could be liable for damages or fines due to the sales and marketing activities of our distributors, which may have an adverse effect on our financial condition. In addition, non-compliance with distribution agreements by any of our distributors could lead to our inability to track the sales and inventory levels of our distributors for our products, which may cause us to incorrectly predict sales trends and prevent us from quickly adjusting our marketing and product strategies.

If we fail to successfully maintain our relationships with a significant number of distributors or our distributors fail to operate successfully, our ability to effectively sell our products could be negatively impacted. These and similar actions could also negatively affect our corporate and product image, possibly resulting in loss of customers and a decline in sales. In addition, distributors selling the same products at uniform retail prices may result in marketing overlaps, cannibalization or even competition among these distributors. We cannot assure you that the expansion of our sales network will continue to be successful or will generate income as expected.

We rely on our distributors to place our products into the market and our distributor management may not be as effective as we anticipate.

As of June 30, 2023, our distributor sales network consisted of 520 distributors and covers substantially all provincial administrative divisions across China. As we mainly sell and distribute our products through distributors, any one of the following events could cause fluctuations or declines in our revenue and could have an adverse effect on our financial condition and results of operations:

- reduction, delay or cancelation of orders from one or more of our distributors;
- failure to renew distribution agreements and maintain relationships with our existing distributors;
- failure to establish relationships with new distributors on favorable or even standard terms; and
- inability to timely identify and appoint additional or replacement distributors upon the loss of one or more of our distributors.

We may not be able to successfully manage our distributors, and the cost of any consolidation or further expansion of our distributor sales network may exceed the revenue generated from these efforts. There can be no assurance that we will be successful in detecting any non-compliance by our distributors with the provisions of their distribution agreements. Non-compliance by our distributors may, among other things, negatively affect our brand, demand for our products and our relationships with other distributors. Furthermore, if the sales volumes of our products to distributors are not maintained at a satisfactory level or if distribution orders fail to track end customers' demand, our distributors may not place orders for new products from us or decrease the quantity of their usual orders. If any of our distributors fail to distribute our products to their customers in a timely manner, overstock or carry out actions, which are inconsistent with our business strategy, it may affect our future sales. The occurrence of any of these factors could result in a significant decrease in the sales volume of our products, and therefore, adversely affect our financial condition and results of operations.

If we are unable to successfully manage our growth, our business and prospects may be materially and adversely affected.

As we believe that our business will continue to grow, we will continue to encounter challenges in implementing our managerial, operating and financial strategies to keep up with our growth. The major challenges in managing our business growth include, among other things:

- effectively managing our distribution network expansion;
- effectively managing the daily operations of our retail sales network, including our self-operated stores and self-operated online stores;

- controlling costs in a competitive environment;
- continuing to introduce new products and timely upgrade existing products to cater to evolving consumers' tastes;
- promoting, maintaining and capitalizing on our brand awareness;
- retaining existing customers and attracting new customers;
- remaining competitive in our industry;
- effectively managing our supply chain and ensuring our third-party suppliers continue to meet our quality and other standards and satisfy our future operations' needs;
- maintaining and upgrading our technology systems and data analytical capabilities in a cost-effective manner;
- attracting, training and retaining a growing workforce to support our operations;
- implementing a variety of new and upgraded internal systems and procedures as our business continues to grow; and
- ensuring full compliance with relevant laws and regulations.

In particular, we may not be able to effectively manage the expansion of our distribution network. The number and timing of distributor-operated stores opened during any given period are subject to a number of factors, including our distributors' ability to identify suitable locations for opening new stores, secure leases on commercially reasonable terms, obtain adequate funding for store expansion, execute the stores opening process efficiently and obtain all required licenses, permits and approvals for new stores, and our ability to effectively manage supply chain and control product quality, and recruit, train and retain skilled employees, among other things.

Any factors listed above, either individually or in aggregate, may delay or hinder our plan to increase the number of stores in desirable locations at manageable cost levels. In addition, we may incur additional operating expenses at store, distribution and headquarter levels as we continue to expand our store network. If we fail to manage our expansion of stores in a cost-effective manner, our business, results of operation and financial condition may be materially adversely impacted. Furthermore, consumers' demand for our products and services may not be as strong as we expect to support our business growth, which may result in over-expansion of our sales network.

We plan to expand our offline presence. Although such expansion plan, which we believe will allow us to increase market shares while achieving sustainable profitability in the long term, was determined by our management based on thorough market analyses, we cannot assure you that actual market demands will meet our expectation. If our expansion plan turns out to be too aggressive, we may experience a significant decrease in sales of our existing stores, and as a result, our business, results of operation, liquidity and financial condition would be materially adversely impacted.

All efforts to address the challenges of our growth require significant managerial, financial and human resources. We cannot assure you that we will be able to execute managerial, operating and financial strategies to keep up with our growth. If we are not able to manage our growth or execute our strategies effectively, our growth may slow down, and our business and prospects may be materially and adversely affected.

Any product quality issue could materially and adversely affect our results of operations.

We believe that the quality of our products is critical to our success. During the Track Record Period, the value of our returned products had been insignificant compared to our total revenue. Specifically, in 2020, 2021, 2022 and the six months ended June 30, 2023, the total value of returned products represented 0.31%, 0.41%, 0.48% and 1.09% of our total revenue, respectively. In addition to risks associated with the processing and labelling of our products, some third parties, such as (1) suppliers of raw materials and packaging materials, (2) logistics service providers, and (3) distributors, could also affect the quality of our products or lead to inventory obsolescence if these third parties fail to provide raw materials, packaging materials or services to us with satisfactory quality.

Our quality control systems primarily consist of quality control measures for raw materials and packaging materials, production process, inventory storage, and delivery and sales. See "Business—Production" and "Business—Quality Control." The effectiveness of our quality control systems depends on a number of factors, including the design of our quality control systems and our ability to ensure our employees complying with our quality control policies and procedures. Although we had only received returned products with insignificant value compared to our total revenue during the Track Record Period, we cannot assure you that the design of our quality control systems will be effective at all times. We also cannot assure you that all our employees will always comply with the quality control policies and will not make any mistakes when executing quality control procedures.

Any product quality issue resulted from failure of our quality control systems or other reasons could expose us to product liability claims, negative publicity, government scrutiny or investigation, administrative actions and product recalls or returns, which could materially and adversely affect our brand, reputation, results of operations, financial condition and business prospects.

Fluctuations in prices and changes in the quality of rough tea leaves and packaging materials could materially and adversely affect our profitability and results of operations.

Our ability to control our costs, in part, depends on our ability to secure rough tea leaves, our primary raw materials, and packaging materials, that meet our quality standards at reasonable prices. Our packaging materials primarily consist of cardboard and metal packaging materials. The costs of raw materials and packaging expenses accounted for 67.0%, 70.4%, 58.6%, 66.1% and 65.5% of our total cost of sales in 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively. Going forward, we expect our cost of raw materials and packaging materials to continue to account for a relatively large portion of our costs of sales.

The procurement price of our rough tea leaves and packaging materials could be volatile due to a variety of factors beyond our control. The price of rough tea leaves and packaging materials may be affected by factors such as the global and PRC economic condition, relevant government regulations and policies, and changes in supply and demand. In particular, the supply of rough tea leaves may be negatively affected by factors such as adverse weather conditions and pest disasters, which could lead to an increase in the procurement price of rough tea leaves.

We rely on suppliers to supply rough tea leaves and packaging materials that meet our quality standards. We may fail to ensure the comprehensiveness and effectiveness of their quality control systems. Although we conduct sampling inspection for rough tea leaves and packaging materials after they are delivered to us by suppliers, we cannot assure you that we will be able to detect all quality defects in rough tea leaves and packaging materials in a timely manner.

Any increase in the prices of rough tea leaves and packaging materials may cause us to adjust our product prices upward, which could in turn reduce the competitiveness of our products. In cases where rough tea leaves and packaging materials prices increase, and we choose not to increase the price of our products to maintain competitiveness despite the increases in costs, it would render us unable to pass on such costs to our customers and adversely affect our profitability.

We do not own any tea leaf plantation or any tea trees and depend on tea leaf cooperatives for rough tea leaves as raw materials for our tea leaf products. If we are not able to source adequate rough tea leaves from tea leaf cooperatives or fail to maintain good relationships with such cooperatives, our business, financial condition and results of operations could be materially and adversely affected.

Tea leaf cooperatives are crucial to our business as we do not own any tea leaf plantation or tea trees, and thus, depend on tea leaf cooperatives for rough tea leaves as raw materials for our tea leaf products. In the six months ended June 30, 2023, more than 50% of our purchase amount of rough tea leaves were attributable to tea leaf cooperatives with over five years' business relationship with us, and more than 30% were attributable to tea leaf cooperatives with over ten years' business relationship with us. However, if we fail to successfully maintain our business relationships with a significant number of tea leaf cooperatives, our ability to effectively produce our tea leaf products could be negatively impacted. Similarly, if we are not able to source adequate rough tea leaves from tea leaf cooperatives, our business, financial condition and results of operations could be materially and adversely affected.

The outbreak of COVID-19 adversely affected, and may continue to affect, the demand for our products and our business operations.

The outbreak of COVID-19 that began in late 2019 has materially and adversely affected the global economy. In response to the pandemic, the Chinese government implemented necessary pandemic prevention measures from time to time during the past three years. While the pandemic came under control in China from the second quarter of 2020, there was a rise in COVID-19 cases, including the COVID-19 Delta and Omicron variant cases, in various cities in China in 2022.

Throughout 2022, multiple outbreaks of new variants of COVID-19 across China has repeatedly caused disruptions to the operation of our stores in the affected regions, including temporary store closures, reduced operating hours, reduced offline customer traffic and canceled tea tasting sessions. Most of our stores such as those in Shanghai, Changchun, Xi'an and Guangzhou experienced temporary closures for approximately one to two months. In addition, certain stores in Beijing, Chengdu and Hefei, among others, experienced reduced offline customer traffic throughout 2022 due to curtailed operating hours and canceled tea tasting sessions. Such impact on our brick-and-mortar presence represented an immense headwind on our business in 2022. We were also forced to wage certain marketing campaigns online instead of offline or even abandon the planned marketing campaigns. For example, we were forced to abandon our plan for *Journey Home* (回家之旅)(1) in 2022 due to lack of feasibility.

Our results of operations for 2022 were negatively affected by the recurrences of COVID-19 pandemic in China, primarily due to (1) disruption in our business operations, such as disrupted offline store operations in affected regions and cancellation of certain offline campaigns, and (2) consumer pessimism in light of the pandemic which suppressed the demand for our products. Our results of operations were particularly affected by the outbreaks of COVID-19 in 2022, primarily due to the emergence and spread of the Omicron variant of COVID-19 that led to outbreaks across the country and resulted in dampened consumer confidence. Our revenue decreased by 17.1% from RMB558.7 million in 2021 to RMB462.9 million in 2022. Our net profit decreased by 45.3% from RMB129.0 million in 2021 to RMB70.5 million in 2022. The average purchasing amount per distributor from us decreased by 21.9% from RMB0.85 million in 2021 to RMB0.66 million in 2022.

In 2022, COVID-19 had slowed down and created hurdles for our overall expansion plan. In terms of our offline sales network expansion, we had taken a more cautious approach until the complete alleviation of the surge of COVID-19 infections that began in December 2022. The number of our self-operated stores and distributor-operated stores

(1) *Journey Home* is one of regular offline campaigns we organize annually. See "Business—Marketing and Branding—Online and Offline Campaigns."

decreased slightly from 26 and 531 as of December 31, 2021 to 24 and 508 as of December 31, 2022, respectively. Since the alleviation of the pandemic and the adjustment of the pandemic prevention measures, all of our stores have resumed normal business operations. We have not observed significant impact that COVID-19 outbreaks have had on our supply chain or any abrupt decline in utilization rates of our production plants as Yunnan Province, where all of our production plants and most of our suppliers are located, was less affected by the outbreaks. Our logistics and transportation service providers in certain provinces in China were affected by COVID-19 outbreaks. For example, delivery of our products in affected cities, such as Xi'an, Guangzhou and Shanghai, were affected. While we were not subject to any claim due to delays in deliveries of our products as of the Latest Practicable Date, disrupted transportation experienced by our logistics and transportation service providers reduced sales volume of our products and slowed down our expansion in certain affected provinces to certain extent. As of the Latest Practicable Date, most of our employees had recovered once or more from COVID-19 infections.

Given the phase-out of the pandemic prevention measures, we believe that while COVID-19 outbreaks may affect our short-term growth, we do not expect such outbreaks to have a material adverse effect on our long-term overall business and financial performance. In response to COVID-19 outbreaks, we had proactively taken measures to mitigate its potential impact on us and our distributors, including adjusting our product launching plan, increasing spending on marketing and advertising, and providing more support to our offline stores.

The COVID-19 pandemic may also have the effect of heightening other risks disclosed in this section, including but not limited to those related to:

- decreased consumer demand for our products due to the pandemic;
- decreased offline marketing activities, caused by circumstances beyond our control;
- disruption of the operations of our business partners, including our processing partners, logistics service providers and other suppliers; and
- increase volatility or disruption of global capital markets due in part to the COVID-19 pandemic, which may adversely affect our ability to access capital markets and other funding sources on acceptable terms or at all.

In February 2023, the Chinese government declared its victory over COVID-19. However, the actual impact caused by the COVID-19 pandemic will depend on its subsequent development. We are closely monitoring the development of the COVID-19 pandemic and continuously evaluating any potential impact on our business operations.

Any natural disaster or other catastrophic event affecting our supply chain management, production process or the demand for our products may materially and adversely affect our business.

Our ability in supply chain management and efficient manufacturing is critical to our success. Our tea leaf products are manufactured through a series of sophisticated processes. Problems may arise during the production process for a variety of reasons, including quality defects in rough tea leaves or packaging materials, lack of production conditions or suspension of production due to natural disasters (such as storms, earthquakes, fires and floods) or other catastrophic events (such as explosions, acts of terrorism, wars and outbreaks of epidemics), strikes, power outages, technical or mechanical problems, failure to follow production safety protocols, failure to promptly upgrade equipment and production and operational software systems, and the infection or hacking of such software systems. Any of the above could impair our business or the businesses of our suppliers, which would in turn impede our ability to manufacture and deliver our products to our customers in a timely manner.

In addition, natural disasters or other catastrophic events may destroy or damage tea trees or otherwise cause a decline in volume and quality of rough tea leaves, which affect our access to enough quality rough tea leaves at reasonable prices and potentially increase our procurement costs for rough tea leaves. Any increase in the prices of rough tea leaves may cause us to adjust our product prices upward, which could in turn reduce the competitiveness of our products. In cases where our procurement costs for rough tea leaves increase, and we choose not to increase the price of our products to maintain competitiveness despite the increases in costs, it would render us unable to pass on such costs to our customers and adversely affect our profitability.

Any failure to successfully upgrade our existing products or to develop, launch and promote new products may adversely affect our business development plans and profitability.

The choices and preferences of consumers may be influenced by new products that appear in the market. To support our product upgrade and expansion plans, we need to devote significant resources in researching and developing our products and recruiting production and marketing professionals that are appropriate for our products. All these tasks involve risks, and require substantial planning, effective execution and significant expenditures.

We cannot assure you that our upgraded or new products will be able to generate positive cash flows or become profitable within a short period of time or at all. If we fail to bring upgraded or new products to the market in a cost-effective manner, our profitability, results of operations and business prospects may be adversely affected.

Any failure to manage our inventory effectively would materially and adversely affect our results of operations, financial condition and cash flows.

As of December 31, 2020, 2021 and 2022 and June 30, 2023, we had inventories of RMB470.3 million, RMB635.7 million, RMB783.7 million and RMB834.6 million, respectively. In 2020, 2021, 2022 and the six months ended June 30, 2023, our inventory turnover days were 1,345 days, 1,061 days, 1,641 days and 1,588 days, respectively. According to the F&S Report, during the Track Record Period, the inventory turnover days of Pu'er tea product manufacturers in China like us typically ranged from 800 to 1,900 days. Our business relies on consumer demand for our products, which in turn depends substantially on factors such as (1) consumer spending patterns, (2) consumer preferences and tastes, (3) consumer income, (4) consumer perceptions of and confidence in our product quality and food safety, and (5) consumer awareness of healthy lifestyle. Any change in consumer demand for our products or the occurrences of catastrophic events may have an adverse impact on our product sales, which may lead to inventory obsolescence, decline in inventory value or inventory write-off.

In addition, maintaining a certain amount of inventory also exposes us to the risk of inventory loss. As we have not purchased inventory insurance in full, in the event of natural disasters or other accidents such as fires caused by our employees or third parties, we may not be able to obtain sufficient compensation from the insurance company to cover our losses. At the same time, taking legal actions, such as filing a lawsuit, against such employees or third parties may divert our management's attention from our business.

Furthermore, as we will not be able to recoup our cash paid for rough tea leaves and packaging materials during the production process until the finished products are sold to our direct sale customers and distributors, and the purchase price is settled, our business is subject to significant working capital requirements given the high inventory level and inventory turnover days. If our inventory level increases substantially in the future, our financial condition and cash flows could be materially and adversely affected.

Our distributors' failure to manage their inventory effectively may damage the stability of our distribution network.

According to the F&S Report, the inventory turnover days of distributors for Pu'er tea products in China typically ranged from 300 to 1,000 days during the Track Record Period. In 2020, 2021, 2022 and the six months ended June 30, 2023, the inventory turnover days of Respondent Distributors for the same periods were 258.1 days, 293.8 days, 375.0 days and 537.0 days, respectively, which were largely within the industry range. See "Business—Our Sales Network and Customers—Our Distributors—Distributor Management—Inventory Level and Turnover Days of Distributors for Products Purchased in and after 2017." Failure to manage inventory level may strain our distributors' financial resources and impair their liquidity, which may lead to their reluctance or inability to purchase new products from us. If they experience decreased profitability or suffer losses as a result, they may quit our distribution network. Also, distributors may, with or without any merit, blame their slow turnover on us, harming our relationship with such distributors and potentially damaging our reputation among distributors. If any of such incidents happens to our distributors, the stability of our distribution network may be severely impaired, and our business, financial conditions and results of operations may be materially and adversely affected.

We may not be able to maintain our revenue growth and profitability.

In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, our revenue was RMB405.5, RMB558.7 million, RMB462.9 million, RMB228.3 million and RMB232.0 million, respectively. Our net profit margin in the same periods was 30.3%, 23.1%, 15.2%, 13.3% and 10.2%, respectively. We cannot assure you that the demand for our products will continue to grow at a similar rate in the future due to reasons including market saturation as well as competition from new market participants and alternative products. Also, we cannot assure you that we will be able to sustain high profitability in the future, which depends on whether we can continue (1) generating a high level of sales revenue; (2) managing effectively the production costs; and (3) managing effectively the costs and expenses associated with operations, sales and marketing. If we fail to manage our growth or sustain our profitability effectively, our business, financial condition and results of operations could be adversely affected.

We recorded negative cash flows from operating activities during the Track Record Period, which may have an adverse effect on our business, financial condition, results of operations and prospects.

We recorded net cash used in operating activities of RMB9.0 million and RMB1.8 million in 2021 and the six months ended June 30, 2023, respectively. For further details, see "Financial Information—Liquidity and Capital Resources—Cash Flows." Net operating cash outflow could impair our ability to make necessary capital expenditures and constrain our operational flexibility as well as adversely affect our ability to meet our liquidity requirements.

While we believe we have sufficient working capital to fund our current operations, we may, however, experience net cash outflows from our operating activities in the future. If we are unable to maintain adequate working capital, we may default in our payment obligations and may not be able to meet our capital expenditure requirements or pursue our growth strategies, which may have a material adverse effect on our business, financial condition, results of operations and prospects.

Speculation over the prices of Pu'er tea leaf products could materially and adversely affect our business, financial conditions and results of operations.

According to the F&S Report, as Pu'er tea ages, its value generally appreciates due to the unique and delicate flavors and aromas developed through the aging process, which are highly favored by tea enthusiasts. Certain Pu'er tea leaf products, particularly high quality products from famous mountains or made by well-known manufacturers, appreciate in value over time, which invites speculative trading of these products. If secondary markets of our products are formed, trading on such markets largely occur outside of our control. Such speculative demand could distort the underlying fundamentals of demand for our products, inflate prices temporarily, and give us the misleading impression of strong demand, leading up to our misjudgment in demand trends and misallocation in resources. As such, any misleading speculative demand signals could materially and adversely affect our business, financial conditions and results of operations. Moreover, speculation may cause the prices of our Pu'er tea leaf products to be highly volatile, deterring retail customers, compromising our brand image and posing unexpected risks to our financial performance.

Our distribution agreements prohibit our distributors from materially disrupt the suggested retail prices of our products. The speculative trading of our products may lure our distributors to breach the distribution agreements as buyers may be willing to pay premiums for products they believe will appreciate in value. If distributors engages in speculative trading, their inventory turnover may slow down and their financial resources may become strained. When the bubble bursts, distributors engaging in speculative trading may suffer losses. As such, the stability of our distribution network may be adversely affected.

Our marketing activities may not be effective in attracting consumers, which may in turn adversely affect our results of operations.

We conduct various marketing activities to raise our brand awareness and promote our products. We promote our brand and products to consumers through online and offline campaigns. We communicate with consumers in a comprehensive approach through advertising, campaigns, film promotion activities, product placement in television programs, celebrity endorsements, social media marketing, and cross-industry cooperation. We may incur significant selling and marketing expenses for these marketing campaigns. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, our selling and marketing expenses were RMB87.0 million, RMB122.2 million, RMB136.4 million, RMB64.4 million and RMB67.6 million, respectively. In the same periods, our advertising and promotion expenses were RMB33.8 million, RMB39.3 million, RMB39.9 million, RMB15.9 million and RMB16.6 million, respectively, representing 8.3%, 7.0%, 8.6%, 7.0% and 7.1% of our total revenue, respectively.

We cannot assure you that our marketing activities will enable us to achieve our sales targets. The effectiveness of sales and marketing activities is relatively hard to predict and evaluate. Their effects may be delayed, resulting in a delayed revenue growth which may not be fully reflected during the period in which the sales and marketing activities took place. If the results of our marketing activities fail to meet our expectation, or if we fail to conduct the marketing activities as planned, our results of operations, financial condition, market share, brand and reputation may be adversely affected.

We may not be successful in expanding into online channels and other sales channels.

We sell our products to consumers through an extensive network of stores across China and various online platforms including Tmall, WeChat, Douyin, Kuaishou and JD.com. We have also expanded our online sales channels by engaging online key account customers. In the six months ended June 30, 2023, 10.3% of our total revenue was from sales made through our self-operated online stores.

We expect to further enhance our online strategies and increase sales from our online channels, such as through cooperation with other notable online platforms. However, we may not be able to maintain a high growth rate of our online sales. If we fail to manage the continuous development of our online sales, our business, financial condition and results of operations may be adversely affected. In addition, we may incur additional expenses in connection with service fees that we are contractually required to pay to the relevant parties in order to continue using their online platforms, which in turn may have a material adverse impact on our results of operation and profitability.

Our operating results could be affected by our online brand marketing efforts and advertising activities. If our online marketing and advertising programs may not continue to be successful, our business and operating results may be materially and adversely affected. In addition, we believe marketing trends are evolving, which requires us to experiment with new sales channels to keep pace with industry developments and consumer preferences. Moreover, as we continue to make efforts in this regard, we expect our operational and marketing expenses relating to cooperation with new channels to continue to increase.

We may be subject to liability for placing advertisements with content that is deemed inappropriate or misleading under PRC laws.

Our advertising materials are primarily produced by our in-house advertising department, and we may from time to time engage third party service providers for advertisement production and placement. Laws and regulations applicable to us prohibit advertising companies from producing, distributing or publishing any advertisement with content that violates PRC laws and regulations, impairs the national dignity of the PRC, involves designs of the PRC national flag, national emblem or national anthem is considered reactionary, obscene, superstitious or absurd, is fraudulent, or disparages similar products. We may also be subject to claims by customers misled by information in our advertisements. If the advertising materials produced by our third party service providers contain inappropriate or misleading information, we may not be able to recover our losses from such advertisers by enforcing the indemnification provisions in the contracts, which may result us in diverting management's time and other resources from our business and operations to defend against these infringement claims. As a result, our business, financial condition and results of operations could be materially and adversely affected.

Any delivery delay, improper handling of goods or increase in transportation costs of our logistic service providers could adversely affect our business and results of operations.

We engage logistics service providers to transport products to our direct sale customers and distributors. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, our transportation expenses were RMB5.2 million, RMB6.7 million, RMB7.7 million, RMB3.4 million and RMB3.3 million, respectively, representing 1.3%, 1.2%, 1.7%, 1.5% and 1.4% of our total revenue, respectively. The services provided by our logistics service providers may be suspended or cancelled due to unforeseen events, which could cause interruption to the sales or delivery of our products. In addition, delivery delays may occur for various reasons beyond our control, including improper handling by our logistics service providers, labor disputes or strikes, acts of war or terrorism, outbreaks of epidemics, earthquakes and other natural disasters.

Any improper handling of our products by the logistics service providers could also result in product contamination or damage, which may in turn lead to product recalls, product liabilities, increased costs and damage to our reputation. As such, our business, financial condition and results of operations could be materially and adversely affected.

The transportation costs of our logistics service providers are subject to factors beyond our control, such as the fluctuation in the gasoline price, increases in road tolls and bridge tolls, and changes in transportation regulations. Any increase in the service costs of our logistics service providers may lead to an increase to our logistic expenses, which may in turn negatively affect our results of operations.

Any major changes in relation to food safety regulations and relevant policies may affect our business.

Manufacturers within the tea industry in China must comply with PRC food safety laws and regulations. These food safety laws and regulations require all enterprises engaged in the production of food and beverages to obtain the food production permits. They also set out safety standards with respect to food and food additives, packaging and containers, information to be disclosed on packaging as well as requirements for food production and sites, facilities and equipment used for the transportation and sale of food. In recent years, the PRC government has been strengthening the supervision of food safety. The revised Food Safety Law of the People's Republic of China (中華人民共和國食品安全法) and the Regulation on the Implementation of the Food Safety Law of the People's Republic of China (中華人民共和國食品安全法實施條例) stipulate that businesses engaged in food production should conduct their production and operation activities according to the applicable laws and regulations and food safety standards, establish a comprehensive food safety management system, and take effective measures to prevent and control food safety related risks to ensure the safety of the food produced. This may increase the compliance costs of the tea companies in China like us. In the event that the PRC government further makes changes on food safety regulation, our production, sales and distribution costs may increase, and we may be unable to successfully pass on these additional costs to our customers, which could adversely affect our business, financial condition and development prospects.

Incidents involving food-related illnesses, tampering, adulteration, contamination or mislabeling, whether or not accurate, as well as adverse public or medical opinions about the health effects of consuming our products, could harm our business.

Instances or reports, whether true or not, of food-safety issues, such as illnesses, tampering, adulteration, contamination or mislabeling, either during growing, manufacturing, packaging, transportation, storing or preparation, employee hygiene and cleanliness failures or improper employee conduct, have in the past severely injured the reputations of companies in the food sector. Any report linking us to such instances could severely hurt our sales and could possibly lead to product liability claims, litigation and/or temporary store closures. In addition, instances of food or beverage-safety issues, even those involving solely the stores of competitors or distributors (regardless of whether those distributors are associated with us), could, by resulting in negative publicity about us or the food service industry in general, adversely affect our sales on a regional or global basis. A decrease in consumer traffic as a result of food-safety concerns or negative publicity, or as a result of a temporary closure of any of our stores, product recalls or food safety claims or litigation, could materially harm our business and results of operations.

We may be exposed to the risk of product infringement.

We may be exposed to the risk of product infringement. We cannot assure you that there will be no counterfeit or forgery of our products, trademarks or brands in the market. Counterfeiters may illegally manufacture and market tea leaf products under our brand. Such counterfeit or forged products are usually difficult to detect or ban in a timely manner. The occurrence of such incidents may have an impact on our reputation and brands. Our reputation and brands are crucial to our profitability and competitiveness, any damage to our reputation or brands resulting from product infringement may adversely affect our profitability and competitiveness.

Our investment, maintenance or upgrade regarding our production equipment and facilities, technologies and other equipment related to operations may not be carried out successfully, which may in turn adversely affect our business growth.

In order to ensure the continuous operation and expansion of our business, we continuously maintain the existing production equipment and facilities, expand the production capacity through upgrading our existing equipment and establishing new production facilities, purchase new production equipment and improve production techniques. In addition, we allocate our human resources and other resources to manage these undertakings. We cannot assure you that such investments, maintenance and upgrades could be carried out successfully, or generate positive cash flows or profitable return within a short period of time. Such investments, maintenance and upgrades may become ineffective or obsolete as a result of updates in technology or industry standards, which could result in a material adverse effect on our business and financial condition.

Our ability to achieve business growth is also subject to a wide range of market, operational and financial risks, including those arising from the competition with existing competitors, changing consumer spending patterns, as well as maintaining our high food safety standards and our existing relationships with distributors. Under the influence of these risks, our investments and upgrades may not be able to generate the expected business growth, which may materially and adversely affect our financial condition and results of operations.

We may not be able to retain or promptly recruit senior management members or other key personnel required for our operations.

Our current business performance and future success depend substantially on the abilities and contributions of our senior management members, including Ms. Du and Ms. Wang, all executive Directors and other key personnel with industry expertise, know-how or experience in areas such as research and development, production, sales, marketing, financial management, human resources or risk management. Any loss of such personnel could materially and adversely affect our ability to sustain and develop our business. Moreover, we cannot assure you that our key personnel will not join a competitor or form a competing business or will follow the terms and conditions of their employment contracts. As competition for talents such as skilled technical personnel and experienced management is fierce in our industry, any loss of key personnel or failure to promptly recruit such personnel for our future business development may adversely affect our business.

We, our Directors, management and employees may be subject to litigation and regulatory investigations and proceedings, such as claiming in relation to food safety, commercial, labor, employment, antitrust or securities matters, and may not always be successful in defending ourselves against such claims or proceedings.

We face potential liability, expenses for legal claims and harm due to our business nature. For example, customers could assert legal claims against us in connection with personal injuries related to food poisoning or tampering. The PRC government, media outlets and public advocacy groups have been increasingly focused on customer protection in recent years. See "Regulatory Overview—Protection of Consumer Rights and Interests." Sales of defective products may expose us to liabilities associated with customer protection laws. Sellers may be responsible for compensation on customer's loss even if the contamination of food is not caused by the sellers. Thus, we may also be held liable if our suppliers or other business partners fail to comply with applicable food-safety related rules and regulations. Though we can ask the responsible parties for indemnity after that, our reputation could still be adversely affected. In addition, our Directors, management and employees may from time to time be subject to litigation and regulatory investigations and proceedings or otherwise face potential liability and expense in relation to commercial, labor, employment, antitrust, securities or other matters, which could adversely affect our reputation and results of operations.

After we become a [REDACTED] company, we may face additional exposure to claims and lawsuits. These claims could divert management time and attention away from our business and result in significant costs to investigate and defend, regardless of the merits of the claims. In some instances, we may elect or be forced to pay substantial damages if we are unsuccessful in our efforts to defend against these claims, which could harm our business, financial condition and results of operations.

We may undertake strategic partnerships which may not be successful. If our collaboration with any of our strategic partners is terminated or curtailed, or if we are no longer able to benefit from the business collaborations with our strategic partners, our business may be adversely affected.

Our business has benefited from our collaborations with our strategic partners in the areas such as online ordering and payment, supply chains and joint marketing. We cannot assure you that such alliances or partnerships will contribute to our business, and we might not be able to maintain our cooperative relationships with our strategic partners and their respective affiliates in the future. If the services provided by these strategic partners become limited, compromised, restricted, curtailed or less effective or become more expensive or unavailable to us for any reason, our business may be materially and adversely affected. To the extent we cannot maintain our cooperative relationships with any of these strategic partners, it may be difficult for us to identify other alternative partners at commercially reasonable terms, which may divert significant management attention from existing business operations and adversely impact our daily operation and customer experience.

Our performance depends on our ability to maintain good relationship with our employees, and any deterioration in relationships with our employees, shortage of labor or material increase in wages may have an adverse effect on our results of operations.

Our continued success partly depends on our ability to attract, motivate, retain and maintain good relationships with a sufficient number of qualified employees, such as tea production workers, retail store managers, marketing and sales specialists and other administrative and management personnel. We cannot assure you that we will be able to recruit or retain a sufficient number of qualified employees for our businesses or maintain good relationships with them, or can we assure you that we will not experience any shortage in labor. If there is a high turnover rate of employees and we fail to recruit enough qualified personnel and retain them due to various factors such as failure to keep up with the rising employee salary levels, we may fail to implement our growth strategy.

We strive to provide a safe and desirable working environment to our employees to prevent occupational hazards. However, we may be subject to liability claim, negative publicity and government investigation in relation to workplace safety or occupational hazards, in particular if our employees, third party service providers and the public suffer from personal injuries or casualties at our facilities or during the transportation of our products. Such incidents could worsen our relationship with our employees and damage our brand and reputation.

We cannot assure you that we will not have any labor disputes in the future. Any deterioration of our relationships with our employees could result in disputes, strikes, claims and relevant legal proceedings, which may disrupt our production and operations, and lead to loss of know-how and trade secrets. Any labor shortage could hinder our ability to maintain or expand our business operations, which may adversely affect our business operations and results of operations.

Our employment practices may be adversely impacted under the Labor Contract Law of the PRC.

The Standing Committee of the National People's Congress (全國人民代表大會常務委員會) promulgated the Labor Contract Law of the PRC (中華人民共和國勞動合同法), or the Labor Contract Law, which became effective on January 1, 2008 and was amended on December 28, 2012, and the State Council promulgated implementing rules for the Labor Contract Law on September 18, 2008. The Labor Contract Law and the implementing rules impose requirements concerning, among others, the execution of written contracts between employers and employees, the time limits for probationary periods, and the length of employment contracts. The interpretation and implementation of these regulations are still evolving, our employment practices may violate the Labor Contract Law and related regulations and we could be subject to penalties, fines or legal fees as a result. If we are subject to severe penalties or incur significant legal fees in connection with labor law disputes or investigations, our business, financial condition and results of operations may be adversely affected.

We may not be able to detect or prevent fraud, bribery, or other misconduct committed by our employees, customers or other third parties.

We may be exposed to fraud, bribery, or other misconduct committed by our employees, customers or third parties (such as construction service providers), which could subject us to financial losses and penalties from governmental authorities. Although our internal control procedures are designed to monitor our operations and ensure overall compliance, our internal control procedures may be unable to identify all non-compliances, suspicious transactions, fraud, corruption or bribery in a timely manner. If such misconduct occurs, we will suffer from negative publicity and reputation damages.

Any failure to protect our intellectual property rights could undermine our competitive position, and litigation to protect our intellectual property rights may be expensive and time-consuming.

We consider our trade secrets, trademarks, trade names, patents and other intellectual property important to our business. From time to time, our intellectual properties may have been infringed by third parties. Preventing intellectual property infringement requires fulfilling relevant legal procedures, which may be expensive and time-consuming, and continued unauthorized use of our intellectual properties by unrelated third parties may damage our reputation and brand image. The measures we take to protect our trademarks, patents, trade secrets and other intellectual property rights may not be adequate to prevent intellectual property infringement by third parties. If we are unable to adequately protect our trademarks, patents, trade secrets and other intellectual property rights, we may lose these rights, our brand image may be harmed, and our competitive position and business may suffer.

We may face intellectual property infringement claims by third parties, which could disrupt our business, cause substantial legal costs, and damage our reputation.

We cannot assure you that our products will not infringe any intellectual property rights held by third parties in the future. We may face claims of infringement of third parties' proprietary rights or claims for indemnification resulting from infringement arising from our products. In addition, we may be unaware of intellectual property registrations or applications relating to our products or business operations that may give rise to potential infringement claims against us. There may also be technologies licensed to and relied on by us that are subject to infringement or other corresponding allegations or claims by third parties. We are subject to additional risks as a result of the hiring of our current and new employees, especially those that were previously employed by our competitors, who may misappropriate intellectual properties from their former employers.

Parties making infringement claims may be able to obtain an injunction to prevent us from delivering our products or using relevant technology. Intellectual property litigation is expensive and time-consuming and could divert management's attention from our business. A successful infringement claim against us could, among others things, make us to pay substantial damages, develop non-infringing technology, or enter into royalty or license agreements that may not be available on acceptable terms, if at all, and cease manufacturing, selling or using products that have infringed a third party's intellectual property rights. Any intellectual property claim or litigation, regardless whether we ultimately win or lose, could damage our reputation and have a material adverse effect on our business, results of operations or financial condition.

We may not be able to generate sufficient cash flow from operations to repay our bank borrowings.

Our bank borrowings primarily consist of bank loans that are either secured or unsecured. As of December 31, 2020, 2021 and 2022 and June 30, 2023, our bank borrowings of RMB110.8 million, RMB154.9 million, RMB208.2 million and RMB209.0 million were at variable interests rate, respectively, and as of the same dates, our bank borrowings of RMB3.0 million, nil, RMB3.0 million and RMB3.0 million were at fixed interests rate, respectively. We intend to repay these bank borrowings with cash generated from our operations. Alternatively, if a suitable opportunity is available, we may choose to refinance them with other borrowings. There can be no assurance that our business will generate sufficient cash flow from operations to repay these borrowings. In addition, repaying these borrowings with cash generated by our operating activities will divert our financial resources from the requirements of our ongoing operations and growth, and may have a material adverse effect on our business, prospects, financial condition and results of operations. Any acceleration of indebtedness may cause defaults and cross defaults under our current and future financing agreements, and as well as significant reductions in our liquidity and may have a material adverse effect on our business, prospects, financial condition and results of operations. Further, as of December 31, 2020, 2021 and 2022 and June 30, 2023, our property, plant and equipment of RMB67.6 million, RMB85.6 million, RMB81.5 million and RMB79.4 million were pledged as collateral for our bank borrowings.

We may lose part or all of pledged property if we default on these secured borrowings, which would have a material adverse effect on our business, prospects, financial condition and results of operations.

We may not fully recover our deferred income tax assets, which may affect our financial positions in the future.

We had deferred income tax assets of RMB29.6 million, RMB47.6 million, RMB53.1 million and RMB55.9 million as of December 31, 2020, 2021 and 2022 and June 30, 2023, respectively. Our deferred income tax assets relate to deductible temporary differences between the tax bases of assets and liabilities and their carrying amounts to the extent that the utilization of such differences and losses against future taxable profits is probable. This requires significant judgment on the tax treatments of transactions and an assessment of the probability that adequate future taxable profits will be available for the deferred income tax assets to be utilized. The carrying amount of deferred income tax assets is reviewed at the end of each period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. We cannot guarantee we can recover or predict the movement of our deferred income tax assets. Failure to recover deferred income tax assets may adversely affect our financial position in the future. See Note 30 to the Accountant's Report in Appendix I to this document for details of our deferred income tax assets during the Track Record Period.

We may face risk regarding investments in associates, and the share of results of associates may adversely affect our financial performance.

We had investments in associates of RMB0.3 million, RMB11.0 million, RMB21.6 million and RMB20.0 million as of December 31, 2020, 2021 and 2022 and June 30, 2023, respectively. Our investments in associates primarily related to our equity interests in a number of associate companies engaged in sales of tea and tea ware products, provision of tea leaves purchase service and development of a tea cultural tourist town.

However, our investments in associates may not guarantee a share of profits, and any loss incurred by any of these associates shall be apportioned among our Group and other shareholders of each of such associates. If any of these associates does not perform as expected or does not generate sufficient revenue in any financial year, our return of investments in associates, financial performance and financial position, could be materially and adversely affected. In addition, there can be no assurance that our investments in associates will achieve the results intended and we may be subject to liquidity risk. Our investments in associates are not as liquid as other investment products as there is no cash flow until dividends are received even if such associates reported profits under the equity accounting. Furthermore, the possibility to promptly sell one or more of our interests in associates in response to changing economic, financial and investment conditions is uncertain. We cannot predict whether we will be able to sell any of our interests in our associates for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. Therefore, the illiquidity nature of our investments in associates may significantly limit our ability to respond to adverse changes in the performance of such associates. We cannot assure you that there would not be any impairment charging on our investments in associates in the future. If we record impairment losses on our investments in associates in the future, our business, financial condition and results of operations may be materially and adversely affected.

Going forward, from time to time, we may evaluate various investment opportunities, including investment in other associates or joint ventures in relation to associates. Any future investments in associates may entail numerous risks, such as increased cash requirements and additional indebtedness or contingent or unforeseen liabilities.

We are exposed to risks associated with the fair value change in financial assets measured at fair value through other comprehensive income and valuation uncertainty regarding the use of unobservable inputs.

We had financial assets at fair value through other comprehensive income of RMB12.9 million, RMB12.5 million, RMB11.8 million and RMB10.8 million as of December 31, 2020, 2021 and 2022 and June 30, 2023, respectively, which represented our equity interest in a rural commercial bank in Lancang. See "Financial Information—Discussion of Certain Items from the Consolidated Statements of Financial Position—Financial Asset at Fair Value through Other Comprehensive Income." During the Track Record Period, we measured our financial assets at fair value through other comprehensive income using unobservable inputs. See Note 3.3 to the Accountant's Report in Appendix I to this document. A variety of factors such as general economic and market conditions can significantly influence and cause adverse changes to the assumptions and estimates we use and thereby affect the fair value of our financial assets. Such factors could cause our estimates to vary from actual results and result in the substantial fluctuation in the fair value of our financial assets. We cannot assure you that we will not have our financial assets at fair value measured using unobservable inputs in the future. Any material declines in the fair value of our financial assets and the uncertainty due to the use of unobservable inputs for valuation may have a material adverse effect on our financial condition.

Our failure to recover a significant portion of our trade and other receivables in a timely manner may have a materially adverse effect on our business and financial results.

We generate trade receivables in the ordinary course of business. Our trade receivables primarily consist of receivables due from third parties in connection with their purchases of our products. We generally require payment before delivery, particularly for our flagship products. Any sales on credit to distributors shall not exceed the amount of cash deposit for performance bond such distributor has put with us. For key account customers, our sales collection generally follows payment cycles pre-negotiated with such customers, which were typically 60 days during the Track Record Period. As of December 31, 2020, 2021 and 2022 and June 30, 2023, our trade and notes receivables was RMB1.5 million, RMB14.8 million, RMB23.5 million and RMB26.8 million, respectively. In the event that our trade or other receivables increase significantly and we fail to collect these receivables in a timely manner, our financial condition and business operations may be materially and adversely affected. See "Financial Information—Discussion of Certain Items from the Consolidated Statements of Financial Position—Trade and Other Receivables."

We may recognize impairment loss on our prepayments.

We recorded current prepayments of RMB11.7 million, RMB23.7 million, RMB38.2 million and RMB43.7 million as of December 31, 2020, 2021 and 2022 and June 30, 2023, respectively. During the Track Record Period, our prepayments primarily consisted of prepayments for [REDACTED], prepayments for advertising and promotion expenses, input VAT available for future deduction, and prepayments for purchase of raw materials and packaging materials. Although we did not experience material defaults for our prepayments during the Track Record Period, we cannot assure you that there would not be any impairment charging on our prepayments in the future. If we record impairment losses on our prepayments in the future, our business, financial condition and results of operations may be materially and adversely affected.

If we fail to perform our contractual obligation, our liquidity and financial positions may be materially and adversely affected in the future.

As of December 31, 2020, 2021 and 2022 and June 30, 2023, our contract liabilities were RMB22.1 million, RMB14.9 million, RMB4.9 million and RMB12.8 million, respectively. Our contract liabilities mainly represent advance payments received from our customers. Contract liabilities would be recognized as revenue upon the delivery of our products. All of our contract liabilities balance as of December 31, 2020, 2021 and 2022 and June 30, 2023 was recognized or expected to be recognized as revenue during the next financial year. See "Financial Information—Discussion of Certain Items from the Consolidated Statements of Financial Position—Contract Liabilities" and Note 5 to the Accountant's Report in Appendix I to this document. However, if we fail to fulfill our obligations with respect to our contract liabilities, we may not be able to convert such contract liabilities into revenue as expected. Furthermore, if we fail to fulfill our obligations with respect to our contract liabilities, customers may request not to prepay us in the future. Any of these circumstances could materially and adversely affect our business, results of operations, cash flow and liquidity condition.

Our information technology and software systems may encounter malfunction, unexpected system failure, interruption, insufficiency or security breaches.

We rely on our information technology and software systems to effectively manage various sales and distribution data, marketing activities and expenses data, production and operation data and financial and human resources data. Any significant failure in our information technology and software systems could result in transaction errors, processing inefficiencies and loss of sales and customers, or lead to loss or leakage of confidential information. We collect and store sensitive personal information such as customer contact information and their addresses for the purpose of our business needs. The security of such information is of paramount importance. Any security and privacy breaches on customer information may damage our customer relations and our reputation and may expose us to legal liability.

Our information technology and software systems may be subject to damage or interruption, primarily due to unexpected emergency circumstances beyond our control, including power outages, fire, natural disasters, systems failures, security breaches, unauthorized access to our information systems, hackings intended to cause malfunctions, loss or corruption of data, software, hardware or other computer equipment, intentional or inadvertent transmission of computer viruses and other similar events. We may also encounter problems when upgrading our systems, which could disrupt our operations and adversely affect our results of operations.

We are in possession of certain information regarding our customers, and the improper collection, storage, use or disclosure of such information could materially and adversely affect our business and reputation.

During our provision of tea leaf products, we collect and maintain personal information of our customers to the extent necessary for the sales and delivery of our products through e-commerce platforms, as well as our membership program, with their prior consents. The types of personal information we collect primarily include customer names, contact information and addresses for delivery. Unless otherwise provided in laws and administrative regulations, Personal Information Protection Law (個人信息保護法) (the "PIPL") only allows us to collect personal information of customers with their prior consents and to the extent necessary. The PIPL also requires us to protect the privacy of our customers, and prohibit unauthorized disclosure of their personal information. We may be liable for damages caused by divulging our customers' personal information without consent. In addition, there is a risk that such information could be compromised in the event of a security breach at our internal system. Such information could be divulged due to, for example, theft or misuse arising from staff misconduct or negligence.

We may be subject to additional cybersecurity review or inspection by government authorities.

On June 10, 2021, the Data Security Law (數據安全法) was adopted by the Standing Committee of the National People's Congress and became effective on September 1, 2021. On August 20, 2021, the PIPL was adopted by the Standing Committee of the National People's Congress and became effective on November 1, 2021. Pursuant to the Measures for Cybersecurity Review (網絡安全審查辦法) (the "Cybersecurity Review Measures"), which became effective in February 2022, critical information infrastructure operators that purchase network products and services and data processing operators engaging in data processing activities that affect or may affect national security must be subject to the cybersecurity review, reflecting the increased attention of the government authorities on data security and protection. However, the Cybersecurity Review Measures provides no further explanation or interpretation for "[REDACTED] abroad." Given that the expression used in the Cybersecurity Review Measures is "[REDACTED] in a foreign country" rather than "offshore [REDACTED]" and that Hong Kong is "offshore" rather than "foreign country," a [REDACTED] in Hong Kong is not "[REDACTED] in a foreign country." Furthermore, the exact scope of "critical information infrastructure operators" under the Cybersecurity Review Measures and the current regulatory regime remains unclear, and the identification rules of critical information infrastructure operators still need to be formulated and clarified by relevant Protection Work Departments (the competent departments and supervision and management departments of important industries and sectors) in future legislation.

On November 14, 2021, the Cyberspace Administration of China, or the CAC, published Regulations on Cyber Data Security Management (Draft for Comments) (網絡數據安全管理條例(徵求意見稿)) (the "Draft Regulations on Cyber Data Security Management"), which further elaborated a [REDACTED] in Hong Kong is not treated as "[REDACTED] in a foreign country," which was mentioned in the Cybersecurity Review Measures. According to Draft Regulations on Cyber Data Security Management, seeking to be [REDACTED] in Hong Kong that affects or may affect the national security should be reported and undergo the cybersecurity review. According to National Security Law of the PRC (中華人民共和國國家安全法) issued by Standing Committee of the National People's Congress on July 1, 2015 and became effective on the same date, national security refers to a status in which the regime, sovereignty, unity, territorial integrity, welfare of the people, sustainable economic and social development, and other major interests of the state are relatively not faced with any danger and not threatened internally or externally and the capability to maintain a sustained security status.

However, we cannot assure you that we will not be deemed as a data processor that "affects or may affect national security" in the future. We may be subject to cybersecurity review by the competent government authority even upon completion of our [REDACTED]. If the data processing activities of a Hong Kong [REDACTED] company or a company that is in the process of applying for [REDACTED] in Hong Kong are deemed as "affecting or may affect national security" and such company has failed to conduct cybersecurity review according to the relevant laws and regulations, such company will be requested to take rectification actions, subject to disciplinary warning, and/or imposed an administrative penalty ranging from RMB50,000 to RMB500,000 for a single violation incident. Furthermore, if such violation causes material impact or such company refuses to rectify the violation, such company may be subject to more severe penalties, such as revocation of relevant licenses and/or permits. Therefore, if our business is deemed as "affect or may affect national security" when the Draft Regulations on Cyber Data Security Management become effective and we fail to conduct cybersecurity review according to the relevant laws and regulations and/or take rectification actions as required by the relevant competent government authority, we might be subject to more severe penalties, warnings or revocation of our licenses and/or permits, which could materially and adversely affect our business, reputation as well as financial performance.

On July 7, 2022, the CAC promulgated the Measures on Security Assessment of Outbound Data Transfer (數據出境安全評估辦法), effective September 1, 2022. These measures shall apply to the security assessment of the provision of important data and personal information collected and generated by data processors in the course of their operations within the territory of the PRC by such data processors to overseas recipients, or the outbound data transfer. Where there are other provisions in laws and administrative regulations, such other provisions shall prevail. These measures specify that an outbound data transfer by a data processor that falls under any of the following circumstances, the data processor shall apply to the CAC for the security assessment via the local provincial-level cyberspace administration authority: (1) outbound transfer of important data by a data processor; (2) outbound transfer of personal information by a critical information infrastructure operator or a personal information processor who has processed the personal information of more than 1,000,000 people; (3) outbound transfer of personal information by a personal information processor who has made outbound transfers of the personal information of 100,000 people cumulatively or the sensitive personal information of 10,000 people cumulatively since January 1 of the previous year; or (4) other circumstances where an application for the security assessment of an outbound data transfer is required as prescribed by the CAC. There is no outbound data transfer involved during our daily business operations.

Our Directors and our PRC Legal Advisor are of the view that the Cybersecurity Review Measures and the Draft Regulations on Cyber Data Security Management, if implemented in current form, will not have material adverse effects on our business operations or the proposed [REDACTED]. However, with the continuous expansion of our business and growth of our customer base, there can be no assurance that we will not be subject to national security review or that relevant regulations which may be amended from time to time will have no material adverse effect to our business operations in the future. If we cannot meet relevant requirements under the applicable laws or regulations relating to data privacy, data protection or information security or any additional tax related requirements relating to data, or any compromise of security that results in unauthorized access, use or leakage of our customers' and/or distributors' personal information, we could face damage in our reputation or other negative consequences, such as investigations, fines, or suspension of our business, any of which could materially and adversely affect our business, financial condition and results of operations. In addition, complying with various laws and regulations on cybersecurity and data security could cause us to incur additional costs or change our business practices, including our data practices, which may distract our management's attention and adversely affect our business.

The payment methods that we accept may subject us to risks.

We accept a variety of payment methods including WeChat Pay, Alipay and Union Pay through third-party payment services. We pay service fees for such payment services, which may increase over time and raise our operating costs. We may also be subject to fraud, security breaches and other illegal activities in connection with the various payment methods we offer. If any of these happens, our financial condition and results of operations may be materially and adversely affected.

If we fail to effectively implement our future expansion plans, our business prospects may be adversely affected.

We may encounter risks when we develop new sales channels and markets in China. New sales channels and markets may have different regulatory requirements, competitive landscape, consumer preferences, spending patterns and operation environment from our existing channels and markets. We may need to increase our promotion efforts in these new sales channels and markets, establish appropriate operation model, distribution system, talent reserve, strengthen the financial management capability, and develop or adjust the information technology and software systems. In addition, we may need to search for suppliers and construct new production facilities based on the conditions of the new sales channels and markets. As a result, it may be relatively expensive and risky to expand new sales channels and markets and may take longer to reach targeted sales and profit levels. Furthermore, the construction plan for our new facilities may not be as smooth as we expected. We may even encounter protests from local residents, resulting in the delay or termination of these plans. If such plans are delayed or terminated, we may not be able to recover our relevant investment in time or at all.

We may from time to time pursue acquisitions that we believe would benefit our business. We have limited experience in acquisitions. We may not be able to successful execute any proposed acquisitions. In addition, we may be exposed to challenges in integrating the acquired companies into our existing operations. If we fail to achieve the desired results from acquisitions, our financial condition and results of operations may be materially and adversely affected.

We require a significant amount of capital to fund our operations and respond to business opportunities. If we cannot obtain sufficient capital on acceptable terms, our business, financial condition and prospects may be materially and adversely affected.

Expanding our store network, building a well-known brand and accumulating a large and continuously growing customer base are costly and time-consuming. A vast majority of our capital is invested to fund the capital expenditures and associated costs arising from our daily operations. Our capital expenditures during the Track Record Period consisted primarily of payments for purchase of right-of-use assets, purchase of property, plant and equipment and purchase of intangible assets, and amounted to RMB22.2 million, RMB41.5 million, RMB63.0 million, RMB40.3 million and RMB5.3 million in 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively. Substantial and continuous investments in sales and marketing are also required for further establishing brand awareness among the mass population in China to attract new customers and retain existing ones. Our ability to obtain additional capital in the future, however, is subject to a number of uncertainties, including those relating to our future business development, financial condition and results of operations, general market conditions for financing activities by companies in our industry, and macro-economic and other conditions in China and globally. If we cannot obtain sufficient capital on acceptable terms to meet our capital needs, we may not be able to execute our growth strategies, and our business, financial condition and prospects may be materially and adversely affected.

We lease properties in various place as premises for our self-operated stores, office spaces and warehouses. Any non-renewal of leases, substantial increase in rent, or any failure to comply with applicable laws and regulations may affect our business and financial performance.

As most of our self-operated stores are currently located at leased properties, our operations are particularly susceptible to fluctuations in the property rental market. Before the expiry of each of our leases, we have to negotiate the terms of renewal with our respective lessors. The term of the lease agreements for our self-operated stores typically varies from one year to ten years, and the term for our office space typically varies from two years to eight years. There is no assurance that our existing leases would be renewed on similar or favorable terms or at all, in particular with respect to the amount of rent and the term of the lease. Any substantial increase in the rent of our leased properties may increase our property rental and related expenses, which could materially and adversely affect our profitability.

There is also no assurance that our existing leases will not be terminated early by the lessors before the expiry of the relevant term. In the event that we are required to relocate our self-operated stores or office space, there is no assurance that we will be able to identify comparable locations in a timely manner or at all or that we will secure a lease on comparable terms. We may also incur substantial reinstatement, relocation and renovation costs. In addition, it typically takes new stores a period of time to achieve a profitability rate comparable to the existing ones, due to factors such as the time needed to find suitable locations, build consumer awareness in the local community, renovate new stores, and integrate the operations of such stores into our existing sales network. Any non-renewal of lease of either of our self-operated stores or office space may have a material adverse effect on our business, results of operations and financial condition.

In addition, some of these leased properties do not meet certain property-related requirements under PRC laws and regulations. For example, as of the Latest Practicable Date, 25 of our lease agreements had not been registered with the relevant PRC authorities. As advised by our PRC Legal Advisor, failure to register an executed lease agreement will not affect its legality, validity or enforceability. However, we may be subject to a fine of no less than RMB1,000 and not exceeding RMB10,000 for each unregistered lease agreement if the relevant PRC government authorities require us to rectify and we fail to do so within the prescribed time period. See "Business—Properties—Leased Properties."

Further, we have entered into certain lease agreements with parties who have not provided us with evidence of proper legal title to the leased premises. If such parties are not the legal owners or they failed to obtain the proper authorization from the legal owners of the premises, and the actual owners successfully challenge the validity of the relevant lease, we would be forced to relocate. See also "Business—Properties—Leased Properties."

Any dispute or claim in relation to the titles of the properties that we occupy, including any litigation involving allegations of illegal or unauthorized use of these properties, could require us to relocate our business operations occupying these properties. If any of our leases are terminated or voided as a result of challenges from third parties or the government, we would need to seek alternative premises and incur relocation costs. We cannot assure you that we will be able to relocate such operations to suitable alternative premises, and any such relocation may result in disruption to our business operations and thereby result in loss of earnings. There is also no assurance that we will be able to effectively mitigate the possible adverse effects that may be caused by such disruption, including loss and costs. Any of such disruption, loss or costs could materially and adversely affect our financial condition and results of operations.

We received government grants during the Track Record Period, and any significant reduction of government grants offered to us may adversely affect our financial condition and results of operations.

During the Track Record Period, we received certain government grants as rewards for our contribution to the local economic growth. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, we recognized government grants of RMB8.3 million, RMB6.6 million, RMB6.5 million, RMB1.8 million and RMB1.6 million as other income, respectively. We cannot assure you that we will continue to receive such government grants or that the amount of such grants will not be reduced in the future. Any significant reduction of government grants received by us may adversely affect our financial condition and results of operations.

If our preferential tax treatment becomes unavailable or if the calculation of our tax liability is challenged by the PRC tax authorities, our results of operations may be adversely affected.

During the Track Record Period, we enjoyed preferential tax treatment under relevant preferential tax policies. We cannot assure you that we will continue to enjoy similar preferential tax treatment in the future. The PRC Enterprise Income Tax Law and its implementation rules have adopted a flat statutory enterprise income tax rate of 25% to all enterprises in China (if not entitled to any preferential tax treatment). During the Track Record Period, we paid an enterprise income tax rate of 25%, except for our Company and Pu'er Renhe, one of our subsidiaries, which enjoyed preferential tax treatment of an income tax rate of 15% pursuant to the Western Development Strategy. In addition, Chengdu Hekang Langu Tea Company Limited, one of our subsidiaries, enjoyed preferential tax treatment of an income tax rate of 20% for its status as a small low-profit enterprise in 2020. If we cease to be entitled to preferential tax treatment, our income tax expenses may increase, which would adversely affect our results of operations.

We may be required to make additional contributions of social insurance fund and/or housing provident fund and late payments and fines under PRC laws and regulations.

We may be required to make additional contributions of social insurance fund and/or housing provident fund and late payments and fines under PRC laws and regulations. Under relevant PRC laws and regulations, we are required to make social insurance fund and housing provident fund contributions for our employees. During the Track Record Period, we did not make adequate contributions to the social insurance and housing provident funds with respect to certain of our employees such as production line workers in our Lancang production base, as required by the relevant PRC laws and regulations. In 2020, 2021, 2022 and the six months ended June 30, 2023, the estimated shortfall amounts of such social insurance and housing provident fund contributions were RMB2.0 million, RMB7.0 million, RMB5.0 million and RMB0.5 million, respectively. As of the Latest Practicable Date, (1) we had not been subject to any administrative actions, fines or penalties due to shortfalls of social insurance and housing provident fund contributions, (2) we had not received any notification from the relevant PRC authorities requiring us to pay for or otherwise make up the shortfalls or any overdue charges with respect to social insurance contributions or housing provident fund contributions, (3) we were not aware of any employee complaints filed against us nor were we involved in any material labor disputes with our employees with respect to social insurance or housing provident fund contributions, and (4) Ms. Du and Ms. Wang have undertaken to, pursuant to the terms and condition of their confirmation, indemnify us against any losses and penalties which we may suffer as a result of the failure of our Group to comply with relevant laws, rules and regulations concerning social insurance and housing provident fund contributions. See "Business—Our Employees." However, we cannot assure you that we will not be subject to any order to rectify the non-compliance in the future, nor can we assure you that there are no, or will not be any, employee complaints regarding payment of the outstanding amount of the social insurance and housing provident fund contributions against us, or that we will not receive any claims in respect of the outstanding amount of the social insurance and housing provident fund contributions under national laws and regulations. In addition, we may incur additional expenses to comply with such laws and regulations.

Our insurance coverage is limited and may not be sufficient to cover all of our potential losses.

We believe that we have purchased and maintained various insurances in accordance with relevant laws and regulations and the standard industry practice. We cannot assure you that our insurances will provide adequate coverage for all the risks in connection with our business operations. If we were to incur substantial losses and liabilities that are not covered by our insurance policies, we may be required to bear our losses to the extent that our insurance coverage is insufficient. As a result, we could suffer significant costs and diversion of our resources, which could have a material adverse effect on our financial condition and results of operations.

Our Controlling Shareholder Group have substantial influence over us, and their interests may not be aligned with the interests of our other Shareholders.

Our Controlling Shareholder Group have substantial influence over us, including matters relating to our management, policies and decisions regarding acquisitions, mergers, expansion plans, sales of all or substantially all of our assets, election of directors and other significant corporate actions. Immediately following the completion of [REDACTED] (assuming that [REDACTED] is not exercised), our Controlling Shareholder Group will directly or indirectly, individually or together with others control [REDACTED]% of the issued share capital of our Company. This concentration of ownership may discourage, delay or prevent a change in control of the Company, which could deprive other Shareholders of an opportunity to receive a premium for their Shares (as part of a sale of the Company) and might reduce the price of our Shares. These events may occur even if they are opposed by our other Shareholders. In addition, the interests of our Controlling Shareholder Group may differ from the interests of our other Shareholders. It is possible that our Controlling Shareholder Group may exercise their substantial influence over us and cause us to enter into transactions or take, or fail to take, actions or make decisions that conflict with the best interests of our other Shareholders.

We could be involved in claims, disputes and legal proceedings in our ordinary course of business.

From time to time, we may be involved in claims, disputes and legal proceedings in our ordinary course of business. These may concern issues relating to, among others, breach of contract, employment or labor disputes, infringement of intellectual property rights and environmental matters. In particular, the manufacture and sales of our products subject us to potential product liability claims if our products are proven to have failed to meet relevant health and safety or other laws and regulations, or cause or are alleged to have caused illness or health issues.

If we are unsuccessful in any product liability claims, we may be subject to substantial damages to compensate the claimants. Any claims, disputes or legal proceedings initiated by us or brought against us, with or without merit, may result in substantial costs and diversion of resources and materially harm our reputation.

Claims, disputes or legal proceedings against us may be due to defects of supplies, such as rough tea leaves and packaging materials, sold to us by our suppliers, who may not be able to indemnify us in a timely manner, or at all, for any costs that we incur as a result of such claims, disputes and legal proceedings.

RISKS RELATING TO OUR INDUSTRY

The tea leaf industry in China could face competition from substitute products such as other beverage products.

According to the F&S Report, in the period between 2017 and 2022, retail sales of tea leaf products in China increased from RMB240.6 billion in 2017 to RMB331.8 billion in 2022, representing a CAGR of 6.6%. Over this period, China's nominal GDP grew at a CAGR of 7.8%. The industry of tea leaf products in China may experience relatively slower growth in the future due to market saturation and competition from other beverage products that may be viewed by consumers as substitutes for, or alternatives to, our tea leaf products, which may impact upon the size and growth of the market for tea leaves. The rapid growth in the tea leaf industry in recent years in China should not be used as an indicator for our future growth. We cannot assure you that the tea leaf market in China will be able to continue the rapid growth rate they experienced for the past several years or will be able to maintain the steady growth we expect. If these markets do not grow as we expect, our sales volume, sales revenue and profitability may be adversely affected.

The market in which we operate may be saturated with a growing number of tea leaf product sale stores.

According to the F&S Report, the number of stores for tea leaf products grew steadily from approximately 653.8 thousand in 2017 to 849.2 thousand in 2022, and it is expected to further reach 1,030.1 thousand in 2027, representing a CAGR of 3.9% from 2022 to 2027. However, we cannot assure you that there can always be sufficient customer demand, if at all, to support the rapid expansion of the tea leaf industry. If the key players within our industry continue to rapidly broaden their store network to out-compete each other and capture more market share, the market may be saturated to the extent our sales, results of operating and financial condition may be adversely impacted.

Any quality related issues for the tea leaf industry could adversely affect our business and reputation.

Other enterprises in the tea leaf industry may experience problems related to product quality and safety due to the quality standards they implement, quality defect, and inadequate compliance with and enforcement of inspection procedures under the food safety regulations. While we may not be involved in any of these events, the relevant negative publicity may cause consumers to be doubtful or fearful and may cause the government to enhance supervision of the industry, which may in turn influence consumer demand for our products. If the above events occur, our business and results of operations could be materially and adversely affected.

Failure to compete effectively may adversely affect our market share and profitability.

Our industry is highly competitive, and the competition may further intensify. Some of our competitors have solid positions in the tea leaf market with longer operating histories, global vision or greater financial, research and development or other resources. These competitors focus on specific products, regions or channels, which allow them to compete better in terms of understanding consumers, market influence and costs. As a result, our competitors may introduce better products or adapt more quickly to the evolving industry trends or market demands. Our current or potential competitors may provide products that are highly similar to ours. We cannot assure you that imitation or counterfeiting of our products, logos or brands will not occur in the market. It is often difficult to identify or eliminate those imitated or counterfeit products in a timely manner. Such incidents may affect our reputation and brand.

It is also possible that there will be significant consolidation or development of alliances in our industry, which may enable our competitors to rapidly acquire significant market share. Furthermore, competition may cause competitors to substantially increase their advertising expenses and marketing activities or to engage in unreasonable or predatory pricing behavior, or may even result in activities, whether legal or illegal, designed to undermine our brand and reputation or to influence consumers' confidence in our products. Any failure to respond to such competition effectively may materially and adversely affect our brand, reputation, results of operations, financial condition and business prospects.

Any slowdowns or declines in the Chinese economy or tea leaf market in China could have an adverse impact on our business, results of operations and financial condition.

We derive substantially all of our revenue from the sales of our products in China. The success of our business depends on the condition and growth of the Chinese market, which in turn depends on macro-economic conditions and individual income levels in China. We believe that consumer spending habits could be adversely affected during a period of recession in the economy and that uncertainties regarding future economic prospects could also affect consumer spending habits, any of which may have an adverse effect on certain enterprises operating within the tea leaf market in China, including us. The tea leaf market in China could be affected by the changing operating conditions in China. In particular, the reduction in tariffs on foreign products after further opening of the Chinese market and entry of more international brands may intensify the competition in the tea leaf market in China. This could have an adverse impact on our business, financial condition and results of operations.

RISKS RELATING TO DOING BUSINESS IN CHINA

The economic, political and social conditions in China could affect our business, results of operations, financial condition and prospects.

We generate all of our revenues from our operations in China. Accordingly, our business, financial condition, results of operations and prospects are subject to and influenced by the economic, political and social conditions in China. Economic reforms begun in the late 1970s have resulted in significant economic growth in China. However, any economic reform policies or measures in China may from time to time be modified or revised. While China's economy has experienced significant growth in the past 30 years, growth has been uneven across different regions and among different economic sectors. In addition, the impact of COVID-19 on China's and global economies in 2023 is possible to continue.

Since the implementation of the reform and opening-up policy in China, the Chinese economy has achieved significant growth in the past few decades. In recent years, the Chinese government has implemented measures emphasizing the use of the market in economic reforms and the establishment of fair corporate governance practices for commercial enterprises. These economic reform measures may be adjusted in different industries or in different regions of the country. If the business environment in China changes, our business in China may be adversely affected. In addition, the increased global focus on social, ethical and environmental issues may lead to the adoption of more stringent regulatory standards in these areas, which may also adversely impact our operations. We cannot predict future changes in China's economic, political and social conditions and the effect that government policies would have on our business and prospects.

The development of the PRC legal system could have an impact on our business and operations.

Our business and operations are primarily conducted in China and are governed by applicable PRC laws, rules and regulations. Since the late 1970s, the Chinese government has promulgated laws and regulations on economic affairs, such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view to establishing a comprehensive commercial legal system. However, because these laws and regulations are still evolving, these laws and regulations may be interpreted differently. As in other civil law countries, unless otherwise specified by the Supreme People's Court, there are a limited number of published legal judgments that can be cited for reference, which may not be binding on subsequent cases. As such laws and regulations are constantly evolving due to changing economic and other conditions, the interpretation and implementation of relevant PRC laws and regulations may adversely affect our business and operations.

Government regulations on currency exchange could limit our ability to utilize our revenues effectively, to pay dividends and other obligations, and affect the value of our H Shares.

The PRC government regulates the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Our revenues and expenses are substantially denominated in Renminbi, and the [REDACTED] from [REDACTED] and any dividends we pay on our H Shares will be in Hong Kong dollars. Under China's existing foreign exchange regulations, following the completion of [REDACTED], we will be able to make current account foreign exchange transactions, including paying dividends in foreign currencies without prior approval from the SAFE.

However, foreign exchange transactions under our capital account shall strictly abide by relevant foreign exchange laws and regulations and require SAFE's approval. These laws and regulations could affect our ability to obtain foreign exchange through offshore financing and the possibility of us paying dividends in foreign currencies to holders of our H Shares.

Furthermore, the [REDACTED] from [REDACTED] are expected to be deposited in currencies other than Renminbi until we obtain necessary approvals from relevant PRC regulatory authorities to convert these [REDACTED] into onshore Renminbi. If the [REDACTED] cannot be converted into onshore Renminbi in a timely manner, our ability to deploy these [REDACTED] efficiently may be affected as we will not be able to invest these [REDACTED] on RMB denominated assets onshore or deploy them in uses onshore where Renminbi is required. All of these factors could affect our business results of operations, financial condition and prospects.

Fluctuations in exchange rates of Renminbi against Hong Kong dollar, U.S. dollar or other foreign currencies could adversely affect our results of operations and the value of your [REDACTED].

Fluctuations in the exchange rate of Renminbi against Hong Kong dollar, U.S. dollar and other foreign currencies are affected by, among other things, the policies of the PRC Government and changes in China's and international political and economic conditions.

The [REDACTED] from [REDACTED] will be denominated in Hong Kong dollars. As a result, any appreciation of Renminbi against U.S. dollar, Hong Kong dollar or any other foreign currencies may result in a decrease in the value of our foreign currency-denominated assets and our [REDACTED] from [REDACTED]. Conversely, any depreciation of Renminbi may adversely affect the value of, and any dividends payable on our H Shares in foreign currencies. There are limited instruments currently available for us to reduce our foreign currency risk exposure at reasonable cost, and we have not utilized, and may not in the future utilize, any such instrument. All of these factors could materially and adversely affect our business, results of operations, financial condition and prospects, and could reduce the value of, and dividends payable on, our H Shares in foreign currency terms.

We may be subject to the approval or other requirements of the China Securities Regulatory Commission or other PRC governmental authorities in connection with future security activities.

On July 6, 2021, the General Office of the CPC Central Committee and the General Office of the State Council jointly promulgated the Opinions on Strictly Combatting Illegal Securities Activities (關於依法從嚴打擊證券違法活動的意見), or the July 6 Opinion, which called for the enhanced administration and supervision of overseas-[REDACTED] China-based companies, proposed to revise the relevant regulation governing the overseas [REDACTED] and [REDACTED] of shares by such companies and clarified the responsibilities of competent domestic industry regulators and government authorities. The July 6 Opinion aims to achieve this by establishing a regulatory system and revising the existing rules for overseas [REDACTED] of Chinese entities and affiliates including potential extraterritorial application of Chinese securities laws.

On February 17, 2023, the CSRC released the Trial Administrative Measures for Overseas Securities Offering and Listing by Domestic Companies (境內企業境外發行證券和上市管理試行辦法) (the "Trial Measures"), which have become effective on March 31, 2023 (the "Implementation Date") and stipulate that domestic companies that seek to [REDACTED] securities overseas, both directly and indirectly, shall complete the filing procedures and report relevant information to the CSRC. On the same date, the CSRC also released the Notice on the Arrangements of the Filing Management for Overseas Securities Offering and Listing of Domestic Companies (關於境內企業境外發行上市備案管理安排的通知), which stipulate that (1) prior to the Implementation Date of the Trial Measures, the CSRC would carry on its works on a normal basis pursuant to relevant regulations for the accepted applications for administrative approval for the overseas securities [REDACTED] including secondary [REDACTED] from domestic joint stock limited companies, under which circumstance if such companies could not obtain administrative approval prior to the Implementation Date, these companies shall complete the filing procedures with the CSRC; (2) as of the Implementation Date of the Trial Measures, such domestic companies that had submitted valid overseas securities [REDACTED] applications overseas, but had not obtained approval from overseas regulatory agencies or overseas stock exchanges, could reasonably arrange the timing for submitting filing applications to the CSRC, and shall complete such filing prior to their overseas securities [REDACTED]. We received the filing notice issued by the CSRC dated August 1, 2023 indicating that we have completed the filing application. Nonetheless, in the event of any future events that are material to us or failure to complete overseas securities [REDACTED] within 12 months from the date of the filing notice, we are under the obligation to report such events to or update the filing application with the CSRC.

In addition, if we are subject to any CSRC approval, filing, other governmental authorization or requirements for future capital raising activities, we may fail to obtain such approval or meet such requirements in a timely manner or at all. Such failure may adversely affect our ability to finance the development of our business and may have a material adverse effect on our business and financial conditions.

[REDACTED] of our H Shares may become subject to PRC taxation on dividends received from us and gains from the disposition of our H Shares.

Non-Chinese resident individual holders of H Shares whose names appear on the register of members of H Shares ("Non-Chinese Resident Individual Holders"), are subject to Chinese individual income tax on dividends received from us. Pursuant to the Circular on Questions Concerning the Collection of Individual Income Tax Following the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知(國稅函[2011]348號)) dated June 28, 2011 and issued by the SAT, the tax rate applicable to dividends paid to Non-Chinese Resident Individual Holders of H Shares varies from 5% to 20% (usually 10%), depending on whether there is any applicable tax treaty between China and the jurisdiction in which the Non-Chinese Resident Individual Holder of H Shares resides, as well as the tax arrangement between China and Hong Kong. Non-Chinese Resident Individual Holders who reside in jurisdictions that have not entered into tax treaties with the PRC are subject to a 20.0% withholding tax on dividends received from us. In addition, under the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法) and its implementation regulations, Non-Chinese Resident Individual Holders of H Shares are subject to individual income tax at a rate of 20% on gains realized upon the sale or other disposition of H Shares. However, pursuant to the Circular Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from Transfer of Shares (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) issued by the Ministry of Finance and the SAT on March 30, 1998, gains of individuals derived from the transfer of [REDACTED] shares of enterprises may be exempt from individual income tax. If such tax is collected in the future, the value of such individual holders' investments in H Shares may be adversely affected.

Under the EIT Law and its implementation regulations, a non-Chinese resident enterprise is generally subject to enterprise income tax at a rate of 10% with respect to its Chinese-sourced income, including dividends received from a Chinese company and gains derived from the disposition of equity interests in a Chinese company. This rate may be reduced under any special arrangement or applicable treaty between the China and the jurisdiction in which the non-Chinese resident enterprise resides. Pursuant to the Circular on Questions Concerning Withholding of Enterprise Income Tax for Dividends Distributed by Resident Enterprises in China to Non-resident Enterprises Holding H-shares of the Enterprises (Guo Shui Han [2008] No. 897) (關於中國居民企業向境外H股非居民企業股東派發股息代扣繳企業所得稅有關問題的通知(國稅函[2008]897號)) promulgated by the SAT on November 6, 2008, we intend to withhold tax at 10% from dividends payable to non-Chinese resident enterprise holders of H Shares (including [REDACTED]). Non-Chinese resident enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty or arrangement will be required to apply to the Chinese tax authorities for a refund of any amount withheld in excess of the applicable treaty rate, and payment of such refund will be subject to the Chinese tax authorities' approval. If enterprise income tax will be imposed in the future on the gains of non-Chinese resident enterprise holders of H Shares from their sales or other dispositions of H Shares, the value of such non-Chinese resident enterprise holders' investments in H Shares may be adversely affected.

Payment of dividends is subject to restrictions under PRC law.

Under PRC law, dividends may be paid only out of distributable profits. Distributable profits are defined as our profits after taxes as determined under PRC GAAP less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient, if any, distributable profits to enable us to make dividend distributions to our Shareholders in the future, including periods for which our financial statements indicate that our operations have been profitable. Any distributable profits not distributed in a given year are retained and available for distribution in subsequent years.

Moreover, because the calculation of distributable profits under PRC GAAP is different from the calculation under HKFRS in certain respects, our subsidiaries may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under HKFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries. Failure by our subsidiaries to pay dividends to us could have a negative impact on our cash flow and our ability to make dividend distributions to our Shareholders in the future, including those periods in which our financial statements indicate that our operations have been profitable.

The custodians or authorized users of our controlling non-tangible assets, including chops and seals, may fail to fulfill their responsibilities, or misappropriate or misuse these assets.

Under the PRC law, legal documents for corporate transactions, including agreements and contracts are executed using the chop or seal of the signing entity or with the signature of a legal representative whose designation is registered and filed with relevant PRC market regulation administrative authorities.

In order to secure the use of our chops and seals, we have established internal control procedures and rules for using these chops and seals. In any event that the chops and seals are intended to be used, the responsible personnel will submit a formal application, which will be verified and approved by authorized employees in accordance with our internal control procedures and rules. In addition, in order to maintain the physical security of our chops, we generally have them stored in secured locations accessible only to authorized employees. Although we monitor such authorized employees, the procedures may not be sufficient to prevent all instances of abuse or negligence. There is a risk that our employees could abuse their authority, for example, by entering into a contract not approved by us or seeking to gain control of one of our subsidiaries or our affiliated entities or their subsidiaries. If any employee obtains, misuses or misappropriates our chops and seals or other controlling non-tangible assets for whatever reason, we could experience disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources to resolve and divert management from our operations, and we may not be able to recover our loss due to such misuse or misappropriation if the third party relies on the apparent authority of such employees and acts in good faith.

Any failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.

Companies operating in the PRC are required to participate in various employee benefit plans, including pension insurance, unemployment insurance, medical insurance, work-related injury insurance, maternity insurance and housing provident fund and contribute to the amounts equal to certain percentage of salaries, including bonuses and allowances, of their employees up to a maximum amount specified by the local government from time to time at locations where they operate their business. The requirement of employee benefit plans has not been implemented consistently given the different levels of economic development in different locations. We cannot assure you that we will not be required to pay any contribution shortfall retroactively in the future, thereby adversely affecting our financial condition and results of operations.

RISKS RELATING TO [REDACTED]

There has been no prior [REDACTED] for our H Shares, and the [REDACTED] of our H Shares may be volatile.

Prior to [REDACTED], there has been no [REDACTED] market for our H Shares. [REDACTED] range for our H Shares was the result of negotiations between us, [REDACTED] and [REDACTED] on behalf of [REDACTED], and [REDACTED] may differ significantly from the market price for our H Shares following [REDACTED]. We have applied for [REDACTED] of, and permission to [REDACTED], our H Shares on the Stock Exchange. A [REDACTED] on [REDACTED], however, does not guarantee that an active and liquid [REDACTED] market for our H Shares will develop, or if it does develop, that it will be sustained following [REDACTED] or that the market price of our H Shares will not decline following [REDACTED]. Furthermore, the [REDACTED] and [REDACTED] of our H Shares may be volatile. The following factors may affect [REDACTED] and [REDACTED] of our H Shares:

- actual or anticipated fluctuations in our operating performance and revenue;
- news regarding recruitment or departure of key personnel by us or our competitors;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- potential litigation or regulatory investigations;
- general market conditions or other developments affecting us or our industry;
- the operating and stock price performance of other companies in our industry, and other events or factors beyond our control; and

- the release of lock-up or other transfer restrictions on our outstanding H Shares or sales or perceived sales of H Shares by us or other Shareholders.

Moreover, the capital market has from time to time experienced significant [REDACTED] fluctuations that were unrelated or not directly related to the operating performance of the underlying companies in the market. These broad market and industry fluctuations may have a material and adverse effect on the [REDACTED] of our H Shares.

An active and liquid [REDACTED] market for our H Shares may not develop.

Prior to [REDACTED], our H Shares were not [REDACTED] on any other market. We cannot assure you that an active and liquid [REDACTED] market for our H Shares will be developed or be maintained after [REDACTED]. Liquid and active [REDACTED] markets usually result in less [REDACTED] volatility and more efficiency in carrying out investors' purchase and sale orders. The [REDACTED] of our H Shares could vary significantly as a result of a number of factors, some of which are beyond our control. In the event of a drop in the [REDACTED] of our H Shares, you could lose a substantial part or all of your [REDACTED] in our H Shares.

Since there will be a gap of several days between [REDACTED] of our H Shares, holders of our H Shares are subject to the risk that the [REDACTED] of our H Shares could fall during the period before [REDACTED] of our H Shares begins.

[REDACTED] of our H Shares is expected to be determined on [REDACTED]. However, our H Shares will not commence [REDACTED] on the Stock Exchange until they are delivered, which is expected to be [REDACTED] business days after [REDACTED]. As a result, investors may not be able to [REDACTED] or otherwise [REDACTED] in our H Shares during that period. Accordingly, holders of our H Shares are subject to the risk that the [REDACTED] of our H Shares could fall before [REDACTED] begins, as a result of unfavorable market conditions or other adverse developments that could occur between the time of [REDACTED] and the time [REDACTED] begins.

Because the [REDACTED] of our H Shares is substantially higher than the consolidated net tangible book value per share, purchasers in [REDACTED] may experience immediate dilution.

As the [REDACTED] of our H Shares is higher than the consolidated [REDACTED] per share immediately prior to [REDACTED], purchasers of our H Shares in [REDACTED] will experience an immediate dilution in [REDACTED] adjusted consolidated [REDACTED]. Our existing Shareholders will receive an increase in the [REDACTED] adjusted consolidated net tangible asset value per share of their shares. Please refer to Appendix II to this document for details. In addition, holders of our Shares may experience further dilution of their interest if [REDACTED] exercise [REDACTED] or if we issue additional shares in the future to raise additional capital.

[REDACTED] of our H Shares may be volatile, which could result in rapid and substantial losses for our Shareholders.

The market price of our H Shares may be highly volatile and could be subject to significant fluctuations. In addition, the [REDACTED] of our Shares may fluctuate, which may cause significant [REDACTED] variations. Some of the factors that could negatively affect the price of our H Shares, or result in fluctuations in [REDACTED] of our H Shares following [REDACTED] include:

- variations in our operating and financial results, such as turnovers, earnings and cash flow;
- our failure to execute our strategies;
- an unexpected business interruption resulting from operational breakdowns, natural disasters, or major changes in our key personnel or senior management;
- adverse market reaction to any indebtedness that we may incur or securities that we may issue in the future;
- changes in market valuations of similar companies;
- changes or proposed changes in laws or regulations, or differing interpretations thereof, affecting our ability to obtain or maintain regulatory approval for our products;
- inadequate protection of our intellectual property rights or legal proceedings brought against us for infringement of third parties' intellectual property rights;
- unexpected costs of litigations and unfavorable outcomes of claims arising out of defective products and safety related governmental investigations and actions; and
- general political, financial, social and economic conditions.

We have significant discretion as to how we will use the [REDACTED] of [REDACTED], and you may not necessarily agree with how we use them.

Our management may spend [REDACTED] from [REDACTED] in ways you may not agree with or that do not yield a favorable return. See "Future Plans and [REDACTED]" for details of our intended [REDACTED]. However, our management will have discretion as to the actual application of our [REDACTED]. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific use we will make of [REDACTED].

Future sales or perceived [REDACTED] of substantial amounts of our securities in the [REDACTED] market, including any future [REDACTED] in China or conversion of our Domestic Shares into H Shares, could have a material and adverse effect on the prevailing [REDACTED] of our H Shares and our ability to raise additional capital in the future, or may result in dilution of your shareholdings.

Future sales of substantial amounts of our H Shares or other securities relating to our H Shares in the [REDACTED] market, or the [REDACTED] of new H Shares or other securities relating to our H Shares, or the perception that such sales or issuances may occur could all cause a decline in the [REDACTED] of our H Shares. Future [REDACTED], or perceived [REDACTED], of substantial amounts of our securities or other securities relating to our H Shares, including part of any future [REDACTED], could also materially and adversely affect the prevailing [REDACTED] of our H Shares and our ability to raise capital in the future at a time and at a [REDACTED] which we deem appropriate.

Our Domestic Shares may be converted into H Shares, and such converted H Shares may be [REDACTED] on an overseas stock exchange, provided that prior to the conversion and [REDACTED] of such converted shares, any requisite internal approval processes shall have been duly completed and the approval from the relevant Chinese regulatory authorities, including the CSRC, shall have been obtained (the "Arrangement"). In addition, such conversion, [REDACTED] shall in all respects comply with the regulations prescribed by the State Council's securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange. The Arrangement applies only to Domestic Shares. All of our Domestic Shares are subject to the Arrangement and may be converted into H Shares upon the approval of the relevant regulatory authorities, including the CSRC and the Stock Exchange.

Our historical dividends may not be indicative of our future dividend policy, and we may not be able to pay any dividends on our H Shares.

During the Track Record Period, we declared dividends to our Shareholders of RMB16.8 million, RMB16.8 million, RMB23.9 million and RMB6.3 million in 2020, 2021, 2022 and the six months ended June 30, 2023, respectively, in light of our cumulative business growth. All of such dividends declared during the Track Record Period had been fully settled by bank transfer to our Shareholders as of the Latest Practicable Date. See also Note 13 to the Accountant's Report in Appendix I to this document. However, our historical dividends may not be indicative of our future dividend policy. We cannot guarantee when and in what form dividends will be paid on our H Shares following [REDACTED]. The declaration of dividends is proposed by the Board and is based on, and limited by, various factors, including without limitation, our business and financial performance, capital and regulatory requirements, and general business conditions. We may not have sufficient or any profits to enable us to make dividend distributions to our Shareholders in the future, even if our financial statements indicate that our operations have been profitable. See "Financial Information—Dividends" for more details.

If securities or industry analysts do not publish research reports about our business, or if they adversely change their recommendations regarding our H Shares, the [REDACTED] of our H Shares may decline.

The [REDACTED] of our H Shares may be influenced by research reports that industry or securities analysts publish about us or our business. If one or more analysts who cover us downgrade our H Shares or publish negative opinions about us, the [REDACTED] of our H Shares would likely decline regardless of the accuracy of the information. If one or more of these analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which, in turn, could cause [REDACTED] of our H Shares to decline.

Forward-looking statements contained in this document are subject to risks and uncertainties.

This document contains forward-looking statements with respect to our business strategies, operating efficiencies, competitive positions, growth opportunities for existing operations, plans and objectives of management, certain [REDACTED] information and other matters.

The words "anticipate," "believe," "could," "potential," "continue," "expect," "intend," "may," "plan," "seek," "will," "would," "should" and the negative of these terms and other similar expressions identify a number of these forward-looking statements. These forward-looking statements, including, among others, those relating to our future business prospects, capital expenditure, cash flows, working capital, liquidity and capital resources are necessary estimates reflecting the best judgment of our Directors, Supervisors and senior management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. As a result, these forward-looking statements should be considered in light of various important factors, including those set out in "Risk Factors" in this document. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on any forward-looking information. All forward-looking statements in this document are qualified by reference to this cautionary statement.

The industry data and forecasts in this document obtained from various government publications and the industry report have not been independently verified.

This document includes industry data and forecasts that we obtained from various government publications and the industry report that we believe are reliable. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, we cannot assure you of the accuracy or completeness of information obtained from these sources. We have not independently verified any of the data, forecasts and other statistics from such sources, nor have we ascertained that the underlying economic assumptions relied upon in those sources. Also, the Joint Sponsors, [REDACTED], [REDACTED], any of their respective directors, officers, affiliates, advisors and representatives, or any other parties involved in [REDACTED] make no representation as to the accuracy or completeness of aforementioned facts, forecasts and other statistics in this document. Moreover, such facts, forecasts and other statistics may not be prepared on the same basis or with the same degree of accuracy (as the case may be) in other publications or jurisdictions. For these reasons, the information from various government publications and the industry report contained in this document may not be accurate and should not be given undue reliance as a basis for making your [REDACTED] in our H Shares.

Substantial future sales or the expectation of substantial sales of our H Shares in the public market could cause the price of our H Shares to decline.

Although the members of our Controlling Shareholder Group are subject to restrictions on their sales of H Shares within 12 months from [REDACTED] as described in "History and Corporate Structure" in this document, future sales of a significant number of our H Shares by the members of our Controlling Shareholder Group or other existing shareholders in the public market after [REDACTED], or the perception that these sales could occur, could cause [REDACTED] of our H Shares to decline and could materially impair our future ability to raise capital through [REDACTED] of our H Shares. We cannot assure you that the members of our Controlling Shareholder Group, or other existing shareholders will not dispose of H Shares held by them or that we will not issue H Shares upon the expiration of restrictions set out above.

We may need additional capital, and the sale or issue of additional H Shares or other equity securities could result in additional dilution to our Shareholders.

Notwithstanding our current cash and cash equivalents and the [REDACTED], we may require additional cash resources to finance our continued growth or other future developments. We cannot assure you that financing will be available in the amounts or on terms acceptable to us, if at all. If we fail to raise additional funds, we may need to sell additional equity securities, which could result in additional dilution to our Shareholders.

You should read the entire document carefully and we strongly caution you not to place any reliance on any information contained in press articles and other media regarding us and [REDACTED].

Prior to the publication of this document, there has been and there may also be, subsequent to the date of this document but prior to the completion of [REDACTED], press and media coverage regarding us, our business, our industries and [REDACTED], which contained, among other things, certain financial information, projections, valuations and other forward-looking information about us and [REDACTED]. We have not authorized the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of such projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this document, we disclaim responsibility for them. Accordingly, prospective [REDACTED] are cautioned to make their [REDACTED] decisions on the basis of the information contained in this document only and should not rely on any other information.

WAIVERS FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES

In preparation for [REDACTED], we have applied to the Stock Exchange for the following waivers from strict compliance with the relevant provisions of the Listing Rules.

MANAGEMENT PRESENCE IN HONG KONG

According to Rule 8.12 of the Listing Rules, all applicants applying for a [REDACTED] on the Stock Exchange must have sufficient management presence in Hong Kong. This would normally mean that at least two of the applicant's executive directors must be ordinarily resident in Hong Kong.

Our Company's business operations and assets are primarily located outside Hong Kong. Our Company's executive Directors are based in the PRC as our Board believes it is more effective and efficient for its executive Directors to be based in a location where our substantial operations are located. Our Company therefore does not, and in the near future will not, maintain management presence in Hong Kong.

Accordingly, pursuant to Rule 19A.15 of the Listing Rules, we have applied to the Stock Exchange for, and the Stock Exchange [has granted] us, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules, provided that our Company implements the following arrangements:

(i) We have appointed Mr. Liu Jiajie (劉佳杰) ("Mr. Liu"), our executive Director, and Ms. He Yunhong (何蘊虹) ("Ms. He"), one of our joint company secretaries, as the authorized representatives for the purpose of Rule 3.05 of the Listing Rules. They will serve as the principal channels of communication with the Stock Exchange and make themselves readily available to communicate with the Stock Exchange. We have also appointed Ms. Wong Yuen Ki (黃浣琪) ("Ms. Wong"), our another joint company secretary as our alternate authorized representative. Ms. Wong resides in Hong Kong and each of Mr. Liu, Ms. He and Ms. Wong can be readily contactable by phone, fax and email to deal promptly with enquiries from the Stock Exchange, and will also be available to meet with the Stock Exchange to discuss any matters within a reasonable period of time upon the request of the Stock Exchange. The contact details of our authorized representatives and alternate authorized representative have been provided to the Stock Exchange.

(ii) All Directors who are not ordinarily resident in Hong Kong possess or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period. In addition, each Director has provided his/her contact details, including mobile phone numbers, office phone numbers, email addresses and fax numbers, to the extent applicable, to the authorized representatives and the alternate authorized representative and to the Stock Exchange. In the event that a Director expects to be traveling or otherwise be out of office, he/she will provide the phone number of the place of his/her accommodation or other contact information to our authorized representatives and alternate authorized representative, to ensure that each of our authorized representatives and alternate authorized representative will be able to contact all our Directors promptly at all times if and when the Stock Exchange wishes to contact our Directors.

(iii) We have appointed FUTEC Financial Limited as our compliance advisor in accordance with Rule 3A.19 of the Listing Rules, which will serve as an additional and alternative channel of communication with the Stock Exchange in addition to our authorized representatives and alternate authorized representative. The compliance advisor will have reasonable access, at all times during the term of their appointment, to our authorized representatives, alternate authorized representative, Directors and other officers of our Company, participate in the communication between the Stock Exchange and our Company and answer inquiries from the Stock Exchange.

(iv) any meeting between the Stock Exchange and our Directors will be arranged through our authorized representatives, alternate authorized representative, or our compliance advisor or directly with our Directors within a reasonable time frame. We will inform the Stock Exchange promptly in respect of any changes in our authorized representatives, alternate authorized representative and our compliance advisor.

(v) We intend to retain our Hong Kong legal advisors on on-going compliance requirements, any amendment or supplement to and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after the [REDACTED].

JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, we must appoint a company secretary who possesses the necessary academic or professional qualifications or relevant experience, and is therefore capable to discharge the functions of the company secretary. Note 1 to Rule 3.28 of the Listing Rules provides that the Stock Exchange considers the following academic or professional qualifications to be acceptable:

(i) a member of the Hong Kong Institute of Chartered Secretaries;

(ii) a solicitor or a barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); and

(iii) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Note 2 to Rule 3.28 of the Listing Rules further sets out the factors that the Stock Exchange will consider in assessing an individual's "relevant experience":

(i) length of employment with the issuer and other issuers and the roles he/she has undertaken;

(ii) familiarity with the Listing Rules and other relevant laws and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;

(iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and

(iv) professional qualifications in other jurisdictions.

Our Company has appointed Ms. He as one of the joint company secretaries. Ms. He joined our Group in 2020 and possesses relevant understanding and knowledge relating to the business operations and corporate culture of our Group. In her capacity successively as the securities affairs commissioner and securities affairs representative of our Company, Ms. He has actively participated in the preparation of the application for the [REDACTED] and owns experiences in the matters relating to the Board and corporate governance of the our. Therefore, our Directors consider that Ms. He is capable of discharging the functions of a company secretary and is a suitable person to perform such role. However, Ms. He does not possess the qualifications under Rule 3.28 of the Listing Rules, and may not be able to fulfill the requirements of the Listing Rules on her own. Therefore, we have appointed Ms. Wong, a Chartered Governance Professional and an associate of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in United Kingdom, who is qualified under Rule 3.28 of the Listing Rules to act as the other company secretary and to work closely with and provide assistance to Ms. He. Being a manager of corporate services of Tricor Services Limited and by virtue of her experience in corporate secretarial practice, Ms. Wong is, in our Directors' opinion, a person who is qualified and suitable to provide assistance to Ms. He, for a three-year period from the [REDACTED] so as to enable Ms. He to acquire the relevant experience (as required under Note 2 to Rule 3.28 of the Listing Rules) to duly discharge her duties.

The following arrangements have been, or will be, put in place to assist Ms. He in acquiring the qualifications and experience as the company secretary of our Company required under Rule 3.28 of the Listing Rules:

(i) In the course of the preparation of the application for [REDACTED], Ms. He has been provided with a memorandum and has attended a training seminar on the respective obligations of our Directors and senior management and our Company under the relevant Hong Kong laws and the Listing Rules provided by our Company's Hong Kong legal advisors.

(ii) In addition to the minimum training requirements under Rule 3.29 of the Listing Rules, our Company will ensure that Ms. He continues to have access to relevant training and support to familiarize herself with the Listing Rules and the duties of a company secretary of an issuer [REDACTED] on the Stock Exchange, and to receive updates on the latest changes to the applicable Hong Kong laws, regulations and the Listing Rules. Furthermore, our Company will ensure that both Ms. He and Ms. Wong will seek and have access to the advice from our Company's Hong Kong legal advisors and other professional advisors as and when required.

(iii) Ms. Wong will assist Ms. He to acquire the "relevant experience" as required under Note 2 to Rule 3.28 of the Listing Rules and to discharge her duties as a company secretary. Ms. He will be assisted by Ms. Wong for an initial period of three years commencing from [REDACTED]. As part of the arrangement, Ms. Wong will act as one of the joint company secretaries and communicate regularly with Ms. He on matters relating to corporate governance, the Listing Rules as well as other laws and regulations which are relevant to our Company. She will also assist Ms. He in organizing Board meetings and Shareholders' meetings as well as other matters of our Company which are incidental to the duties of a company secretary.

(iv) Our Company has appointed the compliance advisor pursuant to Rule 3A.19 of the Listing Rules, which will act as our additional channel of communication with the Stock Exchange and provide professional guidance and advice to us and our joint company secretaries as to compliance with the Listing Rules and all other applicable laws and regulations.

We have applied to the Stock Exchange for, and the Stock Exchange [has granted] us, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules. Such waiver will be revoked immediately if and when Ms. Wong ceases to provide such assistance or ceases to meet the requirements under Rule 3.28 of the Listing Rules, or if there are any material breaches of the Listing Rules by our Company during the three-year period from [REDACTED]. We will liaise with the Stock Exchange before the end of the three-year period to enable it to assess whether Ms. He, having had the benefit of Ms. Wong's assistance for three years, will have acquired the relevant experience within the meaning of Rule 3.28 of the Listing Rules so that a further waiver will not be necessary.

See "Directors, Supervisors and Senior Management" for the biographical details of Ms. He and Ms. Wong.

[REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND [REDACTED]

[REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND [REDACTED]

[REDACTED]

DIRECTORS

Name	Address	Nationality
Executive Directors		
Ms. Du Chunyi (杜春嶧)	Building No. 3 No. 36 Hot Spring Road Lancang Lahu Ethnic Autonomous County Pu'er Yunnan Province PRC	Chinese
Ms. Wang Juan (王娟)	Building 673, Pu Garden Sun Yat-sen University Courtyard, No. 135 Xingang West Road Haizhu District Guangzhou Guangdong Province PRC	Chinese
Mr. Zhang Muheng (張慕衡)	No. 40 Fuli Road Liwan District Guangzhou Guangdong Province PRC	Chinese
Ms. Shi Yijing (石一景)	Building No. 6 Nongken Garden A No. 34 Chayuan Road Simao District Pu'er Yunnan Province PRC	Chinese
Mr. Fu Gang (付剛)	Jinyuan Garden Lancang Lahu Ethnic Autonomous County Pu'er Yunnan Province PRC	Chinese
Mr. Liu Jiajie (劉佳杰)	Hengliwanpan Liwan District Guangzhou Guangdong Province PRC	Chinese

Name	Address	Nationality
Independent non-executive Directors		
Ms. Cao Wei (曹瑋)	Building No. 83 Taoyuan Village Longzhu Avenue Nanshan District Shenzhen Guangdong Province PRC	Chinese
Dr. Xie Xiaoyao (謝曉堯)	Building C2, Jianzhen Garden No. 9 Lihe Street Jude South Road Haizhu District Guangzhou Guangdong Province PRC	Chinese
Mr. Tang Zhangliang (湯章亮)	Tower 5, 663 Clear Water Bay Road Mount Pavilia Sai Kung New Territories Hong Kong	Chinese

SUPERVISORS

Name	Address	Nationality
Ms. Huang Yingzhi (黃瀅芝)	Group No. 15 Jingxiu Lahu Jiayuan Lancang Lahu Ethnic Autonomous County Pu'er Yunnan Province PRC	Chinese
Ms. Zhu Meixuan (朱美宣)	Building No. 1 No. 5 Lahu Square Residence Old Street Side, Menglang Town Lancang Lahu Ethnic Autonomous County Pu'er Yunnan Province PRC	Chinese

Name	Address	Nationality
Mr. Luo Zhonghong (羅忠宏)	Building No. 2 Yunhai Senlin No. 46 Television Station Road Simao District Pu'er Yunnan Province PRC	Chinese

For the biographies and other relevant information of our Directors and Supervisors, see "Directors, Supervisors and Senior Management."

PARTIES INVOLVED IN [REDACTED]

Joint Sponsors	**China Securities (International) Corporate Finance Company Limited** 18/F, Two Exchange Square 8 Connaught Place Central Hong Kong **China Merchants Securities (HK) Co., Limited** 48/F, One Exchange Square 8 Connaught Place Central Hong Kong
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

[REDACTED]	[REDACTED]
Legal Advisors to our Company	*as to Hong Kong and U.S. laws:* **Wilson Sonsini Goodrich & Rosati** Suite 1509, 15/F, Jardine House 1 Connaught Place Central Hong Kong *as to PRC law:* **Beijing Kangda Law Firm** 8/9/11/F, Emperor Group Centre No.12D Jianwai Avenue Chaoyang District Beijing China
Legal Advisors to the Joint Sponsors and [REDACTED]	*as to Hong Kong law:* **Eric Chow & Co. in Association with Commerce & Finance Law Offices** 3401, Alexandra House 18 Chater Road, Central Hong Kong *as to PRC law:* **Commerce & Finance Law Offices** 12–14th Floor China World Office 2 No.1 Jianguomenwai Avenue Chaoyang District Beijing China
Auditor and Reporting Accountant	**PricewaterhouseCoopers** *Certified Public Accountants* *Registered Public Interest Entity Auditor* 22/F, Prince's Building Central Hong Kong

Independent Industry Consultant	**Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.** Room 2505, Wheelock Square No. 1717 West Nanjing Road Jing'an District Shanghai China
[REDACTED]	[REDACTED]

CORPORATE INFORMATION

Registered Office in the PRC	Pingzhang Road West Suburb Hot Spring Community Menglang Town Lancang Lahu Ethnic Autonomous County Pu'er Yunnan Province PRC
Headquarters and Principal Place of Business in the PRC	Pingzhang Road West Suburb Hot Spring Community Menglang Town Lancang Lahu Ethnic Autonomous County Pu'er Yunnan Province PRC
Principal Place of Business in Hong Kong	5/F, Manulife Place 348 Kwun Tong Road Kowloon Hong Kong
Company Website	**www.lcgc.cn** (Information contained on this website does not form part of this document)
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Compliance Advisor	**FUTEC Financial Limited** Suite 622 Ocean Centre Harbour City, Tsim Sha Tsui Kowloon Hong Kong
[REDACTED]	[REDACTED]

Principal Bankers	**Agricultural Bank of China Limited** Lancang Lahu Ethnic Autonomous County Branch No. 104 Donglang Road Menglang Town Lancang Lahu Ethnic Autonomous County Pu'er Yunnan Province PRC
	Yunnan Lancang Rural Commercial Bank Co., Ltd. Lahu Square Lancang Lahu Ethnic Autonomous County Pu'er Yunnan Province PRC

The information and statistics set out in this section and other sections of this document were extracted from the F&S Report, which was commissioned by us, and from various official government publications and other publicly available publications. We engaged Frost & Sullivan to prepare the F&S Report, an independent industry report, in connection with [REDACTED]. The information from official government sources has not been independently verified by us, the Joint Sponsors, [REDACTED], [REDACTED], [REDACTED], [REDACTED], [REDACTED], any of their respective directors and advisors, or any other persons or parties involved in [REDACTED], and no representation is given as to its accuracy.

SOURCE OF INFORMATION

This section includes information from the F&S Report commissioned by us, as we believe information imparts a greater understanding of China's tea leaf market. We believe that Frost & Sullivan has specialized research capabilities and experience in this industry in China. Frost & Sullivan is an independent market intelligence provider that provides market research, information and advice to companies in various industries, including China's tea leaf market. We have agreed to pay a commission fee of RMB900,000 for the F&S Report. We are of the view that the payment of such fee does not impair the fairness of the conclusions drawn in the F&S Report. Figures and statistics provided in this document and attributed to Frost & Sullivan or the F&S Report have been extracted from the F&S Report and published with the consent of Frost & Sullivan.

In preparing the F&S Report, Frost & Sullivan conducted detailed research which involved primary research that involved expert interviews and company interviews, and secondary research analyzing information and statistics published by government departments, industry associations, publications and studies by industry experts, public company annual and quarterly reports, Frost & Sullivan's other research reports, online resources and data from Frost & Sullivan's research database. Frost & Sullivan also assumes that (1) the social, economic and political environments of China will remain stable during the forecast period, (2) the data quoted from authoritative agencies remains unchanged, (3) related market drivers are expected to continue to drive the growth of the relevant markets in the forecast period, such as raising health awareness and per capita annual disposable income of Chinese consumers, and (4) there is no extreme force majeure events or new industry regulation which would dramatically or fundamentally affect the relevant markets.

DIRECTORS' CONFIRMATION

After making reasonable inquiries, our Directors confirm that, to the best of their knowledge, there has been no adverse change in the market information presented in the F&S Report since the date of the report which may qualify, contradict or have an impact on the information in this document.

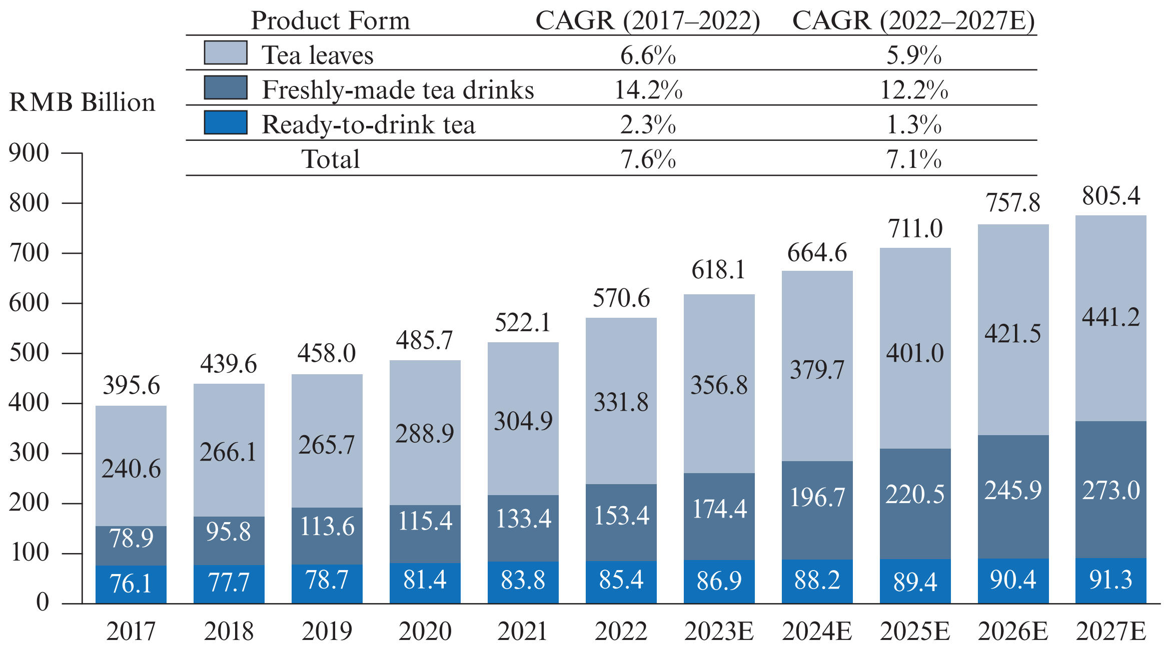
CHINA'S TEA LEAF MARKET

Overview

Tea is composed of loose leaf tea products as well as other tea products including ready-made bottled tea products and freshly-made tea beverages. Commonly believed to have originated in China several thousands of years ago, tea has been a traditional drink deeply rooted in the Chinese culture. Benefiting from the rising awareness of a healthy lifestyle and the consistently increasing per capita disposable income in China in the past decades, the market size of China's tea market in terms of revenue increased from RMB395.6 billion in 2017 to RMB570.6 billion in 2022 at a CAGR of 7.6%, and, in spite of the impact from the global COVID-19 pandemic, is expected to reach RMB805.4 billion in 2027 at a CAGR of 7.1% from 2022 to 2027.

With the raising health awareness among Chinese consumers, the tea leaf market in China, as a major segment and growth driver of China's tea market, has experienced steady growth. The total annual production volume of tea leaves in China increased from 2.5 million tonnes in 2017 to 3.4 million tonnes in 2022 at a CAGR of 6.7%, and is expected to reach 4.7 million tonnes in 2027 at a CAGR of 6.5% from 2022 to 2027. The market size of China's tea leaf market in terms of revenue increased from RMB240.6 billion in 2017 to RMB331.8 billion in 2022 at a CAGR of 6.6%, and is expected to reach RMB441.2 billion in 2027 at a CAGR of 5.9% from 2022 to 2027. At the same time, freshly made tea drinks have become increasingly popular with a variety of flavors for consumers to choose from, and its market has experienced a significant increase from 2017 to 2022. In particular, the market size of China's freshly-made tea drink market in terms of revenue increased from RMB78.9 billion in 2017 to RMB153.4 billion in 2022 at a CAGR of 14.2%, and is expected to reach RMB273.0 billion in 2027 at a CAGR of 12.2% from 2022 to 2027. The market size of China's ready-to-drink tea market in terms of revenue increased steadily from RMB76.1 billion in 2017 to RMB85.4 billion in 2022 at a CAGR of 2.3%, and is expected to reach RMB91.3 billion in 2027 at a CAGR of 1.3% from 2022 to 2027. The chart below presents a breakdown of China's tea market by product form from 2017 to 2027 in terms of sales revenue or estimated sales revenue in each year.

China's tea market size, by product form, 2017–2027E



Source: F&S Report

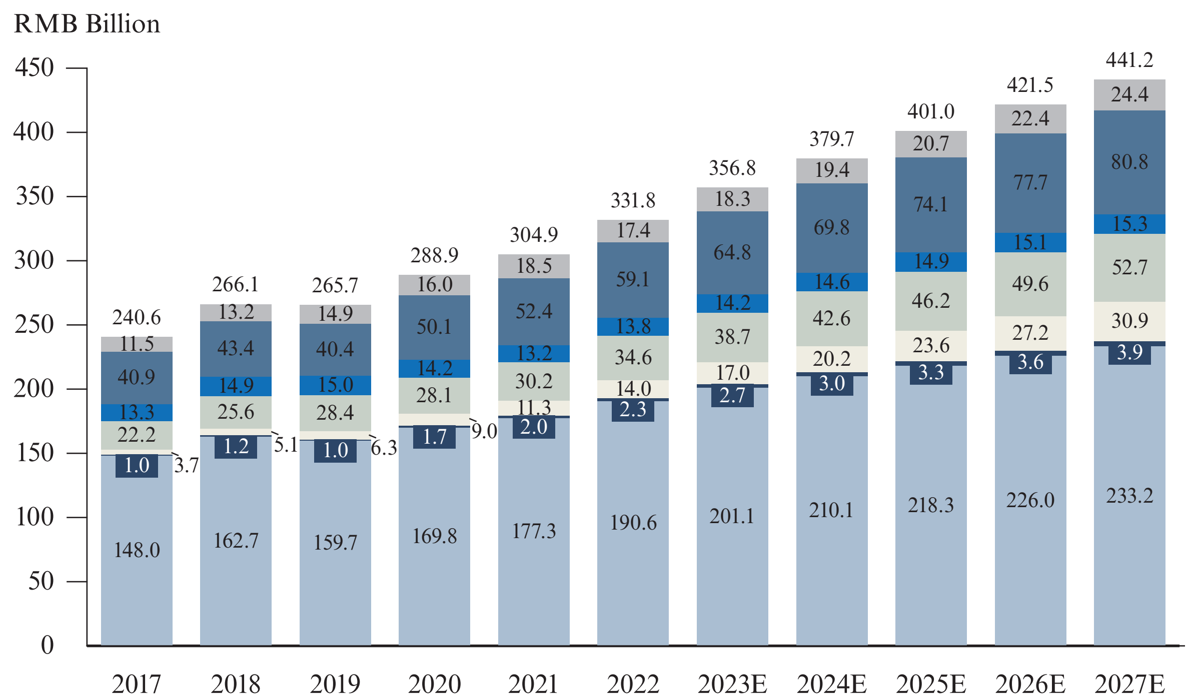
The increasing popularity of freshly-made tea drinks and ready-to-drink tea is mostly attributable to their variety and novelty in flavors and convenience of portable packaging forms, as well as consumers' increasing awareness of the health benefit of tea. Although freshly-made tea drinks and ready-to-drink teas, to some extent, pose challenges to more traditional tea products, they have stimulated the growth of the tea leaf market in general and promoted the reception of tea products in a larger consumer base, which in turn also benefits other tea products. In particular, freshly-made tea drinks and ready-to-drink teas, to certain extent, stimulate the growth of sales volume and consumption values of tea leaf products, as both of them are made from tea leaves along with other ingredients. In addition, freshly-made tea drinks and ready-to-drink teas have attracted many consumers who are not traditional tea drinkers, particularly the younger generations, due to their variety in flavors and convenience, effectively broadening the consumer base for tea leaf products by cultivating their habit of tea drinking.

Segments of China's Tea Leaf Market

Tea leaf products can be further classified according to (1) their composition or (2) their fermentation degree and geographical indication. Based on the fermentation degree and geographical indication, tea leaf products in China can be largely classified into seven major types of tea, *i.e.*, Pu'er tea, green tea, dark tea, black tea, oolong tea, white tea and yellow tea. Among the seven types of tea, Pu'er tea in China has experienced general growth, indicating a healthy growth potential. The market size of China's Pu'er tea market in terms of revenue increased from RMB11.5 billion in 2017 to RMB17.4 billion in 2022 at a CAGR of 8.6%, and is expected to reach RMB24.4 billion in 2027 at a CAGR of 7.0% from 2022 to 2027. Among the seven types of teas, white tea has experienced the most significant increase from 2017 to 2022 and is expected to remain the top in terms of growth rate from 2022 to 2027. In particular, the market size of China's white tea market in terms of revenue increased from RMB3.7 billion in 2017 to RMB14.0 billion in 2022 at a CAGR of 30.6%, and is expected to reach RMB30.9 billion in 2027 at a CAGR of 17.1% from 2022 to 2027. The significant growth of white tea is believed to be underpinned by large-scale marketing promotions primarily in the form of consumer education. Such consumer education shares attractive characteristics of white tea and allows consumers to understand white tea's unique taste and health benefits from its high level of free amino acids and active antioxidants with catechin in tea polyphenols. As a result, white tea gradually becomes popular among consumers and stands out from the other types of teas. The chart below presents a breakdown of China's tea leaf market by types of tea from 2017 to 2027 in terms of sales revenue or estimated sales revenue in each year.

China's tea leaf market size, by product classification, 2017–2027E

Type	CAGR (2017–2022)	CAGR (2022–2027E)
Pu'er tea	8.6%	7.0%
Black tea	7.6%	6.5%
Dark tea	0.7%	2.2%
Oolong tea	9.3%	8.8%
White tea	30.6%	17.1%
Yellow tea	18.4%	10.7%
Green tea	5.2%	4.1%
Total	6.6%	5.9%

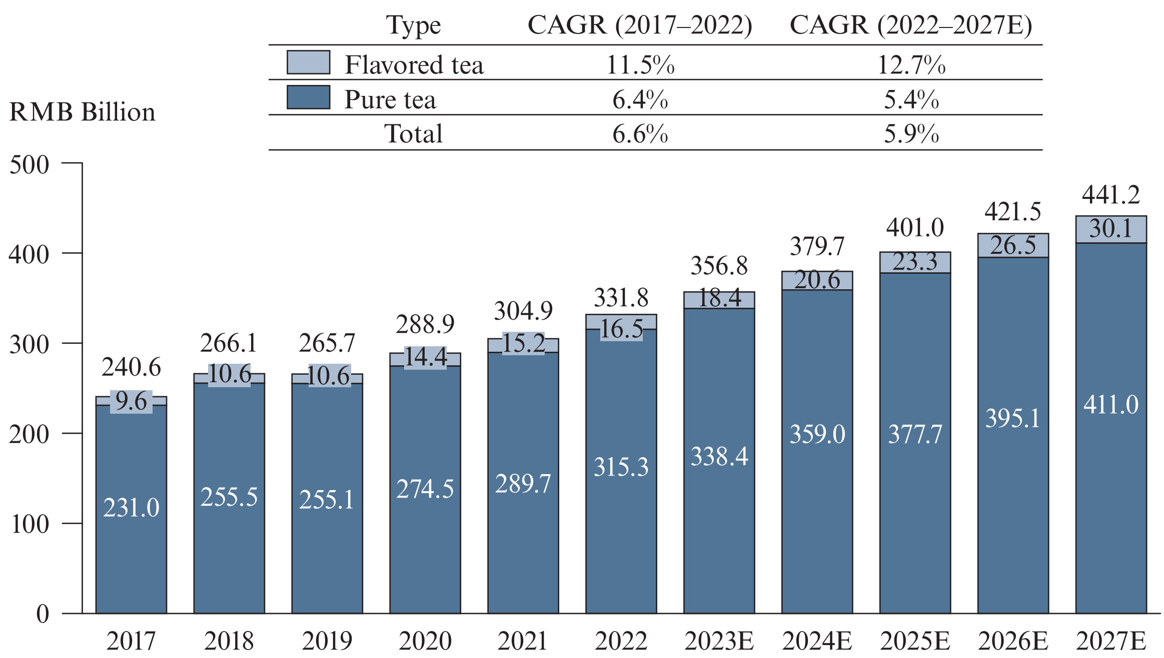


Source: F&S Report

The growing market size of other tea types has not encroached upon the market share of Pu'er tea in general, as Pu'er tea has its own loyal consumer base, who are attracted to Pu'er tea because of its unique value not only in drinking but also in collection and gifting. However, as the price of Pu'er tea products continues to rise, other lower-priced tea products may become more attractive to certain Pu'er tea consumers who are more price sensitive.

Based on composition, tea leaf products can be classified into pure tea and flavored tea. Pure tea typically contains only tea leaves and buds without any other ingredient, while flavored tea are typically reprocessed with floral, fruity or other ingredients that add to the flavor of such tea. Pure tea has historically accounted for a significantly larger market share than flavored tea. Flavored tea, however, is relatively new to the market. In 2017, the market size of China's flavored tea market in terms of revenue was only RMB9.6 billion, but it increased rapidly to RMB16.5 billion in 2022 at a CAGR of 11.5%, and is expected to reach RMB30.1 billion in 2027 at a CAGR of 12.7% from 2022 to 2027. The chart below presents a breakdown of China's tea leaf market by product composition from 2017 to 2027 in terms of sales revenue or estimated sales revenue in each year.

China's tea leaf market size, by product composition, 2017–2027E



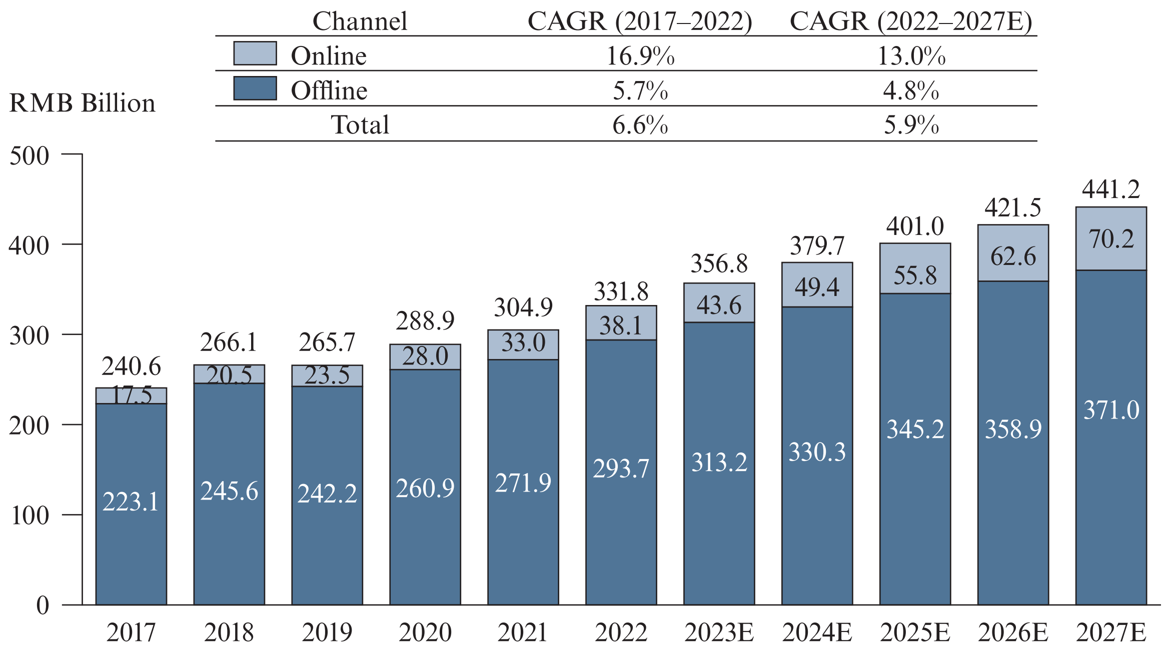
Source: F&S Report

Sales Channels of China's Tea Leaf Market

Offline sales channels have historically been the primary sales channels for tea leaf products in China, which are primarily dominated by sales stores operated by distributors. The revenue of China's tea leaf market generated from offline sales channels increased from RMB223.1 billion in 2017 to RMB293.7 billion in 2022 at a CAGR of 5.7%, and is expected to reach RMB371.0 billion in 2027 at a CAGR of 4.8% from 2022 to 2027. In recent years, tea companies increasingly willing to open their own direct-sale stores, especially for their high end tea brands. Moreover, with the rapid development of e-commerce in China, online direct sales channel has emerged and is becoming increasingly popular among tea companies in China. In particular, the rapid development of live streaming has further driven the online influence of tea companies. The revenue of China's tea leaf market generated from online sales channel increased from RMB17.5 billion in 2017 to RMB38.1

billion in 2022 at a CAGR of 16.9%, and is expected to reach RMB70.2 billion in 2027 at a CAGR of 13.0% from 2022 to 2027. The chart below presents a breakdown of China's tea leaf market by sales channel from 2017 to 2027 in terms of sales revenue or estimated sales revenue in each year.

China's tea leaf market size, by sales channel, 2017–2027E



Source: F&S Report

Tea companies in China tend to cooperate with distributors to leverage their local connections and resources to tap into markets previously unfamiliar to them, and distributorship is expected to remain as the primary distribution model for China's tea leaf market in the foreseeable future. However, benefiting from the rapid development of Chinese e-commerce platforms, tea companies are increasingly willing to take their direct-sale stores online. The revenue of China's tea leaf market generated from direct sales channel increased from RMB76.5 billion in 2017 to RMB89.6 billion in 2022 at a CAGR of 3.2%, and is expected to reach RMB107.6 billion in 2027 at a CAGR of 3.7% from 2022 to 2027.

CHINA'S PU'ER TEA MARKET

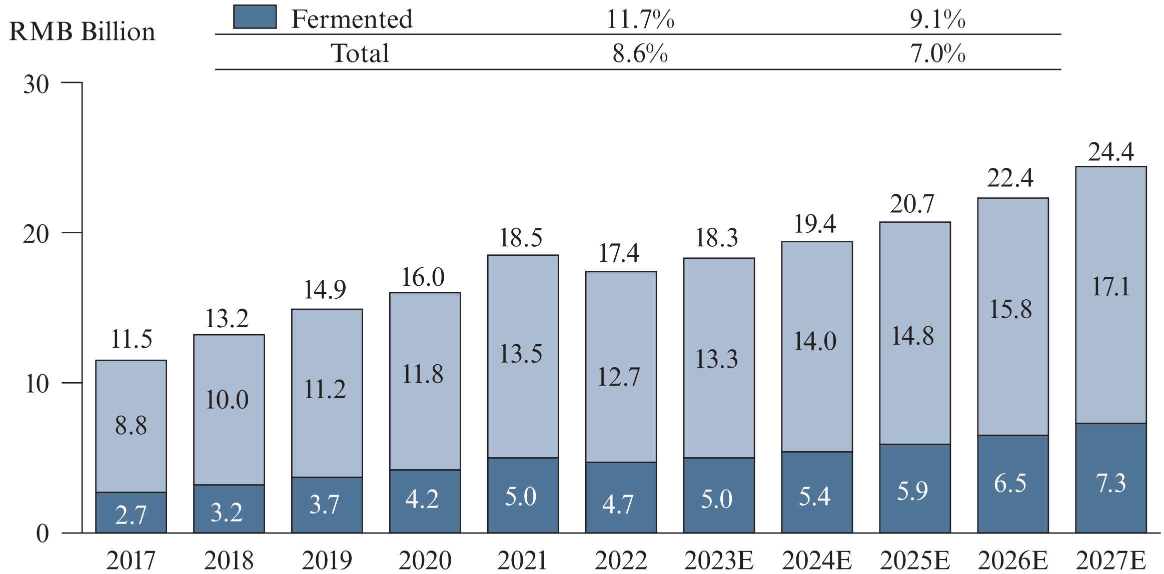
Overview

According to a national standard for Pu'er tea issued by Chinese government, Pu'er tea refers to a variety of tea made only from certain species of tea leaves grown in Yunnan Province and processed with certain techniques in Yunnan Province. China's Pu'er tea market has experienced general growth, whose market size in terms of sales revenue increased from RMB11.5 billion in 2017 to RMB17.4 billion in 2022 at a CAGR of 8.6%, and is expected to reach RMB24.4 billion in 2027 at a CAGR of 7.0% from 2022 to 2027. The market size of China's Pu'er tea market in terms of sales revenue decreased from RMB18.5 billion in 2021 to RMB17.4 billion in 2022, primarily because preventive measures in response to multiple outbreaks of new variants of COVID-19 throughout 2022 restricted consumers from tasting Pu'er tea products at offline stores to certain extent, the sensory evaluation through which usually forms an indispensable part of consumers' purchase decision-making process, as the taste and smell of Pu'er tea are more delicate.

Depending on whether rough tea leaves have been artificially fermented, Pu'er tea products can be further classified into fermented and non-fermented Pu'er tea. Fermented Pu'er tea requires complex processing procedures and blending techniques and features smooth taste. Non-fermented Pu'er tea's production is usually simpler as it does not undergo fermentation, and non-fermented Pu'er tea usually features an astringent aftertaste. Fermented Pu'er tea market has been a key growth driver of the Pu'er tea market, and its market size in terms of revenue increased from RMB2.7 billion in 2017 to RMB4.7 billion in 2022 at a CAGR of 11.7%, and is expected to reach RMB7.3 billion in 2027 at a CAGR of 9.1% from 2022 to 2027. The chart below presents a breakdown of China's Pu'er tea market by product type from 2017 to 2027 in terms of sales revenue or estimated sales revenue in each year.

China's Pu'er tea market size, by product classification, 2017–2027E

Type	CAGR (2017–2022)	CAGR (2022–2027E)
Non-fermented	7.7%	6.1%
Fermented	11.7%	9.1%
Total	8.6%	7.0%



Source: F&S Report

The rich rainfall, fertile land and relatively less polluted environment make Yunnan Province one of the most suitable provinces for growing tea trees. In particular, Jingmai Mountain in Yunnan hosts some of the largest, oldest and best-preserved ancient tea tree plantations in the world and is currently nominated to be included in the World Heritage List for the ancient tea tree plantations in the region. Due to differences in environmental factors, including temperature, humidity, altitude and soil composition, Pu'er tea products from each production area in Yunnan boast subtle while distinct flavors identifiable among Pu'er tea enthusiasts. Some Pu'er tea flavors popular among Pu'er tea enthusiasts include Lancang flavor, Menghai flavor and Lincang flavor, named after their respective production areas.

The success of a popular Pu'er tea leaf product can be attributable to key factors including, among others, access to high-quality rough tea leaves, mature processing techniques and proper storage environments:

- *Access to high-quality rough tea leaves*. All ancient tea tree plantations in Yunnan are owned by local tea farmers, who collect and produce rough tea leaves and sell them through their tea leaf cooperatives. It typically takes a significantly long time for tea companies to build trust with local tea farmers and establish stable business relationships with tea leaf cooperatives to gain access to high-quality rough tea leaves.

- *Mature processing techniques*. On top of various other processing techniques, fermentation and blending are key to the quality of a Pu'er tea product. Fermentation accelerates the aging of rough tea leaves, during which physical and chemical qualities of rough tea leaves are changed. Blending takes advantages of rough tea leaves with different origins, seasons, grades and storage years complement each other, the combination of which forms layers of flavors in Pu'er tea. In order to preserve the consistency in flavor, tea companies may spend decades in the accumulation of production data in fermentation and blending.

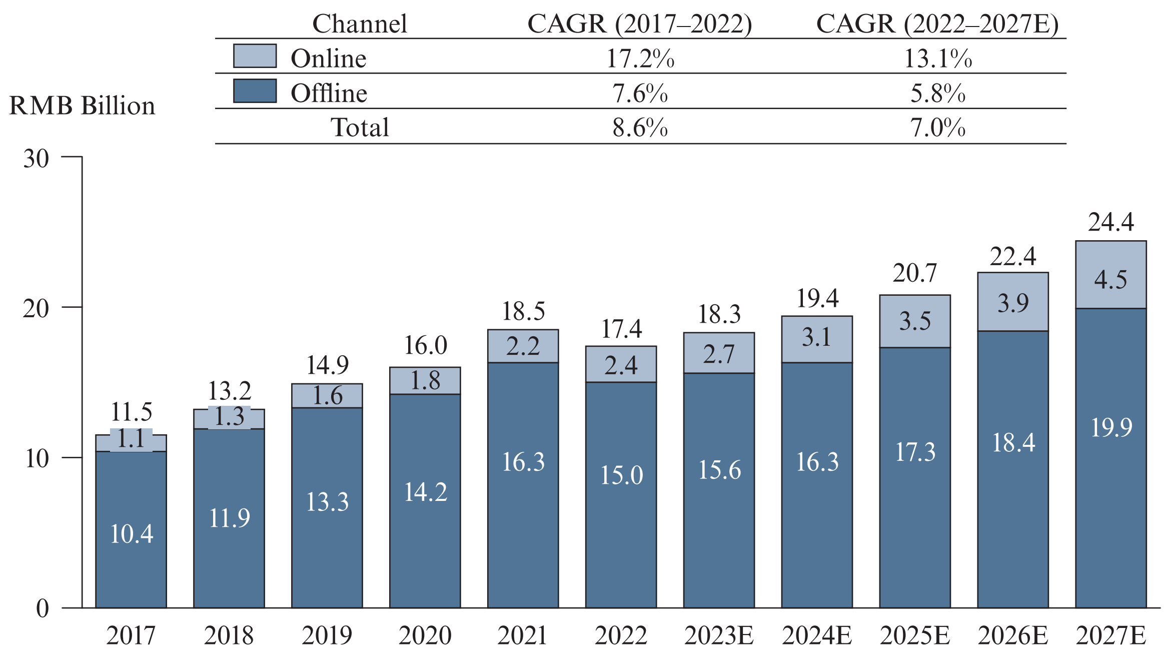
- *Proper storage environments*. Aged Pu'er tea leaf products come with distinctive and enriched flavors, thereby becoming more valuable over time. Also, the blending of Pu'er tea requires tea companies to properly store rough tea leaves from different years in preparation for stable future production. Therefore, tea companies are required to have large warehousing facilities and equipment for the proper storage of their rough tea leaves as well as finished Pu'er tea products from different years. It is common to see Pu'er tea companies with a heavy inventory of raw materials and finished products and longer inventory turnover periods.

From 2017 to 2022, the market prices of Pu'er tea leaf products ranged from RMB115 per kilogram to RMB75,000 per kilogram. In the next few years, the market prices of Pu'er tea leaf products are projected to range from RMB110 per kilogram to RMB80,000 per kilogram.

Sales Channels of China's Pu'er Tea Market

Similar to China's tea leaf market, sales channels for Pu'er tea in China are predominantly offline. The revenue of China's Pu'er tea market generated from offline sales channels accounted for 86.2% of the total revenue of China's Pu'er tea market in 2022. However, many tea companies have been actively expanding online sales channel for their Pu'er tea products since 2020, in particular given consumers' lifestyle changing caused by the COVID-19 pandemic. The revenue of China's Pu'er tea market generated from online sales channel increased from RMB1.1 billion in 2017 to RMB2.4 billion in 2022 at a CAGR of 17.2%, and is expected to reach RMB4.5 billion in 2027 at a CAGR of 13.1% from 2022 to 2027. The chart below presents a breakdown of China's Pu'er tea market by sales channel from 2017 to 2027 in terms of sales revenue or estimated sales revenue in each year.

China's Pu'er tea market size, by sales channel, 2017–2027E



Source: F&S Report

Direct sale may help tea companies reduce distribution costs and increase profits, but it is more capital-intensive and time-consuming for tea companies compared to distributorship, which is currently the predominant distribution strategies for most Pu'er tea companies in China.

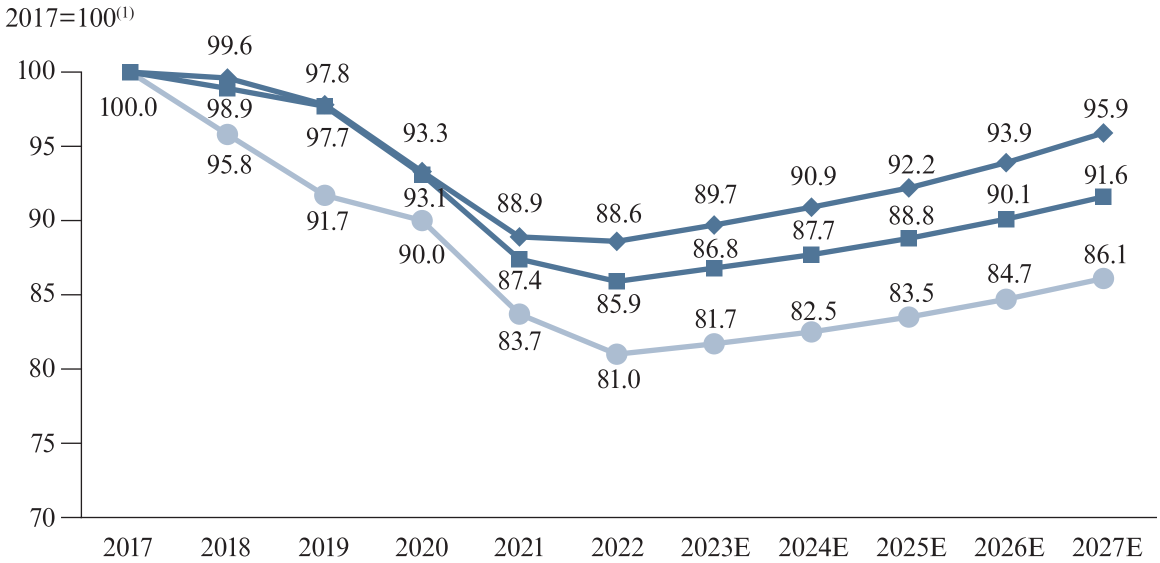
As Pu'er tea's value generally appreciates over the aging process, some sellers may trade Pu'er tea products for speculative purposes. Such speculative demand could distort the underlying fundamentals of demand for certain Pu'er tea leaf products that are popular among these speculative traders, inflate prices temporarily, and give certain Pu'er tea product manufacturers the misleading impression of strong demand. Nonetheless, the overwhelming majority of consumers purchase Pu'er tea products for consumption rather than speculation. Our Directors are of the view that the speculative trading of Pu'er tea products has not caused and will not cause material adverse effects on our business operations, as such speculative trading only targets a limited number of Pu'er tea products made by certain Pu'er tea product manufacturers, and we are not among these manufacturers, according to the F&S Report.

Raw Materials of China's Pu'er Tea Market

The price of rough tea leaves, the primary raw materials for Pu'er tea products, remained stable from 2017 to 2019 but declined significantly from 2019 to 2022, primarily because the demand from tea product manufacturers reduced in light of the outbreak of COVID-19 and the sustained pessimism toward market conditions. The price of rough tea leaves is expected to increase steadily, though at a slow growth rate, from 2023 to 2027 as the market gradually recovers from the negative impact of COVID-19. The following chart presents the price index of rough tea leaves in China from 2017 to 2027.

Price Index of Rough Tea Leaves for Pu'er Tea Products in China, 2017–2027E

CAGR	2017–2022	2022–2027E
Price index of rough tea leaves from ancient tea trees	–4.1%	1.2%
Price index of rough tea leaves from non-ancient tea trees	–2.4%	1.6%
Price index of all Pu'er rough tea leaves	–3.0%	1.3%



Source: F&S Report

(1) The chart uses 2017 as its base year and assigns an index value of 100 to that year. Each year after 2017 represents a percentage of that base year value.

The price index above is a general indicator for all types of rough tea leaves for Pu'er tea products regardless of production area. For rough tea leaves made from tea leaves of ancient tea trees in Pu'er City, from where we sourced majority of rough tea leaves made from tea leaves of ancient tea trees during the Track Record Period, the market average purchasing price ranged from RMB210 per kilogram to RMB360 per kilogram, RMB300 per kilogram to RMB420 per kilogram, RMB240 per kilogram to RMB400 per kilogram and RMB280 per kilogram to RMB450 per kilogram in 2020, 2021, 2022 and the six months ended June 30, 2023, respectively.

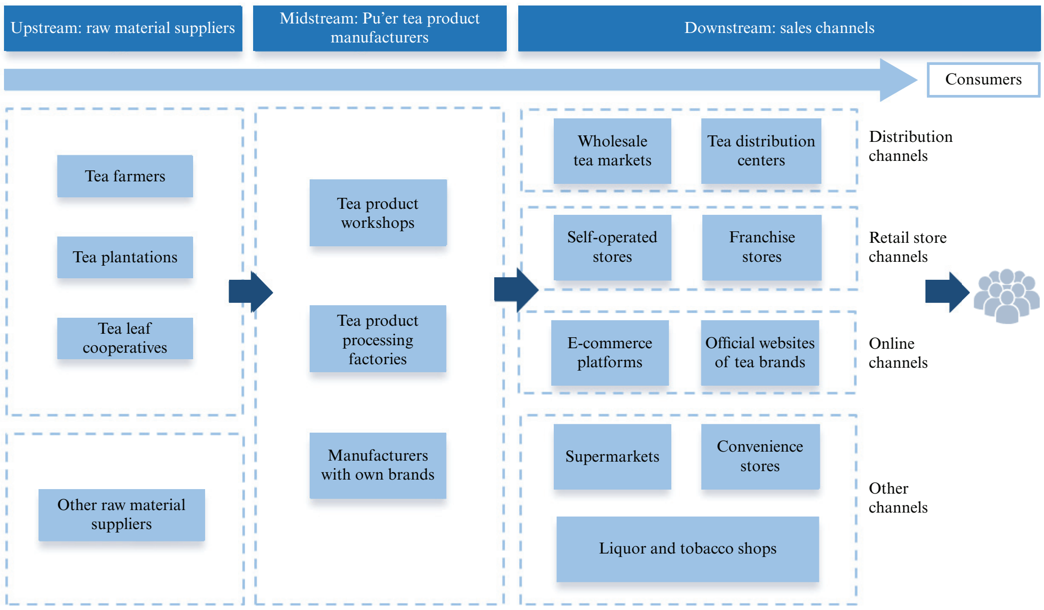
Inventory Turnover Days of Pu'er Tea Product Manufacturers and Distributors in Pu'er Tea Industry

During the Track Record Period, the inventory turnover days of Pu'er tea product manufacturers in China typically ranged from 800 to 1,900 days. Pu'er tea product manufacturers had such long inventory turnover days primarily because (1) the blending process requires such manufacturers to stock adequate rough tea leaves sourced in different years and from different mountains in preparation for stable future production, and (2) the fermentation process requires different types of rough tea leaves to be fermented in batches based on different fermenting formulae, which could lead to a prolonged fermentation time depending on the types of rough tea leaves required and the complexity of the fermenting formulae. During the Track Record Period, the inventory turnover days of distributors in China's Pu'er tea industry typically ranged from 300 to 1,000 days. Such distributors had long inventory turnover days primarily because they need to stock diversified Pu'er tea products in their inventory for timely responses to the demand for such products among their end customers, and may decide on their own to stock certain products for future sales instead of purchasing aged products directly, as it is foreseeably unfeasible to purchase certain products from Pu'er tea product manufacturers years after production due to the popularity or scarcity of such products and the price of Pu'er tea products generally become higher after aging.

Industry Chain of China's Pu'er Tea Market

The industry chain of China's Pu'er tea market can be divided into: (1) upstream consisting of raw material suppliers, such as tea leaf cooperatives and tea plantations, (2) midstream consisting of Pu'er tea product manufacturers, and (3) downstream consisting of various sales channels, including, among others, distributors, retail stores and online channels. The following diagram illustrates the industry chain of China's Pu'er tea market.

Industry Chain of China's Pu'er Tea Market



Source: F&S Report

Tea plantations are farms dedicated to growing varieties of fresh tea leaves. A tea plantation may either be a large commercial operation or a small boutique farm. As a major component of the upstream of China's Pu'er tea market, tea leaf cooperatives are formed of several tea plantations that sell either fresh tea leaves or rough tea leaves in bulk to Pu'er tea product manufacturers in the midstream of the industry chain. Pu'er tea product manufacturers mainly include tea product workshops, tea product processing factories, and large manufacturers with their own brands. Compared to tea product workshops and tea product processing factories, manufacturers with their own brands not only manufacture products but also establish their own sales channels, online or offline, for the distribution of their own products to end customers.

Tea companies as brand manufacturers generally establish business relationships with tea leaf cooperatives in a way that could achieve mutual benefits. After the selection for qualified tea leaf cooperatives, tea companies would provide free technical guidance on the tea tree resource protection and the preliminary process for rough tea leaf production to such qualified cooperatives for improving their supply capacity of quality rough tea leaves. In particular, tea companies would assign employees to provide on-the-spot guidance on how to harvest fresh tea leaves in a way that could preserve tea tree resources and increase the production volume of tea leaf cooperatives. These employees would also regularly organize training sessions for tea leaf cooperatives, sharing preliminary process techniques with them. Such mutual benefit cooperation allows tea companies to establish strong and long-term business relationships with tea leaf cooperatives and source rough tea leaves with stable quality.

Growth Drivers and Development Trends of China's Pu'er Tea Market

Key growth drivers and development trends of China's Pu'er tea market include the following.

- *Increasingly health-conscious consumers*. Rich in various potent antioxidants including catechins, theaflavins and thearubigins which are believed to be helpful for boosting metabolism and protecting cells from damage caused by free radicals, Pu'er tea leaf products are known for their health benefits among Chinese consumers. Moreover, the fermentation process further produces beneficial microbes and enzymes in Pu'er tea leaf products, which conduce to the human digestion process. As Chinese consumers become better off, they are paying more attention to their well-being and prefer natural products with health benefits and without harmful additives or chemicals, making Pu'er tea a suitable product for such health-conscious consumers, which has resulted in, and is expected to continue to result in, a growing number of tea drinkers and an increasing demand for Pu'er tea leaf products. The view that increasingly health-conscious consumers will drive future developments of China's Pu'er tea market was arrived through interviews with randomly selected consumers as to their views on the health benefits of Pu'er tea, the responses to which were mostly positive.

- *Social media promotion for tea drinking culture*. Social media has become a powerful medium to promote the health benefit of Pu'er tea and allow Pu'er tea companies to expand their consumer bases to reach the younger generation of consumers.

- *Growing willingness to purchase Pu'er tea leaf products online*. Developed e-commerce in China has made it more convenient for consumers to purchase Pu'er tea leaf products online. The development of e-commerce has brought about advancements in transaction facilitation, such as transparent pricing, lower distribution and logistics costs, and convenient return/refund process, resulting in consumers' increasing willingness to shop online.

- *Improved product quality due to technological advancements*. Technological advancements have modernized traditional processing techniques for Pu'er tea, allowing manufacturers to exert strict control over the major aspects of Pu'er tea making process, such as temperature, humidity and oxygen level. Therefore, Pu'er tea companies are enabled to produce high quality Pu'er tea leaf products with plenty of stable and predictable flavors. In addition, with standardized manufacturing processes, Pu'er tea companies are able to increase the production volume of their Pu'er tea leaf products.

- *Well-established sales channels*. With the continuous labor division refinement in the Pu'er tea industry, sales channels have become one of the core competitive elements. Following the popularization of online shopping, Pu'er tea companies not only accelerate the expansion of their traditional offline sales channel, but also steadily expand online sales channel to build an integrated online and offline sales network.

- *Favorable government policies*. Chinese government attaches great importance to the development of the Pu'er tea industry and continues to promulgate favorable policies to promote the steady development of the tea industry in general. Since 2020, Chinese government has issued a series of policies, such as Western Development (西部大開發) and Returning Farmland to Forests (退耕還林), to support tea companies in raw material sourcing, product production and product sales. In addition, China's General Administration of Quality Supervision, Inspection and Quarantine identified Pu'er tea as a protected product with geographical indication in 2008, and issued national standards for Pu'er tea in the same year.

Entry Barriers of China's Pu'er Tea Market

Key entry barriers of China's Pu'er tea market include the following.

- *Brand*. Brands play an important role in Pu'er tea consumers' purchase decisions, and many Pu'er tea enthusiasts tend to have one or several set brands of Pu'er tea products to choose from. Building up a recognized Pu'er tea brand may take decades and require tremendous capital investment.

- *Processing techniques*. Mature processing techniques are instrumental in the delivery of high quality Pu'er tea leaves but take decades of research and development. Therefore, the flavors of the Pu'er tea products produced by tea companies with a long history are generally more flavorful and stable.

- *Raw material*. Pu'er tea companies usually source rough tea leaves as raw materials from tea leaf cooperatives, and it typically takes a significantly long time for them to establish stable business relationships with such cooperatives to gain access to high-quality rough tea leaves. Therefore, Pu'er tea companies with a long history generally have more access to high-quality raw materials.

- *Management experience*. The Pu'e tea industry is a highly specialized niche, which requires the management of a tea company to have a profound knowledge of all peculiarities in the industry, including, among others, procurement of raw materials, product development, distribution and sales strategy, branding and marketing, etc., in order to succeed in the competitive industry. New entrants can hardly establish an effective management system in a short period.

- *Sales channels*. A sales channel network covering a wide area is crucial for tea companies and requires a long period to establish. In addition, the maintenance of such network also requires plenty of resources.

- *Storage environments*. Aged Pu'er tea leaf products come with distinctive and enriched flavors, thereby becoming more valuable over time. Also, the blending of Pu'er tea requires Pu'er tea companies to properly store rough tea leaves from different years in preparation for stable future production. Therefore, Pu'er tea companies are required to make considerable capital investments for large warehousing facilities and equipment for the proper storage of their rough tea leaves as well as finished Pu'er tea leaf products from different years.

Competitive Landscape of China's Pu'er Tea Market

We were the seventh largest tea leaf company in China with market share of 0.13% in 2022. In the same year, the market size of China's Pu'er tea market accounted for 5.2% of that of China's tea leaf market. China's Pu'er tea market is relatively concentrated, given that (1) the top five Pu'er tea companies in China owned a total market share of 22.4% in terms of revenue generated from Pu'er tea products in 2022 and (2) there were a total of over 700 market participants in the same year. We were the third largest Pu'er tea company in China with a market share of 2.4% in 2022. The following table illustrates the ranking of top five Pu'er tea companies in China in terms of revenue generated from Pu'er tea products in 2022.

Ranking	Company(1)	Revenue	Market Share
		(RMB in billions)	*(%)*
1	Company A(2)	2.19	12.6
2	Company B(3)	0.76	4.4
3	**Our Company**	**0.41**	**2.4**
4	Company C(4)(5)	0.32	1.8
5	Company D(6)	0.21	1.2

Source: F&S Report

(1) The identities of companies listed in this table cannot be publicly disclosed because these companies rejected our request for such disclosure, which was made through our industry consultant, Frost & Sullivan.

(2) Company A is a private company headquartered in Yunnan Province. Established in 1938, Company A primarily provides Pu'er tea products.

(3) Company B is an unlisted state-owned company headquartered in Yunnan Province. Established in 1949, Company B provides tea leaf products, including green tea, black tea, dark tea, Pu'er tea and Oolong tea.

(4) Company C is a listed company headquartered in Fujian Province. Established in 1993, Company C provides tea leaf products, including green tea, black tea, Pu'er tea, Oolong tea and dark tea.

(5) We could not disclose the identity of Company C because the relevant data in the table is non-public information.

(6) Company D is a private company headquartered in Yunnan Province. It was established in 2010 with Pu'er tea as its major products.

China's fermented Pu'er tea market is relatively concentrated, given that (1) the top five Pu'er tea companies in China owned a total market share of 26.2% in terms of revenue generated from fermented Pu'er tea products in 2022 and (2) there were a total of over 550 market participants in the same year. We were the second largest Pu'er tea company in China in terms of revenue generated from fermented Pu'er tea products, with market share of 6.2% in 2022. The following table illustrates the ranking of top five Pu'er tea companies in China in terms of revenue generated from fermented Pu'er tea products in 2022.

Ranking	Company[1]	Revenue	Market Share
		(RMB in billions)	*(%)*
1	Company A	0.33	7.0
2	**Our Company**	**0.29**	**6.2**
3	Company B	0.26	5.5
4	Company C	0.22	4.7
5	Company E[2]	0.13	2.8

Source: F&S Report

(1) The identities of companies listed in this table cannot be publicly disclosed because these companies rejected our request for such disclosure, which was made through our industry consultant, Frost & Sullivan.

(2) Company E is a private company headquartered in Yunnan Province. Established in 1941, Company E primarily provides Pu'er tea products, and is especially famous for its compressed tea leaf products in a bowl shape.

China's non-fermented Pu'er tea market is relatively concentrated, given that (1) the top five Pu'er tea companies in China owned a total market share of 21.5% in terms of revenue generated from non-fermented Pu'er tea products in 2022 and (2) there were a total of over 650 market participants in the same year. We were the fourth largest Pu'er tea company in China in terms of revenue generated from non-fermented Pu'er tea products, with market share of 0.9% in 2022. The following table illustrates the ranking of top five Pu'er tea companies in China in terms of revenue generated from non-fermented Pu'er tea products in 2022.

Ranking	Company	Revenue	Market Share
		(RMB in billions)	*(%)*
1	Company A	1.86	14.6
2	Company B	0.50	3.9
3	Company D	0.15	1.2
4	**Our Company**	**0.12**	**0.9**
5	Company C	0.10	0.8

Source: F&S Report

PRC REGULATORY OVERVIEW

The summary of certain PRC laws and regulations that are relevant to our business operations is set out below:

REGULATIONS ON FOOD SAFETY AND LICENSING REQUIREMENT FOR FOOD OPERATION

Food Safety Law

In accordance with the Food Safety Law of the PRC (中華人民共和國食品安全法), (the "Food Safety Law"), as effective on June 1, 2009, most recently amended on April 29, 2021, the State implemented a licensing system for food production and trading activities. A person or entity who engages in food production, food selling or catering services shall obtain the license in accordance with the law.

According to the Food Safety Law, the State Council shall establish a food safety committee whose duties shall be defined by the State Council. The food safety supervision and administration department under the State Council shall exercise supervision and administration over food production and trading activities according to the duties defined by the Food Safety Law and the State Council. The health administrative department under the State Council shall organize the implementation of risk monitoring and risk assessment of food safety according to the duties defined by the Food Safety Law, and shall formulate and issue national food safety standards together with the food safety supervision and administration department under the State Council. Other relevant departments under the State Council shall carry out relevant food safety work according to the duties defined by the Food Safety Law. The Food Safety Law sets out that food operators who violate the provisions of Food Safety Law in engaging in food manufacturing and food business operations without obtaining a food manufacturing and food business operations permit shall have their illegal income, foodstuffs or food additives from the illegal manufacturing or business activities, tools, equipment, ingredients used in the illegal manufacturing and business activities confiscated by the food and drug supervision and administration department; where the value of the foodstuffs, food additives from the illegal manufacturing or business activities is less than RMB10,000, a fine ranging from RMB50,000 to RMB100,000 shall be imposed; where the value of the foodstuffs or food additives is RMB10,000 or more, a fine ranging from 10 to 20 times the value of the foodstuffs or food additives shall be imposed.

The Implementation Rules of the Food Safety Law (中華人民共和國食品安全法實施條例), as effective on July 20, 2009, last amended on October 11, 2019, further specifies the detailed measures to be taken for food producers and business operators and the penalties that shall be imposed should these required measures not be implemented.

Food Operation Licensing

According to the Announcement on Launching the Use of Food Operation License (關於啟用《食品經營許可證》的公告), promulgated by China Food and Drug Administration On September 30, 2015, and became effective on October 1, 2015, the original food circulation or catering service license was replaced by the Food Operation License.

On August 31, 2015, China Food and Drug Administration promulgated the Administrative Measures for Food Operation Licensing (食品經營許可管理辦法), which was amended on November 17, 2017. According to the Administrative Measures for Food Operation Licensing, a person or entity that engages in food selling and catering services within the territory of the PRC (hereinafter referred to in general as "food operator") shall obtain a food operation license in accordance with the law. Food operators engaging at different business venues must obtain separate food operation licenses for each venue under the principle of one license for one venue. Food and drug administrative authorities shall implement classified licensing for food operations according to food operators' types of operation and the degree of risk of their operation projects.

The food operation license is valid for five years upon its issuance. Food operators shall display their original food operation licenses prominently at their business venues. If the licensing items which are indicated on a food operation license change, the food operator shall, within ten business days after the changes take place, apply with the food and drug administrative authority which originally issued the license for alteration of the operation license.

Import and Export of Goods

According to the Foreign Trade Law of the PRC (中華人民共和國對外貿易法), promulgated by the Standing Committee of NPC on May 12, 1994, and amended on April 6, 2004, November 7, 2016 and December 30, 2022, the department in charge of foreign trade under the State Council shall take charge of all foreign trade work in the whole country in accordance with this Law. The foreign trade operator engaged in export of goods shall make registration for record with the department in charge of foreign trade under the State Council or institutions entrusted by it, but those that are exempted from registration for record by laws, administrative rules and rules of the department in charge of foreign trade under the State Council shall be excluded. Furthermore, the foreign trade operator engaged in export of goods shall comply with the Measures for Archival-filling and Registration of Foreign Trade Operator (對外貿易經營者備案登記辦法) promulgated by the MOFCOM on June 25, 2004, took effect on July 1, 2004, and amended on August 18, 2016, November 30, 2019, and May 10, 2021. According to the Administrative Provisions of the Customs of the PRC on Record-filing of Customs Declaration Entities (中華人民共和國海關報關單位備案管理規定) promulgated by the General Administration of Customs on November 19, 2021, and came into effect on January 1, 2022, in completing customs formalities, customs declaration entities shall go through the record-filing procedures with customs in accordance with the provisions unless otherwise required by the laws, administrative regulations or rules of the customs. The customs declaration entities comprise the customs declaration enterprise and the consignor or consignee of imported and exported goods.

According to the Administrative Measures of the PRC for the Safety of Imported and Exported Food Products (中華人民共和國進出口食品安全管理辦法) promulgated by the General Administration of Customs on April 14, 2021, and came into effect on January 1, 2022, export food manufacturers shall apply to the customs for registration and obtain Record-filing Certificate. Where an export food manufacturer fails to perform statutory record-filing obligations in accordance with law, or its record-filing fails to satisfy requirements upon review, the relevant penalties shall be imposed. Export food manufacturers shall comply with the provisions concerning food safety and food hygiene under the Announcement on the Issuance of Safety and Health Requirements and Product catalog of Export Food Production Enterprises (關於發佈出口食品生產企業安全衛生要求和產品目錄的公告) promulgated by the Certification and Accreditation Administration of the PRC on September 14, 2011 and implemented on October 11, 2011.

Product Quality

The Product Quality Law of the PRC (中華人民共和國產品質量法), as promulgated by the Standing Committee of NPC on February 22, 1993, became effective on September 1, 1993, and last amended on December 29, 2018, stipulates that producers and sellers should bear responsibility for product quality in accordance with the law. Industrial products that may endanger the health and safety of persons and property must comply with the relevant national or industrial standards; where no national or industrial standards have been formulated, the requirements for safeguarding the health and safety of persons and property must be met.

PROTECTION OF CONSUMER RIGHTS AND INTERESTS

The Law of the PRC on the Protection of Consumer Rights and Interests (中華人民共和國消費者權益保護法), as passed by the Standing Committee of NPC on October 31, 1993 and last amended on October 25, 2013 contains the code of conduct for business operators when dealing with consumers, including but not limited to: (i) ensuring that the goods or services shall comply with the relevant laws and regulations in relation to the product quality; (ii) providing accurate information concerning the quality, performance, purpose and term of validity of the goods or services they provide; (iii) issuing invoice or other shopping vouchers or service documents to consumers in accordance with relevant national regulations or commercial practices; (iv) ensuring that the actual quality and function of the goods or services is in conformity with the quality of the goods or services indicated by advertisement, product descriptions, samples or other means; (v) assuming responsibility for repair, remanufacturing, replacement, return of goods or other liability under national regulations or any agreement with consumers; and (vi) not to impose terms that are unreasonable or unfair on consumers.

REGULATIONS ON COMMERCIAL FRANCHISE

According to the Administrative Regulations on Commercial Franchise Operations (商業特許經營管理條例), announced by the State Council on February 6, 2007, and became effective on May 1, 2007, the term Commercial Franchising refers to the arrangement whereby an enterprise (hereinafter referred to as "the franchisor") authorizes other operators (hereinafter referred to as "the franchisee") to use registered trademarks, corporate logos, patents, proprietary technologies and other operating resources through the conclusion of a contract, and the franchisee shall carry out the operation under a unified operation mode as agreed in the contract and pays the franchisor the franchise fee. The franchisor shall establish and implement a complete information disclosure system, and provide the franchisee with the information prescribed in these regulations and the text of the franchise contract in writing at least 30 days before the conclusion of the franchise contract. The information provided by the franchisor to the franchisee shall be true, accurate and complete, and shall not conceal relevant information or provide false information. And a franchisor shall file records with the commerce administration authorities within 15 days upon conclusion of the first franchise contract pursuant to the provisions thereof.

The Administrative Measures on Filing of Commercial Franchise (商業特許經營備案管理辦法), which was promulgated by the Ministry of Commerce of the PRC on December 12, 2011, and became effective on February 1, 2012, was formulated in accordance with the relevant provisions of the Administrative Regulations on Commercial Franchise Operations. It further specifies the detailed matters of commercial franchise filing, such as the filing authority, the time limit for filing, and filing materials submitted by the franchisor. According to the Administrative Measures on Filing of Commercial Franchise, where the franchisor fails to file under the regulations and these measures, the competent department of commerce at or above the municipal level divided into districts shall order it to file within a prescribed time limit and a fine ranging from RMB10,000 to RMB50,000 shall be imposed; where the franchisor still fails to file within the time limit, a fine ranging from RMB50,000 to RMB100,000 shall be imposed and the relevant information shall be announced.

LAWS AND REGULATIONS RELATED TO INTELLECTUAL PROPERTY

Trademarks

According to the Trademark Law of the PRC (中華人民共和國商標法) (the "Trademark Law") promulgated by the Standing Committee of NPC on August 23, 1982, and last revised on April 23, 2019, with effect from November 1, 2019, any person or entity that needs to acquire the exclusive right to use a registered trademark in the goods or services shall apply for trademark registration with the Trademark Office. The registered trademark is valid for ten years from the date of the approval of the registration. When it is necessary to continue using the registered trademark upon expiration of the period of validity, an application for renewal shall be made within 12 months before the expiration. If such an application cannot be filed within that period, an extension period of six months may be granted. Trademark registrants may license, authorize others to use their registered trademark by signing up a trademark license contract. The trademark license agreements shall be submitted to the trademark office for recording.

Pursuant to the Trademark Law, any application of a trademark identical or similar to a registered trademark, without the authorization of the registrant thereof, on a product identical or similar to the product for which the registered trademark is registered, and by which confusion may arise, will be deemed as an infringement to the exclusive right of the trademark owner to use the registered trademark.

Copyright

The Copyright Law of the PRC (中華人民共和國著作權法) (the "Copyright Law") was promulgated by the Standing Committee of NPC on September 7, 1990, and last revised on November 11, 2020. Copyright includes personal rights such as the right of publication and the right of authorship, as well as property rights such as reproduction rights and distribution rights. Except as otherwise provided by the Copyright Law, copying, distributing, performing, projecting, broadcasting, compiling or editing a work or disseminating the work to the public through an information network without the permission of the copyright owner constitutes a copyright infringement.

In addition, save for the Regulations on Protection of Computers Software (計算機軟件保護條例) issued by the State Council on December 20, 2001, and newly amended on January 30, 2013, the Computer Software Copyright Registration Measures (計算機軟件著作權登記辦法) revised and promulgated by the National Copyright Administration on February 20, 2002, stipulated detailed procedures and requirements for software copyright registration. The software copyright holder can register the software copyright registration to the Copyright Protection Center of China, which is the software registration agency identified by the State Copyright Administration.

Patents

In accordance with the Patent Law of the PRC (中華人民共和國專利法) (the "Patent Law") promulgated by the Standing Committee of NPC on March 12, 1984, and last amended on October 17, 2020, and with effect from June 1, 2021, an invention-creation referred to in this Law shall mean an invention, utility model or design. The term "invention" used herein refers to new technical solutions raised in relation to any product, process or the improvement thereof; the term "utility model" used therein refers to any new technical solution related to the shape and structure of a product or the combination thereof, which is suitable for practical use; the term "design" used therein refers to any new design of the shape and pattern of a product or the combinations thereof, or the combinations of colors with shapes or patterns, which creates aesthetics and is suitable for industrial applications. The protection period is 20 years for invention patents and 10 years for utility model patents and design patents, commencing from their respective application dates.

Domain Names

According to the Administrative Measures on Internet Domain Names, (互聯網域名管理辦法) as promulgated by the Ministry of Industry and Information Technology of the PRC On August 24, 2017, and became effective on November 1, 2017, ".CN" and ".China" are China's national top-level domain names. It clarified that the Ministry of Industry and Information Technology supervises and manages domain name services nationwide. Any organization or individual who illegally registers or uses a domain name and commits a crime shall be investigated for criminal responsibility according to law; where a crime has not been constituted, the relevant department shall impose administrative punishment.

LAWS AND REGULATIONS ON LAND

Land related laws and regulations mainly include the Land Administration Law of the PRC (中華人民共和國土地管理法) which was promulgated by the Standing Committee of NPC on June 25, 1986, latest amended on August 26, 2019, and became effective as of January 1, 2020, the Rules for Implementation of the Land Administration Law of the PRC (中華人民共和國土地管理法實施條例) which was promulgated by the State Council on January 4, 1991 and latest amended on July 2, 2021, the Provisional Regulations of the PRC Concerning the Assignment and Transfer of the Right to Use State Land in Urban Areas (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例) which was promulgated by the Standing Committee of NPC on May 19, 1990, latest amended on November 29, 2020, the Law on Land Contract in Rural Areas of the PRC (中華人民共和國農村土地承包法) which was promulgated on August 29, 2002, latest amended on December 29, 2018, and became effective on January 1, 2019, and the Measures for Administration of the Transfer of Rural Land Management Right (農村土地經營權流轉管理辦法) promulgated by MOA on January 26, 2021, and became effective on March 1, 2021.

REGULATIONS ON PROPERTY LEASING

Pursuant to Administrative Measures on the Lease of Commodity Housing (商品房屋租賃管理辦法) issued by Ministry of Housing and Urban-Rural Development on December 1, 2010, parties to a lease agreement shall complete the lease registration and filing process with the competent construction (real estate) departments of the municipalities directly under the PRC governments of cities and counties where the housing is located within 30 days after the lease agreement is signed. For those who fail to comply with the above regulations, such competent departments may impose a fine ranging from RMB1,000 and RMB10,000 per lease.

LAWS AND REGULATIONS ON ENVIRONMENTAL PROTECTION

Environmental Protection Law

The Environmental Protection Law of the PRC (中華人民共和國環境保護法), which was promulgated by the Standing Committee of NPC on December 26, 1989, and amended on April 24, 2014, and came into force on January 1, 2015, provides a regulatory framework to protect and develop the environment, prevent and reduce pollution and other public hazards, and safeguard human health. According to the Environmental Protection Law, enterprises and other manufacturers shall prevent and reduce environmental pollution and ecological damage as well as take the liabilities for the damages caused.

Construction Project Environmental Protection

The Environmental Impact Assessment Law (中華人民共和國環境影響評價法), which was promulgated by the Standing Committee of NPC on October 28, 2002, and was latest amended on December 29, 2018, the Regulations on the Administration of Construction Project Environmental Protection (建設項目環境保護管理條例), which was promulgated by the State Council on November 29, 1998, and was amended on July 16, 2017, and the Interim Measures for the Completion Inspections of Environment Protection Facilities of Construction Projects (建設項目竣工環境保護驗收暫行辦法), which was promulgated and became effective on November 20, 2017, require enterprises that planning construction projects to provide assessment reports, statements or registration forms on the environmental impact of such projects. The assessment reports or statements must be approved by the competent environmental protection authorities prior to the commencement of any construction work, while the registration forms must be submitted to the competent environmental protection authorities for recordation. Unless otherwise provided by laws and regulations, enterprises with construction projects, which are required to make assessment reports or statements, shall undertake acceptance inspections of the environmental protection facilities upon the completion of the construction. A construction project may be formally put into production or use only if its corresponding environmental protection facilities have passed the acceptance examination.

Prevention and Control of Pollution

The Regulations on the Administration of Pollutant Discharge Permits (排污許可管理條例), as promulgated by the State Council on January 24, 2021, and became effective on March 1, 2021, is formulated under the Environmental Protection Law of the PRC and other relevant laws to strengthen the administration of pollutant discharge permits and controlling the discharge of pollutants. Enterprises, public institutions and other producers and business operators that are subject to pollutant discharge permit management shall obtain such permits under the regulations.

The validity period of the pollutant discharge permit is 5 years. If a pollutant discharging unit needs to continue to discharge pollutants at the expiration of the term of validity of the license, it shall apply to the examination and approval department 60 days before the expiration of the validity period of the license.

Pursuant to the Administrative Measures for Pollutant Discharge Licensing (for Trial Implementation) (排污許可管理辦法(試行)), which became effective on January 10, 2018, and amended on August 22, 2019, and the Catalogue of Classified Management of Pollutant Discharge Permits for Stationary Pollution Sources (2019 Version) (固定污染源排污許可分類管理名錄(2019年版)), based on factors such as the number of pollutants produced, the number of pollutants discharged and the impact on the environment, pollutant discharge units are subject to three different level of pollutant discharge permit administration, namely key administration, simplified administration and registration administration. It is not required for units applicable for registration administration to apply for the pollutant discharge license, but they shall fill in and submit a pollution discharge registration form on the national pollution discharge license management information platform.

LAWS AND REGULATIONS ON LABOR

Labor Law and Labor Contracts

According to the Labor Law of the PRC (中華人民共和國勞動法) promulgated on July 5, 1994, and amended on August 27, 2009, and December 29, 2018, enterprises shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, and conduct employees training on labor safety and sanitation in the PRC. Labor safety and sanitation facilities shall comply with statutory standards. Enterprises and institutions shall provide employees with a safe workplace and sanitation conditions that are in compliance with relevant laws and regulations of labor protection.

The Labor Contract Law of the PRC (中華人民共和國勞動合同法) promulgated on June 29, 2007, and amended on December 28, 2012, and the Implementation Rules of the Labor Contract Law of the PRC (中華人民共和國勞動合同法實施條例) promulgated on September 18, 2008, set out specific provisions in relation to the execution, the terms and the termination of a labor contract and the rights and obligations of the employees and employers, respectively. At the time of hiring, the employers shall truthfully inform the employees of the scope of work, working conditions, working place, occupational hazards, work safety, salary and other matters which the employees request to be informed about.

Social Insurance and Housing Provident Fund

According to the Social Insurance Law of the PRC (中華人民共和國社會保險法) passed by the Standing Committee of NPC on October 28, 2010, and amended on December 29, 2018, each employer and individual in the PRC shall make social insurance contributions, including basic old-age insurance, basic medical insurance, unemployment insurance, maternity insurance and work injury insurance. The funds shall be collected by the local administrative institutions. An employer who fails to pay social insurance contributions shall be ordered to pay or supplement within a prescribed period, and an overdue payment fine at the rate of 5 per 10,000 shall be levied from the due date of payment. When the payment is not made at the expiry of the prescribed period, a fine above the overdue amount but less than its triple shall be imposed by the relevant administrative department.

According to the Administrative Regulations on the Housing Provident Fund (住房公積金管理條例) passed by the State Council on April 3, 1999, and amended on March 24, 2002, and March 24, 2019, each employer and individual in the PRC shall make housing provident fund contributions. The funds shall be collected by the local administrative institutions. Where an entity is overdue in the payment and deposit of, or underpays, the housing provident fund, the housing provident fund management center shall order it to make the payment and deposit within a prescribed time limit; where the payment and deposit have not been made after the expiration of the time limit, an application may be made to a people's court for compulsory enforcement.

LAWS AND REGULATIONS RELATING TO TAXATION

Taxation on Dividends

Pursuant to the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) (the "IIT Law"), which was last amended on August 31, 2018 and the Implementation Regulations for the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法實施條例》), which was last amended on December 18, 2018, dividends paid by PRC enterprises are subject to an individual income tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from an enterprise in the PRC is normally subject to an individual income tax of 20% unless specifically exempted by the tax authority of the State Council or reduced or waived by an applicable tax treaty.

Pursuant to Notice of State Administration of Taxation on Issues Relating to Administration of Levying of Individual Income Tax Upon Abolishment of Document Guoshuifa [1993] No. 045 (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) issued and implemented by the SAT on June 28, 2011, domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends to non-PRC resident individuals in jurisdictions that have agreements with the PRC, withhold individual income tax at the rate of 10%. For the individual holders of H Shares receiving dividends who are residents of jurisdictions that have entered into a tax agreement or arrangement with the PRC with tax rates lower than 10%, the non-foreign-invested enterprise whose Shares are listed in Hong Kong may apply on behalf of such holders for enjoying the lower preferential tax treatments, and, upon approval by the tax authorities, the amount which is over withheld will be refunded. For the individual holders of H Shares receiving dividends who are residents of jurisdictions that have entered into a tax agreement or arrangement with the PRC with tax rates higher than 10% but lower than 20%, the non-foreign-invested enterprise whose Shares are listed in Hong Kong is required to withhold the tax at the agreed rate under the treaties, and no application procedures will be necessary. For the individual holders of H Shares receiving dividends who are residents of jurisdictions without taxation treaties or arrangements with the PRC or are under other situations, the non-foreign-invested enterprise whose Shares are listed in Hong Kong is required to withhold the tax at a rate of 20%.

In accordance with the EIT Law and its implementation regulations, a non-resident enterprise is generally subject to a 10% enterprise income tax on PRC-sourced income (including dividends received from a PRC resident enterprise), if such non-resident enterprise does not have an establishment or place in the PRC or has an establishment or place in the PRC but the PRC-sourced income is not connected with such establishment or place in the PRC. Such income tax for non-resident enterprises are deducted at source, where the payer of the income are required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due.

Notice from the State Administration of Taxation on Issues Concerning Withholding the Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to H-share Holders which are Overseas Non-Residents Enterprises (《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (Guo Shui Han [2008] No. 897) which was implemented by the SAT on November 6, 2008, further clarified that a PRC-resident enterprise must withhold enterprise income tax at a rate of 10% on dividends paid to overseas non-resident enterprise shareholders of H Shares for 2008 and subsequent years. In addition, Official Reply from the State Administration of Taxation on Issues Concerning the Levying of the Enterprise Income Tax on Dividends Derived by Non-Resident Enterprises from B Shares, Etc. (《國家稅務總局關於非居民企業取得B股等股票股息徵收企業所得稅問題的批復》) (Guo Shui Han [2009] No. 394) which was issued and implemented by the SAT on July 24, 2009, further provides that any PRC-resident enterprise that is listed on overseas stock exchanges must withhold enterprise income tax at a rate of 10% on dividends of 2008 and onwards that it distributes to non-resident enterprises. Such tax rates may be further modified pursuant to the tax treaty or agreement that China has concluded with a relevant jurisdiction, where applicable.

Pursuant to the Arrangement between the Mainland and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重征稅和防止偷漏稅的安排》) entered into on August 21, 2006, PRC Government may levy taxes on the dividends paid by a Chinese company to Hong Kong residents (including natural persons and legal entities) in an amount not exceeding 10% of total dividends payable by the Chinese company. If a Hong Kong resident directly holds 25% or more of the equity interest in a Chinese company, then such tax shall not exceed 5% of the total dividends payable by the Chinese company. The Announcement of the State Taxation Administration on the Implementation of the Protocol V to the Arrangement between the Mainland and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《國家稅務總局關於〈內地和香港特別行政區關於對所得避免雙重征稅和防止偷漏稅的安排〉第五議定書》) issued by the SAT and effective on December 6, 2019 states that such provisions shall not apply to arrangement made for the primary purpose of gaining such tax benefit, unless it can be confirmed that the tax benefit granted under such circumstances comply with the principles and purposes of the relevant regulations. The application of the dividend clause of tax agreements shall be subject to the PRC tax laws and regulations, such as the Notice of the State Administration of Taxation on the Issues Concerning the Application of the Dividend Clauses of Tax Agreements (《國家稅務總局關於執行稅收協議股息條款有關問題的通知》) (Guo Shui Han [2009] No. 81).

Income Tax

According to the IIT Law and the Regulations on Implementation of the IIT Law of the PRC, gains realized on the sale of equity interests in the PRC resident enterprises are subject to the income tax at a rate of 20%.

Pursuant to the Circular of the MOF and the State Administration of Taxation Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from Transfer of Shares (《財政部、國家稅務總局關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) (Cai Shui Zi [1998] No. 61) issued by the MOF and the State Administration of Taxation on March 30, 1998, from January 1, 1997, income of individuals from transfer of shares in listed enterprises continues to be exempted from individual income tax. The State Administration of Taxation has not stated whether it will continue to exempt individual income tax on income of individuals from transfer of listed shares in the latest amended IIT Law and its implementation regulations.

However, on December 31, 2009, the MOF, the State Administration of Taxation and CSRC jointly issued the Notice of Ministry of Finance, State Administration of Taxation and China Securities Regulatory Commission on Issues Relating to Levying of Individual Income Tax on Income Derived by Individuals from Transfer of Moratorium Shares of Listed Companies (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》(Cai Shui [2009] No. 167), with effective from January 1, 2010, which states that individuals' income from transfer of listed shares obtained from the public offering of listed companies and the transfer market on the Shanghai Stock Exchange and Shenzhen Stock Exchange shall continue to be exempted from individual income tax, except for the relevant shares which are subject to sales restriction (as defined in Supplementary Notice of Ministry of Finance, State Administration of Taxation and China Securities Regulatory Commission on Issues Relating to Levying of Individual Income Tax on Income from Transfer of Moratorium Shares of Listed Companies by Individuals (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的補充通知》) (Cai Shui [2010] No. 70), which was jointly issued by the MOF, the State Administration of Taxation and CSRC on November 10, 2010). As of the Latest Practicable Date, no aforesaid provisions have expressly provided that whether individual income tax shall be collected from non-Chinese resident individuals on the transfer of shares in PRC resident enterprises listed on overseas stock exchanges, and to the best of our knowledge, in practice such tax has not been collected by the PRC tax authorities.

In accordance with the EIT Law and its implementation regulations, a non-resident enterprise is generally subject to a 10% enterprise income tax on PRC-sourced income, including gains derived from the disposal of equity interests in a PRC resident enterprise, if it does not have an establishment or place in the PRC or has an establishment or premise in the PRC but the PRC-sourced income is not connected in reality with such establishment or premise. Such income tax for non-resident enterprises are deducted at source, where the payer of the income are required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due. The withholding tax may be reduced or exempted pursuant to applicable tax treaties or agreements on avoidance of double taxation.

According to the EIT Law and its implementation regulations, enterprise income taxpayers shall be enterprises within the PRC and other organizations that obtain income within the PRC. The rate of enterprise income tax shall be 25%.

According to Notice on Issues Concerning Relevant Tax Policies in Deepening the Implementation of the Western Development Strategy (關於深入實施西部大開發戰略有關稅收政策問題的通知), From January 1, 2011 to December 31, 2020, enterprises that mainly engaged in industrial projects specified in the catalogue of encouraged industries in the western region and whose main business income accounts for more than 70% of the total enterprise income shall be subject to enterprise income tax at the reduced tax rate of 15%; Meanwhile, according to the Announcement of the State Administration of Taxation on Enterprise Income Tax Issues concerning the Implementation of the Catalog of Encouraged Industries in the Western Region (國家稅務總局關於執行《西部地區鼓勵類產業目錄》有關企業所得稅問題的公告), effective as from October 1, 2014, enterprises that are based in the western region with their primary business listed in the newly-added encouraged industry items provided in the Catalog of Encouraged Industries in the Western Region (西部地區鼓勵類產業目錄), and whose annual primary business revenue accounts for more than 70% of the total enterprise revenue, may pay enterprise income tax at the reduced tax rate of 15%. Furthermore, according to the Announcement on Continuation of CIT Policies for Large-scale Development in the Western Region (關於延續西部大開發企業所得稅政策的公告) issued on April 23, 2020, from January 1, 2021 to December 31, 2030, enterprises that are based in the western region with their primary business listed in the encouraged industry items provided in the Catalog of Encouraged Industries in the Western Region (西部地區鼓勵類產業目錄), and whose annual primary business revenue accounts for more than 60% of the total enterprise revenue, may pay enterprise income tax at the reduced tax rate of 15%.

Interim Value-Added Tax Regulations of the PRC

According to the Interim Value-Added Tax Regulations of the PRC (中華人民共和國增值稅暫行條例), as announced by the State Council on December 13, 1993, and amended on November 5, 2008, February 6, 2016, and November 19, 2017, entities and individuals selling goods, providing labor services of processing, repairs or maintenance, selling services, intangible assets, real property in China, and importing goods to China, shall be identified as taxpayers of value-added tax ("VAT"). Unless otherwise provided by laws, the VAT rate is: 17% for taxpayers selling goods, labor services, or tangible movable property leasing services or importing goods; 11% for taxpayers selling transportation, postal, basic telecommunications construction, or immovable leasing services, selling immovables, transferring the rights to use land, or selling or importing specific goods; 6% for taxpayers selling services or intangible assets; zero for domestic entities and individuals selling services or intangible assets within the scope prescribed by the State Council across national borders; zero for exported goods, except as otherwise specified by the State Council.

Pursuant to the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (關於全面推開營業稅改徵增值稅試點的通知), promulgated by the Ministry of Finance and the State Administration of Taxation on March 23, 2016, came into effect on May 1, 2016, and as amended on July 11, 2017, December 25, 2017, and March 20, 2019, respectively, the pilot program of the collection of value-added tax in lieu of business tax shall be promoted nationwide in a comprehensive manner, and all taxpayers of business tax engaged in the building industry, the real estate industry, the financial industry and the life service industry shall be included in the scope of the pilot program with regard to payment of value-added tax instead of business tax.

According to the Circular on Policies for Simplifying and Consolidating Value-added Tax Rates (關於簡併增值稅稅率有關政策的通知), announced by the Ministry of Finance and the State Administration of Taxation on April 28, 2017, the structure of value-added tax (VAT) rates will be simplified from July 1, 2017, and the 13% VAT rate will be canceled. The scope of goods with 11% tax rate and the provisions for deducting input tax are specified. According to the Circular of on Adjusting Value-added Tax Rates (cai shui [2018] No. 32) (關於調整增值稅稅率的通知(財稅[2018]32號)) announced by the Ministry of Finance and the State Administration of Taxation on April 4, 2018, from May 1, 2018, where a taxpayer engages in a VAT taxable sales activity or imports goods, the previous applicable 17% and 11% tax rates are adjusted to be 16% and 10% respectively. According to the Announcement on Relevant Policies for Deepening Value-Added Tax Reform (關於深化增值稅改革有關政策的公告) announced by the Ministry of Finance, the State Taxation Administration, and the General Administration of Customs on March 20, 2019, with respect to VAT taxable sales or imported goods of a VAT general taxpayer, the originally applicable VAT rate of 16% shall be adjusted to 13%; the originally applicable VAT rate of 10% shall be adjusted to 9%.

LAWS AND REGULATIONS RELATION TO DATA PRIVACY

According to the Cybersecurity Law of the People's Republic of China (《中華人民共和國網絡安全法》) (the "Cybersecurity Law") promulgated by the Standing Committee of the National People's Congress on July 6, 2015, and amended on November 7, 2016, and effect from June 1, 2017. When carrying out business operation and service activities, network operators shall abide by laws and administrative regulations. They shall also fulfill the obligation of cybersecurity protection. To construct and operate a network, or to provide services through a network, technical measures and other necessary measures shall be taken in accordance with laws, administrative regulations and the compulsory requirements set forth in national standards to ensure the secure and stable operation of the network, to effectively cope with cybersecurity events, to prevent criminal activities committed on the network, and to protect the integrity, confidentiality and availability of network data.

Pursuant to the Measures for Cyber Security Review (《網絡安全審查辦法》) promulgated by the Cyberspace Administration of China and National Development and Reform Commission on December 28, 2021 and effective from February 15, 2022, operators of critical information infrastructure purchasing network products and services, and network platform operators carrying out data processing activities that affect or may affect national security, shall report to the cyber security review office for a cyber security review. In addition, an operator who controls more than 1 million users' personal information must report to the cyber security review office for a cyber security review if it intends to be listed in a foreign country, and relevant governmental authorities in the PRC may initiate cybersecurity review if they determine an internet platform operator's network products or services or data processing activities affect or may affect national security.

Pursuant to the Security Protection Regulations for Critical Information Infrastructure (《關鍵信息基礎設施安全保護條例》) promulgated by the State Council of China on July 30, 2021 and effective from September 1, 2021, critical information infrastructure refer to the important network facilities and information systems in important industries and fields such as public telecommunications, information services, energy, transportation, water conservancy, finance, public services, e-government and national defense science, technology and industry, as well as other important network facilities and information systems which, in case of destruction, loss of function or leak of data, may result in serious damage to national security, the national economy and the people's livelihood and public interests. The Security Protection Regulations for Critical Information Infrastructure further impose the compliance obligations of critical information infrastructure operators as: (i) establishing comprehensive cybersecurity protection systems and accountability systems; (ii) setting up a specified security management function to security protection works; (iii) carrying out cybersecurity inspections and risk assessments; (iv) undertaking cybersecurity reviews and entering into confidentiality agreements when purchasing network products and services; and (v) reporting cybersecurity incidents or threats to authorities.

Pursuant to the Security Assessment Measures for Outbound Data Transfers (《數據出境安全評估辦法》) promulgated by Cyberspace Administration of China on July 7, 2022, and effective from September 1, 2022, the Measures apply to the security assessment of critical data and personal information collected and generated by a data processor in its operation in the PRC, which are to be provided abroad. To provide data abroad under any of the following circumstances, a data processor shall declare security assessment for its outbound data transfer to the Cyberspace Administration of China through the local cyberspace administration at the provincial level: (i) where a data processor provides critical data abroad; (ii) where a key information infrastructure operator or a data processor processing the personal information of more than one million individuals provides personal information abroad; (iii) where a data processor, who has provided personal information of 100,000 individuals or sensitive personal information of 10,000 individuals in total abroad since January 1 of the previous year, provides personal information abroad; and (iv) other circumstances prescribed by the Cyberspace Administration of China for which declaration for security assessment for outbound data transfers is required.

Pursuant to the Regulations on the Management of Network Information Security (a Consultation Draft for Public Comments) (《網絡數據安全管理條例(徵求意見稿)》) (Consultation Draft) promulgated by the Cyberspace Administration of China on November 14, 2021, data processors shall, in accordance with relevant state provisions, apply for cyber security review when carrying out the following activities: (i) the merger, reorganization or separation of Internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests, which affects or may affect national security; (ii) handle the personal information of more than one million people intends to be [REDACTED] abroad; (iii) intends to be [REDACTED] in Hong Kong, which affects or may affect national security; (iv) other data processing activities that affect or may affect national security. In addition, the Consultation Draft for comments also stipulates that data processors need to fulfill relevant obligations, including establishing a data security person in charge, establishing a data security management organization and establishing relevant data processing rules. Up to now, the Consultation Draft for comments has not been formally implemented and come into force.

LAWS AND REGULATIONS RELATION TO ONLINE LIVE-STREAMING

The code of conduct for network anchors, promulgated by the State Administration of Radio and Television of China and the Ministry of Culture and Tourism on June 8, 2022, and implemented on that day, regulates the behavior of anchors who provide online performances and audio-visual program services through the Internet, including those who broadcast live on the network platform, interact with users in real time, and voice abroad in the form of uploading audio and video programs.

Pursuant to the Administrative Measures for Online Live-Streaming Marketing (for Trial Implementation) (《網絡直播營銷管理辦法(試行)》 promulgated by the Cyberspace Administration of China and Ministry of Commerce on April 23, 2021, and effective from May 25, 2021, those who engage in online live-streaming marketing activities shall comply with laws and regulations. Operators of live studios and live-streaming marketing personnel engaging in online live-streaming marketing activities shall comply with laws, regulations and the relevant provisions of the State, follow public order and good customs, and truthfully, accurately and comprehensively release information on goods or services. Live-streaming marketing personnel shall not engage in online live-streaming marketing activities at places that involve national security, public security, or affect the normal production and life order of others and the society.

REGULATIONS RELATING TO FOREIGN EXCHANGE ADMINISTRATION

According to Foreign Exchange Control Regulations of the PRC (《中華人民共和國外匯管理條例》) (the "Foreign Exchange Administration Regulations"), which was promulgated by the State Council on January 29, 1996 and came into effect since 1 April 1996, the Foreign Exchange Administration Regulations classify all international payments and transfers into current items and capital items. Most of the current items are not subject to the approval of foreign exchange administration agencies, while capital items are subject to such approval. The Foreign Exchange Administration Regulations were subsequently amended on January 14, 1997 and August 1, 2008, and came into effect on August 5, 2008. The latest amendment to the Foreign Exchange Administration Regulations clearly states that PRC will not impose any restriction on international current payments and transfers.

On December 26, 2014, the SAFE issued the Notice of the SAFE on Issues Concerning the Foreign Exchange Administration of Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》), pursuant to which a domestic company shall, within 15 business days of the date of the end of its overseas listing issuance, register the overseas listing with the SAFE's local branch at the place of its incorporation; and the proceeds from an overseas listing of a domestic company may be remitted to the domestic account or deposited in an overseas account, but the use of the proceeds shall be consistent with the content of the document and other disclosure documents.

According to the Notice of the State Administration of Foreign Exchange on Policies for Reforming and Regulating the Control over Foreign Exchange Settlement under the Capital Account (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (Hui Fa [2016] No. 16) issued by the SAFE on June 9, 2016, foreign currency earnings in capital account that relevant policies of willingness exchange settlement have been clearly implemented on (including the recalling of raised capital by overseas listing) may undertake foreign exchange settlement in the banks according to actual business needs of the domestic institutions. The tentative percentage of foreign exchange settlement for foreign currency earnings in capital account of domestic institutions is 100%, subject to adjust of the SAFE in due time in accordance with international revenue and expenditure situations.

THE PRC COMPANY LAW AND TRIAL MEASURES

The PRC Company Law was passed by the Standing Committee of the Eighth NPC on December 29, 1993 and came into effect on July 1, 1994. It was successively amended on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and October 26, 2018. The revised Company Law came into effect on October 26, 2018. Approved by the State Council, on February 17, 2023, the China Securities Regulatory Commission promulgated the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) (hereinafter referred to as the "Trial Measures"), which will come into effect on March 31, 2023. The Trial Measures are enacted in accordance with the Securities Law and other laws, and are applicable to domestic companies directly or indirectly issuing securities overseas or listing their securities overseas for trading. On February 17, 2023, the China Securities Regulatory Commission promulgated the Guidelines for Application of Regulatory Rules — Overseas Issuance and Listing Category No. 1 (《監管規則適用指引 — 境外發行上市類第1號》), stipulating that domestic companies that conduct direct overseas offering and listing shall abide by the relevant provisions of the Trial Measures and refer to the Guidelines for the Articles of Association of Listed Companies (《上市公司章程指引》) and other the relevant provisions of the China Securities Regulatory Commission on corporate governance to formulate the company's articles of association and standardize corporate governance. On December 16, 1997, the China Securities Regulatory Commission issued the Guidelines for the Articles of Association of Listed Companies, which were revised on March 16, 2006, May 28, 2014, October 20, 2014, September 30, 2016, April 17, 2019 and January 5, 2022, and the newly revised Guidelines for the Articles of Association of Listed Companies came into effect on January 5, 2022.

Set out below is a summary of the provisions of the PRC Company Law, Trial Measures and Guidelines for the Articles of Association of Listed Companies applicable to the Company.

General Provisions

A joint stock limited company is a corporate legal person incorporated under the PRC Company Law, whose registered capital is divided into shares of equal par value. The liability of its shareholders is limited to the extent of the shares they hold, and the liability of the company is limited to the full amount of all the assets it owns.

A company must conduct its business in accordance with laws as well as public and commercial ethics. A company may invest in other limited liability companies. The liabilities of the company to such invested companies are limited to the amount invested. Unless otherwise provided by laws, a company cannot be the capital contributor who has the joint and several liabilities associated with the debts of the invested enterprises.

Share Capital

The promoters of a company may make capital contributions in cash, or in kind that can be valued in currency and transferable according to laws such as intellectual property rights or land-use rights based on their appraised value.

There is no limit under the PRC Company Law as to the percentage of shares held by an individual shareholder in a company. If capital contribution is made other than in cash by the promoters of the company, valuation and verification of the properties contributed must be carried out and converted into shares. A company may issue registered or bearer shares. However, shares issued to promoter(s) or legal person(s) shall be in the form of registered shares and shall be registered under the name(s) of such promoter(s) or legal person(s) and shall not be registered under a different name or the name of a representative.

Shares in a company take the form of shares. The issuance of shares shall follow the principles of fairness and justice, and each share of the same type shall have the same rights. Shares of the same type issued at the same time shall have the same issuance conditions and price per share; any unit or individual shall pay the same price per share for shares subscribed by any unit or individual.

The share price may be equal to or in excess of par value, but shall not be less than par value. The transfer of shares by shareholders shall be conducted in legally established stock exchanges or via other methods as stipulated by the State Council.

Increase of Share Capital

Pursuant to the PRC Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders or filed in the shareholders' assembly in respect of the class and number of new shares, the issue price of the new shares, the commencement and end dates for the issuance of new shares and the class and number of the new shares proposed to be issued to existing shareholders. After payment in full for the new shares issued, a company must modify its registration with the relevant administrative bureau for industry and commerce and issue a public notice accordingly.

Repurchase of Shares

A company shall not purchase its own shares other than for the following purposes:

(1) Reducing its registered capital;

(2) Merging with other company which holds its shares;

(3) Using shares for employee stock ownership plan or equity incentives;

(4) Acquiring its own shares at the request of its shareholders who vote in a shareholders' meeting against a resolution regarding a merger or division;

(5) Using shares for converting corporate bonds that are convertible to shares and issued by the listed company; and

(6) For the purpose of protecting the corporate value and the rights and interests of shareholders of a listed company when necessary.

A company purchasing its own shares under any of the circumstances set forth in items(1) and (2) shall be subject to a resolution of the shareholders' meeting; and a company purchasing its own shares under any of the circumstances set forth in items (3), (5) and (6) may, pursuant to its articles of association or the authorization of the shareholders' meeting, be subject to a resolution of a meeting of the board of directors at which more than two-thirds of directors are present.

After purchasing its own shares in accordance with these requirements, a company shall, under the circumstance set forth in item (1), cancel them within 10 days after the purchase; while under the circumstance set forth in either item (2) or (4), transfer or cancel them within six months; and while under the circumstance set forth in item (3), (5) or (6), aggregately hold not more than 10% of the total shares that have been issued by the company, and transfer or cancel them within three years.

Transfer of Shares

Shares may be transferred in accordance with the relevant laws and regulations. A shareholder shall transfer his/her shares in stock changes established pursuant to laws or by other means as stipulated by the State Council. Registered shares may be transferred by endorsement of the shareholders or in any other manner specified in applicable laws and regulations. Bearer shares are transferred by delivering the shares to relevant transferees. Unless otherwise stipulated by laws, no modifications of registration in the share register caused by transfer of shares shall be made within twenty days prior to convening a shareholders' assembly or five days prior to any record date for determination of dividend distributions. Shares of a company held by its promoter(s) shall not be transferred within one year from the date of incorporation of such company. Shares in issue prior to the company's public offering of shares shall not be transferred within one year from the listing date of its shares on the stock exchange.

Directors, supervisors and senior management of a company shall not transfer over 25% of the total shares held by them in the company each year during their term of office, and shall not transfer the shares held by them in the company within one year from the listing date of the shares. Such persons shall also not transfer the shares held by them in the company within half a year after they leave office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and senior management.

Shareholders' Assembly

The shareholders' assembly is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law. The shareholders' assembly exercises the following powers:

- to decide on the company's operational policies and investment plans;
- to elect and change the directors and supervisors who are not representatives of the employees;
- to decide on matters relevant to remuneration of directors and supervisors;
- to review and approve reports of the board of directors;
- to review and approve reports of the board of supervisors or supervisors;
- to review and approve annual financial budget and final accounts proposed by the company;
- to review and approve the company's proposals on profit distribution and to decide on any increase or reduction of the registered capital of the company;
- to decide on the company's issuance of bonds;
- to decide on merger, division, dissolution and liquidation of the company and other matters;
- to amend the company's articles of association; and
- other powers as specified in the articles of association.

The notice to convene an annual session of the shareholders' assembly and an interim meeting of the shareholders' assembly shall be given 20 days and 15 days, respectively, before the date of such meeting pursuant to the PRC Company Law. For the issuance of bearer share certificates, the time and venue of and matters to be considered at the meeting shall be announced 30 days before the meeting.

Pursuant to the PRC Company Law, shareholders present at a shareholders' assembly have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights.

Pursuant to the PRC Company Law and the Guidelines for Articles of Association of Listed Companies, resolutions of the shareholders' assembly shall be adopted by more than half of the voting rights held by the shareholders present at the meeting. However, resolutions of the shareholders' assembly regarding the following matters shall be adopted by more than two-thirds of the voting rights held by the shareholders present at the meeting: (i) amendments to the articles of association; (ii) the increase or decrease of registered capital; (iii) the company's purchase or sale of significant assets or guarantees in excess of thirty percent of the company's latest audited total assets within one year; (iv) share incentive plan; (v) the merger, division, dissolution, liquidation or change in the form of the company; (vi) other matters stipulated by laws, administrative regulations or the company's articles of association, and other matters considered by the shareholders' assembly by way of an ordinary resolution, to be of a nature which may have a material impact on the company and should be adopted by a special resolution.

Board of Directors

A company shall have a board of directors, which shall consist of 5 to 19 members. The term of office of the directors shall be provided for by the articles of association, but each term of office shall not exceed three years. The directors may hold consecutive terms by re-election upon the expiry of term.

Meetings of the board of directors shall be convened at least twice a year. A notice of meeting shall be given to all directors and supervisors at least ten days before the meeting. As for an interim meeting convened by the board of directors, the way of giving notice and the notice period may be otherwise determined.

Under the PRC Company Law, the board of directors exercises the following functions and powers:

- to convene the shareholders' assembly and report on its work to the shareholders;
- to implement the resolution of the shareholders' assembly;
- to decide on the company's business plans and investment plans;
- to formulate the company's proposed annual financial budget and final accounts;
- to formulate the company's proposals for profit distribution and for recovery of losses;
- to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- to formulate plans for the merger, division, dissolution or change in the form of the company;
- to decide on the company's internal management structure;

- to appoint or dismiss the company's general manager, and based on the general manager's nomination, to appoint or dismiss deputy general managers and financial officers of the company and to decide on their remuneration;
- to formulate the company's basic management system; and
- other functions and powers as specified in the articles of association.

Board of Supervisors

A company shall have a board of supervisors composed of not less than three members. The term of office of a supervisor shall be three years, and the supervisors may hold consecutive terms by re-election. The board of supervisors is made up of shareholders' representatives and an appropriate proportion of the company's staff representatives, which shall be no less than one-third. Directors and senior management shall not act as supervisors.

The board of supervisors exercises the following functions and powers:

- check the financial affairs of the company;
- supervise the directors and senior management in the performance of their duties, and to put forward proposals on the removal of any director or senior manager who violates laws, administrative regulations, the articles of association or any resolution of the shareholders' meeting;
- require the director or senior management to make corrections if his/her act is detrimental to the interests of the company;
- propose the convening of the interim meeting of the shareholders' assembly, and to convene and preside over shareholders' meetings when the board of directors fails to exercise the function of convening and presiding over shareholders' meetings;
- put forward proposals at the shareholders' assembly;
- initiate actions against directors or senior management; and
- other functions and duties as provided for by the articles of association.

The circumstances under which a person is disqualified from being a director described above apply *mutatis mutandis* to supervisors of a company.

General Manager and Senior Management

A company shall have a general manager who shall be appointed or removed by the board of directors. The general manager is accountable to the board of directors and may exercise the following powers:

- manage the production, operation and management of the company and arrange for the implementation of resolutions of the board of directors;
- arrange for the implementation of the company's annual business and investment plans;
- formulate plans for the establishment of the company's internal management structure;
- formulate the basic administration system of the company;
- formulate the company's specific rules;
- recommend the appointment and dismissal of deputy general managers and financial officers;
- decide to appoint or dismiss other management personnel (other than those required to be appointed or dismissed by the board of directors); and
- other powers conferred by the board of directors or the company's articles of association.

Duties of Directors, Supervisors, General Managers and Other Senior Management

Directors, supervisors, general managers and other senior management of a company are required under the PRC Company Law to comply with the relevant laws, regulations and the company's articles of association, carry out their duties honestly and protect the interests of the company. Each director, supervisor, general manager and senior management of a company is also under a duty of confidentiality to the company and is prohibited from divulging secret information of the company unless permitted by the relevant laws and regulations or by the shareholders.

Any director, supervisor, general manager and other senior management who contravenes any laws, regulations or the company's articles of association in the performance of his duties which results in any loss to the company shall be personally liable to the company.

Finance and Accounting

A company shall establish its financial and accounting systems according to the laws, administrative regulations and the regulations of the MOF of the State Council. At the end of each financial year, a company shall prepare a financial report, which shall be audited and verified according to laws.

A company shall make available its financial statements for the inspection by the shareholders at least 20 days before the convening of the annual meeting of the shareholders' assembly. A company established by the public subscription method must publish its financial statements.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory common reserve (except where such reserve has reached 50% of the company's registered capital). After a company has made an allocation to its statutory common reserve from its after-tax profit, subject to a resolution of the shareholders or the shareholders' assembly, the company may make an allocation to a discretionary common reserve from the after-tax profits. If the company's statutory surplus reserve is not enough to make up for the losses of the company for the previous year, the current year's profits shall first be used for making up the losses before the statutory surplus reserve is set aside according to the provisions of the preceding paragraph.

Distribution of Profits

According to the Trial Measures, domestic companies that issue and list overseas can raise funds in foreign currency or RMB and distribute dividends.

According to the Business Guide for "Full Circulation" of H-Share (《H股「全流通」業務指南》) issued by China Securities Depository and Clearing Corporation Limited ("CSDC") on February 7, 2020, the cash dividends of domestic investors of H-share "Full Circulation" are distributed through China Securities. H-share listed companies will transfer RMB cash bonus funds to the bank account of China Securities Shenzhen Branch, and CSDC Shenzhen Branch completes the liquidation of the bonus amount and distributes it to investors through domestic securities companies.

Overseas Listing

According to the Trial Measures, a company's overseas listing shall be filed with the China Securities Regulatory Commission. An issuer that conducts an overseas initial public offering or listing shall file with the China Securities Regulatory Commission within 3 working days after submitting the overseas issuance and listing application documents. The remittance and cross-border flow of funds related to overseas issuance and listing of domestic companies shall comply with national regulations on cross-border investment and financing, foreign exchange management, and cross-border RMB management.

LAWS AND REGULATIONS RELATING TO SECURITIES

The PRC has promulgated a number of regulations that relate to the issue and trading of shares and disclosure of information. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC.

The CSRC is the regulatory arm of the Securities Committee and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities related statistics and undertaking relevant research and analysis. In 1998, the State Council consolidated the two departments and the CSRC has since taken over the original functions of the Securities Commission.

The Securities Law came into force on July 1, 1999, and was revised for the first time on August 28, 2004, for the second time on October 27, 2005, for the third time on June 29, 2013, for the fourth time on August 31, 2014 and for the fifth time on December 28, 2019. This law is the first national securities law in China, which is divided into 14 chapters and 226 articles, regulating (including) the issuance and trading of securities, the acquisition of listed companies, stock exchanges, securities companies and the duties and responsibilities of the securities regulatory authority under the State Council. The Securities Law comprehensively regulates the activities of China's securities market. Article 224 of the Securities Law stipulates that a domestic enterprise shall comply with the relevant provisions of the State Council in issuing securities or listing its securities abroad directly or indirectly. Article 225 of the Securities Law stipulates that the specific measures for subscription and trading of shares of domestic companies in foreign currencies shall be separately formulated by the State Council. At present, the shares (including H shares) issued and traded abroad are still subject to the rules and regulations promulgated by the State Council and the CSRC.

OUR HISTORY AND DEVELOPMENT

Overview

We are the third largest Pu'er tea company in China in terms of revenue generated from Pu'er tea products in 2022, according to the F&S Report. With stringent quality requirements running through the entire industrial chain, we are among the very few tea companies in China experienced in raw material management, product development, production, end customer reach and membership services, according to the F&S Report, which we believe set us apart from our competitors. After over twenty years of operation, we have established ourselves as one of the most famous Pu'er tea brands in China. We are among the very few tea companies whose products have been included as one of the Top Ten Famous Teas in Yunnan Province for four consecutive years, and our products ranked first in the 2021 list. We are also one of the two tea companies recognized as Yunnan Top 10 Green Food Enterprises by certain provincial government departments including Yunnan Department of Agriculture and Rural Affairs in 2022, and among the few Pu'er tea companies included in the list of Key National Leading Enterprises for Agricultural Industrialization accredited by the Ministry of Agriculture and Rural Affairs of China in 2019.

Our Company was proposed to be incorporated in January 1998 by a group of employees of Lancang Lahu Ethnic Autonomous County Tea Plant (瀾滄拉祜族自治縣茶廠) ("Lancang County Tea Plant") led by Ms. Du under the name of Lancang County Ancient Tea Co., Ltd. (瀾滄縣古茶有限公司) as a limited liability company under the PRC laws, whereas the history of our brand can be traced back to 1966, when Jingmai Mountain Tea Workshop (景邁茶訓班), with Ms. Du and our other tea masters as its key members, was promoted on Jingmai Mountain, which was the starting point of their tea-making business. The incorporation procedure of our Company was officially completed in September 2002. Our Company changed the name to Lancang Ancient Tea Co., Ltd. (瀾滄古茶有限公司) in July 2006 and converted into a joint stock company under the name of Pu'er Lancang Ancient Tea Co., Ltd. (普洱瀾滄古茶股份有限公司) in February 2018.

Ms. Du, our founder, executive Director and chairlady, and Ms. Wang, our executive Director and general manager who joined our Group in September 2007, were collectively entitled to control the exercise of as to 47.96% of the voting rights at the general meetings of our Company as of the Latest Practicable Date. See "— Acting in Concert" for details of the acting-in-concert arrangements between Ms. Du and Ms. Wang, "Relationship with Our Controlling Shareholder Group" for details of the controlling interest held by them and "Directors, Supervisors and Senior Management — Board of Directors" for their biographical details.

Business Development Milestones

The following table sets out a summary of our Group's major business development milestones:

Year	Milestone
1966	Jingmai Mountain Tea Workshop (景邁茶訓班) was promoted on Jingmai Mountain, with Ms. Du and our other tea masters as its key members
1998	Our Company was proposed to be incorporated under the name of Lancang County Ancient Tea Co., Ltd. (瀾滄縣古茶有限公司) in January
1999	We launched our flagship products, *001 Tea Lump* and *0085 Tea Lump*
2002	The incorporation process of our Company as a limited liability company under the PRC laws was officially completed in September
2006	The name of our Company was changed to Lancang Ancient Tea Co., Ltd. (瀾滄古茶有限公司) in July
2009	We started to establish our marketing network centering in Guangzhou, the distribution center of the tea industry in the PRC, and expand our direct sales network nationwide
2011	We standardized the brand image of our sales stores system with nationwide geographical coverage by way of promotion of a unified decoration style and service protocol
2013	We were ranked among the "Top 10 Pu'er Tea Brand" (普洱茶十大品牌) by Yunnan Pu'er Tea Association (雲南省普洱茶協會) in May for the first time
2014	We launched *Big Red Mandarin* (大紅柑), our first Chenpi Pu'er tea product under the product line of *Tea Mama (茶媽媽)* in December
2016	We were recognized as one of the Key Leading Enterprises in Pu'er City (普洱市重點龍頭企業) jointly by the CPC Pu'er Municipal Committee (普洱市委) and the government of Pu'er City in May
	We launched our flagship product the third generation of *Shining Gold* (烏金), at the Great Hall of the People (人民大會堂) in September
	Guangzhou Kangrui, our wholly-owned subsidiary and principal marketing and sales center, was incorporated in Guangzhou as a company with limited liability under the PRC laws in December

Year	Milestone
2018	Our Company was converted into a joint stock company under the name of Pu'er Lancang Ancient Tea Co., Ltd. (普洱瀾滄古茶股份有限公司) in February
	Our marketing activity *The Way Home* (回家之旅) was awarded as one of the China's Best 10 Module Tea Activities (中國茶事樣板十佳) by the 2nd China International Tea Expo (第二屆中國國際茶葉博覽會) in May
2019	We were recognized as Yunnan Time-honored Brand (雲南老字號) by the Department of Commerce of Yunnan Province (雲南省商務廳) in January
	We were recognized as a Top 100 Tea Companies in China (中國茶業百強企業) by China Tea Marketing Association (中國茶葉流通協會) in October and a National Agricultural Industrialization Key Leading Enterprise (農業產業化國家重點龍頭企業) by certain government agencies at state level including the Ministry of Agriculture and Rural Affairs of the PRC (農業農村部) in November
2020	We organized innovative marketing activities such as online product launch for *Shining Gold* and virtual *The Way to Home* activity and received positive market feedbacks
	We expanded our sales network into key account channels including the hypermarket chain and the platform-operated online store
	We were recognized as an Outstanding Private Enterprise for National Enterprise-to-village Targeted Poverty Alleviation Actions (全國"萬企幫萬村"精準扶貧行動先進民營企業) jointly by All-China Federation of Industry and Commerce (中華全國工商業聯合會) and State Council Leading Group Office of Poverty Alleviation and Development (國務院扶貧開發領導小組辦公室) in November
2021	We were ranked the 1st among the Yunnan Top 10 Well-known Teas (雲南省十大名茶) by the Office of Leading Group for Building World Class Green Food Brand in Yunnan Province (雲南省打造世界一流「綠色食品牌」工作領導小組辦公室) under the CPC Yunnan Provincial Committee (雲南省委) and the government of Yunnan Province (雲南省政府) in September
2022	We launched our products under the product line of *Iland (岩冷)* in July
	We were recognized as a Yunnan Top 10 Green Food Enterprises (雲南綠色食品10強企業) jointly by certain provincial government departments including Yunnan Department of Agriculture and Rural Affairs (雲南省農業農村廳) in September

Year	Milestone
2023	We were recognized as a 2022 Tea Industry Leading Enterprise (2022年度茶業龍頭企業) and a 2022 Benchmarking Enterprise for Marketing and Innovation in Tea Industry (2022年度茶業流通創新標桿企業) by China Tea Marketing Association (中國茶葉流通協會) in February.

OUR PRINCIPAL SUBSIDIARIES

Guangzhou Kangrui Lancang Ancient Tea Co., Ltd. (廣州康瑞瀾滄古茶有限公司) ("Guangzhou Kangrui") and Pu'er Lancang Ancient Tea Renhe Co., Ltd. (普洱瀾滄古茶人合有限責任公司) ("Pu'er Renhe") are our principal subsidiaries which had made material contribution to our results of operations during the Track Record Period and up to the Latest Practicable Date.

Guangzhou Kangrui

Guangzhou Kangrui was incorporated as a limited liability company in the PRC on December 22, 2016, with a registered capital of RMB30.0 million, being fully paid in cash and directly wholly owned by our Company. As of the Latest Practicable Date, there had been no shareholding change in Guangzhou Kangrui since its incorporation. Guangzhou Kangrui is primarily engaged in marketing and sales of our tea products.

Pu'er Renhe

Pu'er Renhe was incorporated as a joint stock company with limited liability in the PRC on April 30, 2014. The initial registered capital of Pu'er Renhe was RMB5.0 million, being fully paid in cash and with a par value of RMB1.00 per share. At the time of its incorporation, Pu'er Renhe was owned by our then Shareholders or their family members.

In the second half of 2014, our then Shareholders and management decided to position Pu'er Renhe as one of our Group's production centers of packaged tea products. As a result, our Company subscribed for 26,357,962 new shares of Pu'er Renhe at par value of RMB1.00 each on January 17, 2015, representing 84.06% of the share capital of Pu'er Renhe upon the completion of the subscription. We further acquired the remaining issued and outstanding shares of Pu'er Renhe from its other shareholders on July 20, 2017 at a total consideration of RMB5.3 million, which was determined with reference to the capital contribution by other existing shareholders of Pu'er Renhe who were our then Shareholders and their family members, and fully settled in August 2017. Upon the completion of the abovementioned subscription and acquisitions, Pu'er Renhe became our directly wholly-owned subsidiary. On September 26, 2017, Pu'er Renhe was converted into a limited liability company with the registered capital unchanged. Pu'er Renhe is primarily engaged in the production and sales of our tea products.

CORPORATE DEVELOPMENT OF OUR COMPANY

Early development of our Company

Following the promotion of Jingmai Mountain Tea Workshop in 1966, Lancang County Tea Plant (originally known as Jingmai Tea Plant (景邁茶廠)), was established as a state-owned enterprise under the PRC laws in 1975 with certain members of Jingmai Mountain Tea Workshop, including Ms. Du, serving as key technical specialists and senior management.

In light of the national policy to reform the state-owned and collectively-owned enterprises in China in 1990s and with the support from and under the supervision of the local government authorities, starting from January 1998, a group of employees of Lancang County Tea Plant led by Ms. Du proposed to incorporate our Company under the name of Lancang County Ancient Tea Co., Ltd. (瀾滄縣古茶有限公司) as a limited liability company under the PRC laws and acquired the key assets of the bankrupt state-owned Lancang County Tea Plant (including its plant, machineries and production facilities) by way of public auctions at a total consideration of RMB2.2 million. Such assets were later utilized for our Company's operations. As confirmed in writing by the government of Lancang County and the government of Pu'er City, which are the competent government authorities as advised by our PRC Legal Advisor, among other things, (i) the consideration of the acquisition was fully settled and the transfers of assets were duly completed, (ii) the ownership of the acquired assets had good title, and (iii) there was no dispute or potential dispute in connection with the acquisition.

In September 2002, our Company officially completed incorporation procedure with an initial registered capital of RMB1.9 million, being fully contributed by the group of employees of Lancang County Tea Plant led by Ms. Du. In July 2006, the name of our Company was changed to Lancang Ancient Tea Co., Ltd. (瀾滄古茶有限公司).

In February 2012, Ms. Wang made an investment of RMB11.1 million in our Company, among which RMB1.1 million (representing 10.00% of the registered capital of our Company upon the completion of the investment) was contributed to the registered capital of our Company. The consideration was determined on an arm's length basis with reference to our Company's then business operations and future prospects and fully settled in November 2012.

In recognition of the contributions of Ms. Wang and Mr. Zhang Muheng (張慕衡) (our executive Director) to our Group, in August 2017, we issued our registered share capital of RMB1.3 million (representing 10.00% of the registered capital of our Company upon the completion of the investment) to Guangzhou Tiansu at the consideration of RMB19.4 million. The consideration was determined on with reference to the then business development and future prospects of our Company and having taken into account the contributions of Ms. Wang and Mr. Zhang Muheng to our Group and fully settled in August 2017. Guangzhou Tiansu was owned by Ms. Wang and Mr. Zhang Muheng as to 60.00% and 40.00%, respectively, and was therefore controlled by Ms. Wang as of the Latest Practicable Date.

Joint stock reform of our Company

Along with the development and expansion of the business of our Group, there had been a series of Share transfers among our then Shareholders and their family members from the incorporation of our Company to January 2018. In February 2018, in anticipation of the A-share Listing Application (as defined below), our Company was converted into a joint stock company under the PRC laws named Pu'er Lancang Ancient Tea Co., Ltd. (普洱瀾滄古茶股份有限公司), with a registered capital of RMB49.7 million divided into 49,680,000 Shares a par value of RMB1.00 each. As of the date of conversion into a joint stock company, our Shareholders (other than Guangzhou Tiansu) were our current or former employees, former Lancang Tea Plant's employees or their family members and the shareholding structure of our Company was as follows:

Shareholders	Number of Shares held	Shareholding percentage
Ms. Du	15,241,197(1)	30.68%
Ms. Wang	8,328,599	16.76%
Guangzhou Tiansu	4,968,000	10.00%
Ms. Xu Weixian (徐維仙)	3,422,373(2)	6.89%
Ms. Yang Xiu (楊秀)	1,809,989	3.64%
Mr. Shi Yue (石躍) ("Mr. Shi")	1,677,760	3.38%
Ms. Li Zhumei (李祝美)	982,813(3)	1.98%
Mr. Hua Laoer (華老二)	956,035(4)	1.92%
Mr. Su Yunchang (蘇雲昌)	872,146(5)	1.76%
Mr. Liao Jiusheng (廖玖生)	821,133(6)	1.65%
Ms. Xiao Minghuan (肖明煥)	810,153	1.63%
Ms. Li Congmei (李從妹)	802,533	1.62%
Ms. Bao Wenjin (鮑文錦)	682,288(7)	1.37%
Mr. Luo Guangming (羅光明)	563,259(8)	1.13%
Ms. Luo Qiongfang (羅瓊芳)	532,418	1.07%
Ms. Zhao Huiqiong (趙惠瓊)	523,389	1.05%
Other Shareholders(9)	6,685,915	13.47%
Total	**49,680,000**	**100.00%**

(1) including 3,857,537 Shares held by Ms. Du on trust for her daughter, Ms. Shi Ailing (石艾靈). See "— Major changes in our Company's shareholding structure and registered capital — (2) The 2019 Capital Increase and Share Transfers."

(2) including 1,232,761 Shares held by Ms. Xu Weixian on trust for her husband, Mr. Zhou Rongchang (周榮昌). See "— Major changes in our Company's shareholding structure and registered capital — (2) The 2019 Capital Increase and Share Transfers."

(3) including 262,657 Shares held by Ms. Li Zhumei on trust for her husband, Mr. Fan Kaiyuan (范開遠). See "— Major changes in our Company's shareholding structure and registered capital — (2) The 2019 Capital Increase and Share Transfers."

(4) including 240,561 Shares held by Mr. Hua Laoer on trust for his wife, Ms. Yang Mingxiu (楊明秀). See "— Major changes in our Company's shareholding structure and registered capital — (2) The 2019 Capital Increase and Share Transfers."

(5) including 286,409 Shares held by Mr. Su Yunchang on trust for his wife, Ms. Tao Qifen (陶其芬). See "— Major changes in our Company's shareholding structure and registered capital — (2) The 2019 Capital Increase and Share Transfers."

(6) including 483,984 Shares held by Mr. Liao Jiusheng on trust for his wife, Ms. Li Meifen (李美芬). See "— Major changes in our Company's shareholding structure and registered capital — (2) The 2019 Capital Increase and Share Transfers."

(7) including 371,193 Shares held by Ms. Bao Wenjin on trust for her mother, Ms. Bao Meizhen (鮑美珍). See "— Major changes in our Company's shareholding structure and registered capital — (2) The 2019 Capital Increase and Share Transfers."

(8) including 231,833 Shares held by Mr. Luo Guangming on trust for his wife, Ms. Li Yufang (李玉芳). See "— Major changes in our Company's shareholding structure and registered capital — (2) The 2019 Capital Increase and Share Transfers."

(9) including other 32 registered Shareholders (including Mr. He Zhi (何智), who held 154,123 Shares on trust for his wife, Ms. Li Meifang (李美芳), each of whom held less than 1.00% of the equity interest in our Company at the time of our joint stock reform.

Major changes in our Company's shareholding structure and registered capital

(1) The 2018 Capital Increase

On February 28, 2018, our Company entered into capital increase agreements ("2018 Capital Increase Agreements") with each of Shenzhen Jingmai New Industry Partnership (Limited Partnership) (深圳景邁新實業合夥企業) (有限合夥) ("Jingmai New Industry") and Gongqingcheng Fusi Investment Management Partnership (Limited Partnership) (共青城福思投資管理合夥企業) (有限合夥) ("Fusi Investment"). Pursuant to the 2018 Capital Increase Agreements, Jingmai New Industry and Fusi Investment agreed to make investments of RMB15.8 million and RMB9.5 million, respectively, among which RMB2.7 million and RMB1.6 million were contributed to the registered capital of our Company and RMB13.1 million and RMB7.9 million were credited into our Company's capital reserve (the "2018 Capital Increase"). The consideration was determined on an arm's length basis with reference to our Company's then business operations and future prospects, and fully settled in March 2018. Fusi Investment, a PRC fund being primarily engaged in industrial investment, transferred all its Shares to Mr. Wu Zhize (吳志澤) to receive investment returns in September 2021 and ceased to be our Shareholder. See "— Major changes in our Company's shareholding structure and registered capital — (3) The 2021

Capital Increase and Share Transfers" for details. Upon the completion of the 2018 Capital Increase, the shareholding structure of our Company was as follows:

Shareholders	Number of Shares held	Shareholding percentage
Ms. Du	15,241,197[(1)]	28.22%
Ms. Wang	8,328,599	15.42%
Guangzhou Tiansu	4,968,000	9.20%
Ms. Xu Weixian	3,422,373[(2)]	6.34%
Jingmai New Industry	2,700,000	5.00%
Ms. Yang Xiu	1,809,989	3.35%
Mr. Shi	1,677,760	3.11%
Fusi Investment	1,620,000	3.00%
Ms. Li Zhumei	982,813[(3)]	1.82%
Mr. Hua Laoer	956,035[(4)]	1.77%
Mr. Su Yunchang	872,146[(5)]	1.62%
Mr. Liao Jiusheng	821,133[(6)]	1.52%
Ms. Xiao Minghuan	810,153	1.50%
Ms. Li Congmei	802,533	1.49%
Ms. Bao Wenjin	682,288[(7)]	1.26%
Mr. Luo Guangming	563,259[(8)]	1.04%
Other Shareholders[(9)]	7,741,722	14.34%
Total	**54,000,000**	**100.00%**

(1)–(8) See notes (1)–(8) in the subsection headed "— Early development of our Company."

(9) including other 34 registered Shareholders (including Mr. He Zhi, who held 154,123 Shares on trust for his wife, Ms. Li Meifang), each of whom held less than 1.00% of the equity interest in our Company at relevant time.

(2) The 2019 Capital Increase and Share Transfers

On September 4, 2019, our Company entered into capital increase agreements ("2019 Capital Increase Agreements") with each of Gongqingcheng Kaiyi Hengzheng Investment Management Partnership (Limited Partnership) (共青城凱易恆正投資管理合夥企業) (有限合夥) ("Kaiyi Hengzheng"), Dr. Zheng Wenping (鄭文平) and Pingyang Junquan Xinben Investment Partnership (Limited Partnership) (平陽浚泉信本投資合夥企業) (有限合夥) ("Junquan Xinben"). Pursuant to the 2019 Capital Increase Agreements, Kaiyi Hengzheng, Dr. Zheng Wenping and Junquan Xinben agreed to make investments of RMB29.9 million, RMB29.9 million and RMB20.0 million, respectively in our Company, among which RMB2.3 million, RMB2.3 million and RMB1.5 million were contributed to the registered capital of our Company and RMB27.6 million, RMB27.6 million and RMB18.5 million were credited into our Company's capital reserve (the "2019 Capital Increase"). The consideration was determined on an arm's length basis with reference to our

Company's then business operations and future prospects, and fully settled in October 2019. For details of Kaiyi Hengzheng, Dr. Zheng Wenping and Junquan Xinben and their investments, see "— [REDACTED] Investments."

Historically, in order to concentrate our shareholding to strictly comply with the restriction on the maximum number of shareholders of a limited liability company under the PRC laws, the Shares held by our certain registered Shareholders included those held on trust for their family members (the "Entrustment Arrangements"). The table below sets forth the details of the Shares held by the relevant Shareholders immediately prior to the termination of the Entrustment Arrangements:

Name of the entrusted shareholder	Name of the entrusting shareholder	Number of Shares Entrusted	Relationship between the entrusted shareholder and the entrusting shareholder
Ms. Du	Ms. Shi Ailing	3,857,537	Mother
Ms. Xu Weixian	Mr. Zhou Changrong	1,232,761	Spouse
Ms. Li Zhumei	Mr. Fan Kaiyuan	262,657	Spouse
Mr. Hua Laoer	Ms. Yang Mingxiu	240,561	Spouse
Mr. Su Yunchang	Ms. Tao Qifen	286,409	Spouse
Mr. Liao Jiusheng	Ms. Li Meifen	483,984	Spouse
Ms. Bao Wenjin	Ms. Bao Meizhen	371,193	Daughter
Mr. Luo Guangming	Ms. Li Yufang	231,833	Spouse
Mr. He Zhi	Ms. Li Meifang	154,123	Spouse

Upon completion of the joint stock reform of our Company and conclusion of the mandatory one-year lock-up period of the promoter Shares after the joint stock reform, our Company is no longer subject to the legal restriction on the maximum number of shareholders of a limited liability company, and the relevant Shareholders involving the Entrustment Arrangements decided to terminate the Entrustment Arrangements. In September 2019, the entrusted Shareholders transferred all entrusted Shares to their respective family members at nil consideration (the "2019 Share Transfers").

We obtained a written confirmation from the Administration for Market Regulation of Pu'er City (普洱市市場監督管理局), being the competent government authority, which acknowledged the Entrustment Arrangements and confirmed that (i) the Entrustment Arrangements would not affect the validity and legality of the incorporation and existence of our Company, and (ii) neither we nor our Shareholders would be penalized as a result of the Entrustment Arrangements. Based on the written confirmation and having considered that (i) there had been no underpayment of applicable statutory taxes or charges in relation to the share transfers, capital increases and dividend distributions under the Entrustment Arrangements; and (ii) the Entrustment Arrangements were terminated and the beneficial interest of all of our Shareholders had been duly filed with the competent government authority and was reflected in our corporate filing records in accordance with the PRC laws, our PRC legal advisor is of the view that (i) the Entrustment Arrangements and the termination thereof did not violate any prohibitive provisions of the PRC laws; and (ii) it is unlikely that we will be penalized as a result of the Entrustment Arrangements.

Upon the completion of the 2019 Capital Increase and the 2019 Share Transfers, the shareholding structure of our Company was as follows:

Shareholders	Number of Shares held	Approximate shareholding percentage
Ms. Du	11,383,660	18.97%
Ms. Wang	8,328,599	13.88%
Guangzhou Tiansu	4,968,000	8.28%
Ms. Shi Ailing	3,857,537	6.43%
Jingmai New Industry	2,700,000	4.50%
Kaiyi Hengzheng	2,250,000	3.75%
Dr. Zheng Wenping	2,250,000	3.75%
Ms. Xu Weixian	2,189,612	3.65%
Ms. Yang Xiu	1,809,989	3.02%
Mr. Shi	1,677,760	2.80%
Fusi Investment	1,620,000	2.70%
Junquan Xinben	1,500,000	2.50%
Mr. Zhou Rongchang	1,232,761	2.05%
Ms. Xiao Minghuan	810,153	1.35%
Ms. Li Congmei	802,533	1.34%
Ms. Li Zhumei	720,156	1.20%
Mr. Hua Laoer	715,474	1.19%
Other Shareholders(1)	11,183,766	19.64%
Total	60,000,000	100.00%

(1) including other 45 Shareholders, each of whom held less than 1.00% of the equity interest in our Company at relevant time.

(3) The 2021 Capital Increase and Share Transfers

To enable our Directors and senior management to share the benefits of our business development and to provide incentive, Guangzhou Wujin Investment Partnership (Limited Partnership) (廣州烏金投資合夥企業(有限合夥)) ("Guangzhou Wujin") was established as our employee shareholding platform in the form of a limited partnership on September 18, 2021 under the PRC laws. As of the Latest Practicable Date, Mr. Zhang Muheng (our executive Director) held approximately 16.67% of the partnership interest in Guangzhou Wujin and acted as the general partner; and Ms. Wang, Ms. Shi Yijing (our executive Director), Mr. Liu Jiajie (our executive Director) and Ms. Yang Lihua (楊麗華) (our chief financial officer), each acting as a limited partner, held 33.33%, 16.67%, 16.67% and 16.67% of the partnership interest in Guangzhou Wujin, respectively. According to the partnership agreement of Guangzhou Wujin, the voting rights attaching to the Shares held by Guangzhou Wujin are exercised by Mr. Zhang Muheng, acting as the sole general partner. The partnership agreement of Guangzhou Wujin provides that, among others, (i) the execution of partnership affairs of Guangzhou Wujin is solely vested in the general partner who has the authority to represent Guangzhou Wujin; (ii) the joining of any third party as a new general or limited partner of Guangzhou Wujin shall be subject to unanimous consent of all existing partners and execution of the written joinder agreement to the partnership agreement; (iii) an existing general or limited partner may withdraw from Guangzhou Wujin under the circumstances as specified in Articles 45 of the Partnership Enterprise Law of the PRC (中華人民共和國合夥企業法); (iv) an existing general partner shall withdraw from Guangzhou Wujin under the circumstances as specified in Article 48 of the Partnership Enterprise Law of the PRC, while an existing limited partner shall withdraw from Guangzhou Wujin if any event under items (1), (3), (4) and (5) of paragraph 1 of Article 48 of the Partnership Enterprise Law of the PRC occurs; and (v) Guangzhou Wujin's profits and/or liabilities, if applicable, shall be distributed among all its partners proportionate to their respective paid-in capital contribution in Guangzhou Wujin.

Pursuant to the capital increase agreement dated September 27, 2021 between our Company and Guangzhou Wujin, Guangzhou Wujin agreed to subscribe for 3,000,000 Shares at the price of RMB10.0 per Share and in consideration of RMB30.0 million in aggregate, out of which RMB3.0 million was contributed to our registered capital and the remaining RMB27.0 million was credited to our capital reserve (the "2021 Capital Increase"), respectively. The consideration was determined with reference to the business development and future prospects of our Company and having taken into account the contributions of the relevant Directors and senior management and fully settled in October 2021.

In September 2021, our certain then Shareholders transferred their Shares to several financial investors to receive investment returns (the "2021 Share Transfers"). The considerations under the 2021 Share Transfers were determined with reference to the valuation report issued by an independent third-party valuer, the financial position, future prospects and profitability of our Company and based on arm's length negotiation, and were fully settled in October 2021. The details of the 2021 Share Transfers were as follows:

Name of the Transferor	Number of Shares transferred	Consideration	Name of the Transferee
		(RMB)	
Ms. Xu Weixian	949,612	15.2 million	Foshan Huijia Industrial Co., Ltd. (佛山市薈嘉實業有限公司) ("Foshan Huijia")
Mr. Zhang Xiaote (張小特)	78,960	1.3 million	Kaiyi Hengzheng
Mr. Zhang Ming (張明)	33,376	0.5 million	
Ms. Huang Xiaobai (黃小白)	88,911	1.4 million	
Ms. Li Zhumei	200,156	3.2 million	
Mr. Li Shiqing (李仕清)	34,367	0.5 million	
Ms. Zhang Namu (張娜母)	105,077	1.7 million	
Ms. Li Yunfeng (李雲鳳)	46,435	0.7 million	
Mr. Li Jianbo (李健波)	29,465	0.5 million	Pingyang Junquan Shenshi Equity Investment Partnership (Limited Partnership) (平陽浚泉慎始股權投資合夥企業) (有限合夥) ("Junquan Shenshi")
Ms. Zhao Huiqiong (趙惠瓊)	103,389	1.7 million	
Ms. Luo Qiongfang (羅瓊芳)	132,418	2.1 million	
Ms. Yang Mingxiu (楊明秀)	90,561	1.4 million	
Mr. Luo Guangming	181,426	2.9 million	
Mr. Zhu Junping (朱俊呼)	32,820	0.5 million	
Mr. Zhang Debin (張德彬)	127,303	2.0 million	Xinyu Xinzhonghe Investment Management Center (Limited Partnership) (新余信中合投資管理中心) (有限合夥) ("Xinyu Xinzhonghe")
Mr. Zhang Pinggang (張平剛)	148,123	2.4 million	
Mr. Wang Wenguang (王文光)	104,592	1.7 million	
Ms. Li Yufang (李玉芳)	81,833	1.3 million	

Name of the Transferor	Number of Shares transferred	Consideration	Name of the Transferee
		(RMB)	
Ms. Yang Xiu	12,718	0.2 million	Kaiyi Hengzheng
	29,921	0.5 million	Junquan Shenshi
	138,149	2.2 million	Xinyu Xinzhonghe
	78,260	1.3 million	Foshan Huijia
	12,160	0.2 million	Dr. Zheng Wenping
Mr. Luo Zhongfa (羅忠發)	60,693	1.0 million	Dr. Zheng Wenping
Mr. Hua Yuxiang	265,474	4.2 million	
Ms. Li Congmei (李從妹)	102,533	1.6 million	
Ms. Ouyang Ya (歐陽婭)	159,140	2.5 million	
Mr. Chen Guangrong (陳光榮)	100,857	1.6 million	Pu'er Guming Management Partnership (Limited Partnership) (普洱古茗管理合夥企業) (有限合夥) ("Pu'er Guming")(1)
Ms. Huang Jinglian (黃景蓮)	113,032	1.8 million	
Mr. Li Jianrong (李建榮)	25,336	0.4 million	
Ms. Li Meifen	203,984	3.3 million	
Ms. Xiong Zhongyu (熊忠玉)	118,010	1.9 million	
Ms. Yang Xiu	38,781	0.6 million	
Fusi Investment	1,620,000	25.9 million	Mr. Wu Zhize

(1) With a view to strengthening the cooperation with our Group and sharing the benefits from our development, our certain business partners, who act as the limited partners of Pu'er Guming, established Pu'er Guming as a shareholding platform to hold their interest in our Company, with Ms. Yang Lihua (our chief financial officer) acting as the sole general partner. To the best knowledge of our Directors after making reasonable enquiries, Pu'er Guming was controlled by Ms. Yang Lihua, who in turn held 0.10% of the partnership interest in Pu'er Guming, as of the Latest Practicable Date. The remaining partnership interest was held as to 14.90% by Mr. Ke Aihua (科哎華), 10.00% by Mr. Yan Yituan (巖依團), 10.00% by Mr. Yan Zaiban (巖在版), 10.00% by Mr. Yan Yikan (巖依砍), 10.00% by Mr. Zhao Jiagang (趙加剛), 10.00% by Mr. Zhou Tianhua (周天華), 10.00% by Mr. Yang Hua (楊華), 5.00% by Mr. Yan Zaidi (巖在迪), 5.00% by Mr. Yan Yien (巖依恩), 5.00% by Mr. Yan Sailuan (巖賽亂), 5.00% by Mr. Nan Haiming (南海明) and 5.00% by Mr. Fu Yu (付宇). Except for Ms. Yang Lihua and Mr. Fu Yu (a local businessman principally engaged in tea business), other partners of Pu'er Guming are key members of tea leaf cooperatives which are our rough tea leaves suppliers.

For details of Foshan Huijia, Junquan Shenshi, Xinyu Xinzhonghe, Pu'er Guming and Mr. Wu Zhize and their investments, see "— [REDACTED] Investments." Upon completion of the 2021 Capital Increase and the 2021 Share Transfers and as of the Latest Practicable Date, the shareholding structure of our Company was as follows:

Shareholders	**Number of Shares held**	**Shareholding percentage**
Ms. Du	11,383,660	18.07%
Ms. Wang	8,328,599	13.22%
Guangzhou Tiansu	4,968,000	7.89%
Ms. Shi Ailing	3,857,537	6.12%
Guangzhou Wujin	3,000,000	4.76%
Kaiyi Hengzheng	2,850,000	4.52%
Dr. Zheng Wenping	2,850,000	4.52%
Jingmai New Industry	2,700,000	4.29%
Mr. Shi	1,677,760	2.66%
Mr. Wu Zhize	1,620,000	2.57%
Ms. Yang Xiu	1,500,000	2.38%
Junquan Xinben	1,500,000	2.38%
Ms. Xu Weixian	1,240,000	1.97%
Mr. Zhou Rongchang	1,232,761	1.96%
Foshan Huijia	1,027,872	1.63%
Ms. Xiao Minghuan	810,153	1.29%
Ms. Li Congmei	700,000	1.11%
Pu'er Guming	600,000	0.95%
Junquan Shenshi	600,000	0.95%
Xin'yu Xinzhonghe	600,000	0.95%
Others(1)	9,953,658	15.81%
Total	**63,000,000**	**100.00%**

(1) the remaining share capital was owned by other 48 Shareholders, including 0.93% by Mr. Su Yunchang, 0.83% by Ms. Li Zhumei, 0.71% by Mr. Hua Yuxiang, 0.69% by Ms. Zhong Qinfan (鐘琴番), 0.67% by Ms. Xiao Minghui (肖明惠), 0.67% by Ms. Zhao Huiqiong, 0.63% by Ms. Luo Qiongfang, 0.59% by Ms. Bao Meizhen, 0.55% by Mr. Xu Jianhe (許建和), 0.54% by Mr. Liao Jiusheng, 0.49% by Ms. Bao Wenjin, 0.49% by Mr. Wang Wenguang, 0.46% by Mr. Du Zuogang (杜作綱), 0.45% by Ms. Tao Qifen, 0.45% by Ms. Li Lanying (李蘭英), 0.44% by Ms. Li Meifen, 0.42% by Mr. Fan Kaiyuan, 0.37% by Ms. Yang Haiyan (楊海燕), 0.32% by Ms. Ouyang Ya, 0.32% by Ms. Zhang Namu, 0.27% by Ms. Huang Jinglian, 0.26% by Ms. Li Hua (李華), 0.24% by Ms. Li Meifang (李美芳), 0.24% by Mr. He Zhi, 0.24% by Mr. Luo Guangming, 0.24% by Ms. Yang Mingxiu, 0.24% by Ms. Li Yufang. 0.23% by Mr. Li Guangxin (李光新), 0.21% by Mr. Luo Zhonghong, 0.20% by Ms. Luo Cuilan (羅翠蘭), 0.20% by Ms. Chen Xiuru (陳秀茹), 0.19% by Mr. Peng Junyu (彭俊瑜), 0.19% by Ms. Xiong Zhongyu. 0.19% by Ms. Wang Ya (王婭), 0.19% by Ms. Zhu Meixuan, 0.17% by Mr. Li Jianrong, 0.16% by Ms. Li Yunfeng, 0.16% by Mr. Li Shiqing, 0.16% by Mr. Zhang Ming, 0.16% by Mr. Zhang Pinggang, 0.16% by Mr. Zhu Junping, 0.14% by Mr. Li Jianbo (李健波), 0.10% by Mr. Zhang Xiaote, 0.10% by Mr. Luo Zhongfa, 0.07% by Mr. Wang Wenxing (王文興), 0.05% by Ms. Huang Xiaobai, 0.02% by Mr. Zhang Debin and 0.01% by Ms. Zha Guiqiong.

Incorporation of joint ventures and non-wholly-owned subsidiaries with local business partners

To strengthen our cooperation with our local business partners and better leverage their networks and resources to facilitate our business expansion, since the second half of 2020, we have strategically incorporated joint ventures, which are accounted for as our non-wholly-owned subsidiaries, with certain local business partners. To the best knowledge of our Directors after making reasonable enquiries, such local business partners and minority shareholders at the subsidiary level are Independent Third Parties (except for their interest in such subsidiaries of our Company and their directorship, supervisorship or position as chief executive (as the case may be) at such subsidiaries). The table below sets forth their identities and the details of their interest as of the Latest Practicable Date:

Name of the subsidiary	Name of the minority shareholder(s)	Principal business of the minority shareholder(s)	The shareholding of the minority shareholder(s)	The way by which the minority shareholder(s) holds/hold the interest
Yixing City Langu Gongfang E-commerce Co., Ltd. (宜興市瀾古工坊電子商務有限公司)	Mr. Zhang Zihao (張子豪)	Sales of tea wares	20.00%	capital contribution upon the incorporation
Shenzhen City Langu Industrial Innovation Co., Ltd. (深圳市瀾古工業創新有限公司)	Shenzhen City Jiaguwen Creative Design Co., Ltd. (深圳市甲古文創意設計有限公司)	Industrial design	40.00%	capital contribution upon the incorporation
Chengdu Hekang Langu Tea Co., Ltd. (成都和康瀾古茶葉有限公司)	Chengdu Shiyu Shuangcheng Corporate Management Center (Limited Partnership) (成都詩煜雙成企業管理中心) (有限合夥)(1)	Sales of tea products	49.00%	capital contribution upon the incorporation
Chengdu Heya Langu Tea Co., Ltd. (成都和雅瀾古茶葉有限公司)	Chengdu Chenyun Jingya Cultural Communication Co., Ltd. (成都陳韻靜雅文化傳播有限公司)	Teahouse operation	20.00%	capital contribution upon the incorporation
Hefei Canggan Tea Co., Ltd. (合肥滄柑茶葉有限公司) ("Hefei Canggan")	Ms. Ding Xinhui (丁新薈)(2)	Sales of tea products	30.00%	capital contribution upon the incorporation and equity acquisition(3)

Name of the subsidiary	Name of the minority shareholder(s)	Principal business of the minority shareholder(s)	The shareholding of the minority shareholder(s)	The way by which the minority shareholder(s) holds/hold the interest
Henan Delan Tea Co., Ltd. (河南德瀾茶業有限公司) ("Henan Delan")	Mr. Li Yang (李陽)	Commercial sports operation	30.00%	equity acquisition(4)

(1) As of the Latest Practicable Date, Chengdu Shiyu Shuangcheng Corporate Management Center (Limited Partnership) (成都詩煜雙成企業管理中心) (有限合夥) was owned as to 50.00% by Mr. Gui Junchuan (歸俊川) as the general partner and 50.00% by Ms. Yang Xinai (楊新愛) as the limited partner. As of the Latest Practicable Date, Mr. Gui Junchuan and Mr. Gui Suchuan (歸素川), the husband of Ms. Yang Xinai equally owned a distributor of us in Chengdu. In addition, Mr. Gui Suchuan controlled another distributor of us in Chengdu.

(2) As of the Latest Practicable Date, Ms. Ding Xinhui owned a former distributor of us in Hefei whose distributorship was terminated upon mutual agreement in January 2022.

(3) Ms. Ding Xinhui held equity interest in Hefei Canggan as to 9.00% upon its incorporation on December 31, 2020. On April 2, 2021. Guangzhou Kangrui and Ms. Ding Xinhui entered into an equity transfer agreement, pursuant to which Guangzhou Kangrui agreed to transfer its 41.00% equity interest in Heifei Canggan to Ms. Ding Xinhui. On August 10, 2021, Ms. Ding further transferred her 20.00% equity interest in Hefei Canggan to Shenzhen Langu Brand Management Industry Co., Ltd. (深圳瀾古品牌管理實業有限公司), a wholly-owned subsidiary of our Company.

(4) On December 13, 2021, Mr. Li Yang acquired 30.00% equity interest in Henan Delan from a then local business partner and shareholder of Henan Delan.

For details of the ultimate beneficial owner(s) of each of such local business partners and minority shareholders at the subsidiary level, see "—Corporate Structure."

ACTING IN CONCERT

Over the course of our business history, Ms. Du and Ms. Wang have been acting in concert with each other in respect of the management and operation of our Group. On February 18, 2018, Ms. Du and Ms. Wang entered into an acting-in-concert agreement which was amended and restated in light of the [REDACTED] and to streamline our corporate governance on April 16, 2022, to formally record the historical acting-in-concert arrangements and confirm that they will act in concert at the Board meetings and the general meetings of our Company until and unless they cease to hold any Shares or a position as a Director (as the case may be). In the event where Ms. Du and Ms. Wang fail to reach a consensus, the voting rights subject to the acting in concert shall be exercised in accordance with the direction of our chairperson of the Board.

MATERIAL ACQUISITIONS AND DISPOSALS

During the Track Record Period and as of the Latest Practicable Date, we did not conduct any material acquisition or disposal.

[REDACTED] INVESTMENTS

To fund our rapid business expansion and diversify our shareholder base, we have conducted several [REDACTED] Investments, which benefits us in various respects, including, among others, the capital funds they invested as well as their business resources, networks, knowledge and experience.

The table below sets forth a summary of the shareholding of our [REDACTED] Investors in our Company immediately prior to [REDACTED]:

Our [REDACTED] Investors(1)	Shares subscribed for on February 28, 2018	Shares subscribed for on September 4, 2019	Shares acquired on September 24 and September 27, 2021	Total number of Shares held by our [REDACTED] Investors	Shareholding percentage in our Company immediately prior to [REDACTED]	Shareholding percentage in our Company upon [REDACTED](2)
Jingmai New Industry	2,700,000	—	—	2,700,000	4.29%	[REDACTED]
Kaiyi Hengzheng	—	2,250,000	600,000	2,850,000	4.52%	[REDACTED]
Dr. Zheng Wenping	—	2,250,000	600,000	2,850,000	4.52%	[REDACTED]
Junquan Xinben	—	1,500,000	—	1,500,000	2.38%	[REDACTED]
Foshan Huijia	—	—	1,027,872	1,027,872	1.63%	[REDACTED]
Junquan Shenshi	—	—	600,000	600,000	0.95%	[REDACTED]
Xinyu Xinzhonghe	—	—	600,000	600,000	0.95%	[REDACTED]
Pu'er Guming	—	—	600,000	600,000	0.95%	[REDACTED]
Mr. Wu Zhize	—	—	1,620,000	1,620,000	2.57%	[REDACTED]
Total	**2,700,000**	**6,000,000**	**5,647,872**	**14,347,872**	**22.77%**	**[REDACTED]**

(1) See "— [REDACTED] Investments — Information regarding Our Principal [REDACTED] Investors" for details of our [REDACTED] Investors and their relationships with our Group and our connected persons.

(2) Assuming no exercise of [REDACTED].

Principal Terms of the [REDACTED] Investments

The table below summarizes the principal terms of the [REDACTED] Investments:

Name of [REDACTED] Investors	Date of agreement	Settlement date	Number of Shares subscribed for/ acquired	Total consideration	Cost per share paid	Discount to [REDACTED][(1)]
				(RMB)	*(RMB)*	*(%)*
Jingmai New Industry	February 28, 2018	March 26, 2018	2,700,000	15.8 million	5.83	[REDACTED]
Kaiyi Hengzheng	September 4, 2019	October 16, 2019	2,250,000	29.9 million	13.3	[REDACTED]
	September 24, 2021	September 29, 2021	600,000	9.4 million	16.0	[REDACTED]
Dr. Zheng Wenping	September 4, 2019	October 16, 2019	2,250,000	29.9 million	13.3	[REDACTED]
	September 24, 2021	September 30, 2021	600,000	9.4 million	16.0	[REDACTED]
Junquan Xinben	September 4, 2019	October 16, 2019	1,500,000	20.0 million	13.3	[REDACTED]
Foshan Huijia	September 24, 2021	September 27, 2021	1,027,872	16.4 million	16.0	[REDACTED]
Junquan Shenshi	September 24, 2021	October 21, 2021	600,000	9.6 million	16.0	[REDACTED]
Xinyu Xinzhonghe	September 24, 2021	October 8, 2021	600,000	9.6 million	16.0	[REDACTED]
Pu'er Guming	September 27, 2021	September 29, 2021	600,000	9.6 million	16.0	[REDACTED]
Mr. Wu Zhize	September 24, 2021	September 28, 2021	1,620,000	25.9 million	16.0	[REDACTED]

(1) The discount to [REDACTED] is calculated based on the assumption that [REDACTED] is HK$[REDACTED] per H Share, being the mid-point of the indicative [REDACTED] range of HK$[REDACTED] to HK$[REDACTED] per H Share, and assuming that [REDACTED] is not exercised.

Use of Proceeds from the [REDACTED] Investments

As of the Latest Practicable Date, the net proceeds from the [REDACTED] Investments (other than the transfers of Shares between our Shareholders where our Group did not receive any proceed) has been fully utilized for our general operation and business development.

Lock-up Period

Pursuant to the applicable PRC laws, within the 12 months following the [REDACTED], all existing Shareholders (including our [REDACTED] Investors) shall not dispose of any of the Shares held by them.

Public Float

Upon completion of [REDACTED] (assuming [REDACTED] is not exercised), the Shares held by our [REDACTED] Investors will not be considered as part of the public float, as the Shares held by them are Domestic Shares which will not be converted into H Shares or [REDACTED] immediately following the completion of [REDACTED]. Therefore, our public float upon the completion of [REDACTED] (assuming [REDACTED] is not exercised) will only include our H Shares held by our public H Shareholders, representing [REDACTED]% of our total issued share capital.

Special Rights of Our [REDACTED] Investors

As of the Latest Practicable Date, none of our [REDACTED] Investors is entitled to any special rights under their respective [REDACTED] Investment.

Information regarding Our Principal [REDACTED] Investors

Set out below is a description of our principal [REDACTED] Investors that have made meaningful investments in our Company (each holding more than 1.00% of our registered share capital immediately prior to [REDACTED]). To the best knowledge of our Directors after making reasonable enquiries, such investors and their respective ultimate beneficial owners are independent third parties.

Jingmai New Industry

Jingmai New Industry was established as a limited partnership on February 13, 2018 under the PRC laws. As of the Latest Practicable Date, Jingmai New Industry was owned as to 60.00% and ultimately controlled by its sole general partner, Ms. Wang Wanling (王婉玲) and as to 30.00% and 10.00% by its limited partners Ms. Yang Yan (楊燚) and Mr. Zhang Longping (張龍平), respectively. Jingmai New Industry is primarily engaged in industrial investment.

Kaiyi Hengzheng

Kaiyi Hengzheng was established as a limited partnership on July 13, 2016 under the PRC laws. As of the Latest Practicable Date, Kaiyi Hengzheng was controlled by its general partner, Guotou Chuangying (Beijing) Funds Management Co., Ltd. (國投創贏(北京)基金管理有限公司). Guotou Chuangying (Beijing) Funds Management Co., Ltd. was owned as to 42.86% by Mr. Wu Jian (吳劍), as to 28.57% by Ms. Gu Yonghong (顧永紅) and as to 28.57% by Beijing Jingke Tongchuang Enterprise Management Partnership (Limited Partnership) (北京京科同創企業管理合夥企業(有限合夥)). Beijing Jingke Tongchuang Enterprise Management Partnership (Limited Partnership) was owned as to 70.00% by Ms. Chen Fangyun (陳方雲) and as to 30% by Ms. Chen Fangling (陳方凌). As of the Latest Practicable Date, there was no limited partner who controlled more than 30.00% of the limited partnership interest in Kaiyi Hengzheng. Kaiyi Hengzheng is primarily engaged in industrial investment.

Junquan Xinben and Junquan Shenshi

Junquan Xinben was established as a limited partnership on August 27, 2019 under PRC laws. As of the Latest Practicable Date, Junquan Xinben was controlled and owned as to 0.05% by its general partner, Pingyang Yuanquan Investment Partnership (Limited Partnership) (平陽源泉投資合夥企業(有限合夥)) ("Pingyang Yuanquan"), which in turn controlled and owned as to 5.00% by Mr. Zhou Xinzhong (周信忠), the sole general partner, and owned by Mr. Fang Xiaobo (方小波), Ms. Su Wenjuan (蘇文娟), Baoxiniao Holding CO., LTD (報喜鳥控股股份有限公司) (a company whose shares are listed on the Shenzhen Stock Exchange (stock code: 002154)), all of whom were the limited partners, as to 55.00%, 22.00% and 18.00%, respectively. The remaining partnership interest in Junquan Xinben were owned as to 46.62% by Ningbo Junquan Zhengze Investment Partnership (Limited Partnership) (寧波浚泉正則投資合夥企業(有限合夥)) ("Ningbo Junquan"), 20.05% by Mr. Chen Shukun (陳樹坤), 15.04% by Mr. Li Tao (李濤), 10.03% by Mr. Xie Ci (謝賜) and 8.22% by Mr. Zhou Xinzhong. Ningbo Junquan was controlled by its general partners, Shanghai Junquanxin Investment Co., Ltd. (上海浚泉信投資有限公司 and Pingyang Yuanquan Investment Partnership (Limited Partnership) (平陽源泉投資合夥企業(有限合夥))), both of which were controlled by Mr. Zhou Xinzhong.

Junquan Shenshi was established as a limited partnership on November 9, 2020 under PRC laws. As of the Latest Practicable Date, Junquan Shenshi was controlled and owned as to 0.03% by its general partner, Pingyang Yuanquan. The remaining partnership interest in Junquan Shenshi was owned as to 46.00% by Mr. Zhou Xinzhong, 16.86% by Mr. Wu Wenzhong (吳文忠), 10.12% by each of Mr. Dong Lingbo (董凌博) and Mr. Lin Dongyong (林東勇) and 3.37% by each of Ms. Lu Dongmei (盧冬梅), Ms. Lu Enqin (盧恩琴), Mr. Li Duwei (李篤維), Mr. Chen Huanhui (陳煥輝) and Ms. Zheng Xiaoman (鄭筱曼).

Accordingly, as of the Latest Practicable Date, each of Junquan Xinben and Junquan Shenshi was ultimately controlled by Mr. Zhou Xinzhong. Junquan Xinben is primarily engaged in industrial and venture investment. Junquan Shenshi is primarily engaged in equity investment.

Foshan Huijia

Foshan Huijia was incorporated as a company with limited liability on July 29, 2019 under the PRC laws. As of the Latest Practicable Date, Foshan Huijia was owned as to 95.00% by Foshan Qihui Commerce Co., Ltd. (佛山市騏慧商貿有限公司) and 5.00% by Foshan Lvneng Guanli Technology Co., Ltd. (佛山綠能冠力科技有限公司) (formerly known as Foshan Hongfan Technology Co., Ltd. (佛山虹帆科技有限公司)). Foshan Qihui Commerce Co., Ltd. was owned as to 60.00% by Mr. Ye Jingzhong (葉鏡忠) and 40.00% by Mr. Mo Wenyi (莫文藝). Foshan Lvneng Guanli Technology Co., Ltd. was owned as to 60.00% by Ms. Zhang Suwen (張素雯) and 40.00% by Mr. Chen Jingjin (陳敬津). Accordingly, as of the Latest Practicable Date, Foshan Huijia was ultimately controlled by Mr. Ye Jingzhong. Foshan Huijia is primarily engaged in domestic trade.

Dr. Zheng Wenping

Dr. Zheng Wenping (鄭文平) has extensive experience in venture investment. Dr. Zheng currently serves as a director at Zhejiang Guoxin Investment Management Co., Ltd. (浙江國信投資管理有限公司), a company focusing on venture investments. Dr. Zheng also formerly worked at the Research Institute of Finance and Banking, People's Bank of China (中國人民銀行金融研究所). Dr. Zheng holds a doctorate degree in economics granted by Chinese Academy of Social Sciences (中國社會科學院).

Mr. Wu Zhize

Mr. Wu Zhize (吳志澤) has extensive experience in corporate management and investment. Mr. Wu founded Baoxiniao Holding CO., LTD, a company primarily engaged in the development, production and sales of apparel products in 2001 and currently serves as its chairman and general manager. Mr. Wu obtained an executive master of business administration from Cheung Kong Graduate School of Business (長江商學院).

Compliance with Interim Guidance and Guidance Letters

Based on the documents provided by the Company relating to the [REDACTED] investments, the Joint Sponsors are of the view that the [REDACTED] investments are in compliance with the Guidance Letter HKEX-GL29–12 issued by the Stock Exchange in January 2012 and as updated in March 2017, the Guidance Letter HKEX-GL43–12 issued by the Stock Exchange in October 2012 and as updated in July 2013 and March 2017 and the Guidance Letter HKEX-GL44–12 issued by the Stock Exchange in October 2012 and as updated in March 2017.

PRC Legal Advisor's Confirmation

As advised by our PRC Legal Advisor, the equity transfers and increases in the register capital in respect of our Company and our Company's principal subsidiaries as described above have been duly completed, and all necessary consents, approvals, authorizations and permissions required to be obtained for such equity transfers and increases in the register capital have been obtained. Our Group has complied with all PRC laws and regulations that applicable to the [REDACTED] investments.

PREVIOUS APPLICATION FOR LISTING ON THE SHENZHEN STOCK EXCHANGE

Our Company entered into a tutoring agreement with Huachuang Securities Co., Ltd. (華創證券有限責任公司) on December 16, 2019 and submitted an application for listing of our Shares on the Shenzhen Stock Exchange on June 22, 2020 (the "A-share Listing Application"). Due to the uncertain listing timetable in light of the overall A-share vetting process and the then unfavorable market condition, and considering that [REDACTED] on the Stock Exchange would provide us with an international platform to gain access to foreign capital and to promote us to overseas investors, on June 2, 2021, we withdrew our A-share Listing Application and decided to seek a [REDACTED] of our Shares on the Stock Exchange to expedite our [REDACTED]. The A-share Listing Application had not been returned or rejected by the CSRC and remained valid prior to our withdrawal. During the process of the A-share Listing Application, save for the reason as disclosed above, we did not encounter any material difficulties or legal impediments which led us to exit the A-share Listing Application.

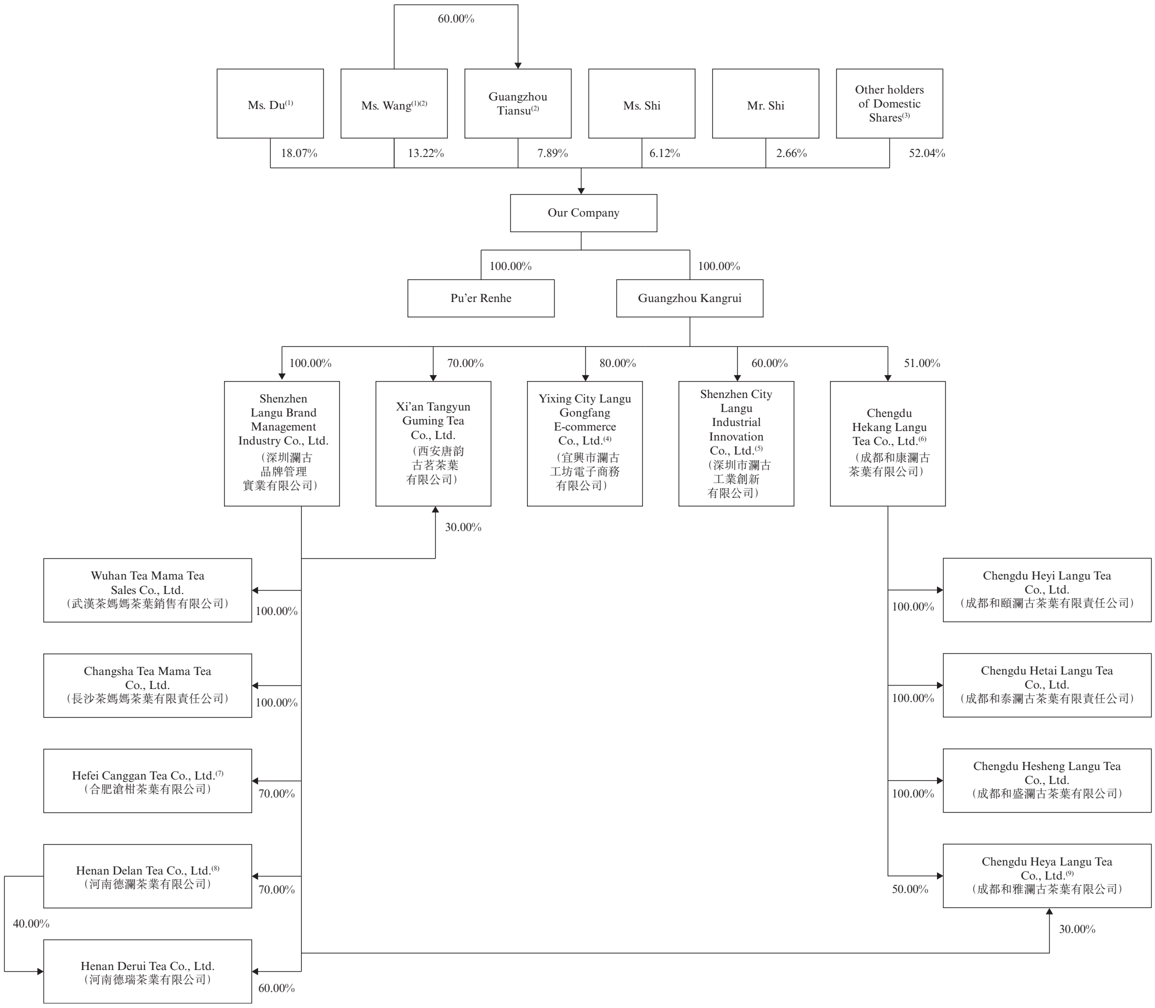
To the best of our Directors' knowledge, our Directors are not aware of (i) any other matters relating to the proposed A-share Listing Application that are relevant to [REDACTED] and should be reasonably highlighted in this document for investors to form an informed assessment of our Company; (ii) any enquiries from the CSRC or Huachuang Securities Co., Ltd. (our tutoring institution in connection with the A-share Listing Application) relating to the proposed A-share Listing Application that would affect our Company's suitability for [REDACTED] on the Stock Exchange; (iii) any other matters relating to the proposed A-share Listing Application that may have implications on our Company's suitability for [REDACTED] on the Stock Exchange or on the truthfulness, accuracy and completeness of information disclosed in this document; and (iv) any other matters that need to be brought to the attention of the Stock Exchange and investors in Hong Kong in relation to the proposed A-share Listing Application.

Save as disclosed above, the Joint Sponsors are not aware of any material matters relating to the A-share Listing Application that need to be brought to the attention of the Stock Exchange based on the independent due diligence work performed by the Joint Sponsors.

We plan to resume our listing attempt on a domestic stock exchange at an appropriate time after at least six months upon [REDACTED], subject to the requirements of the Listing Rules. Notwithstanding the foregoing, there is no assurance that we will conduct an A share initial public offering in the future.

CORPORATE STRUCTURE

The following chart sets forth our simplified corporate structure immediately prior to [REDACTED]:



(1) See "— Acting in Concert" for details of the acting-in-concert arrangements between Ms. Du and Ms. Wang.

(2) As of the Latest Practicable Date, Guangzhou Tiansu was owned as to 60.00% and 40.00% by Ms. Wang and Mr. Zhang Muheng, respectively, and was therefore controlled by Ms. Wang.

(3) As of the Latest Practicable Date, 63 other Shareholders each held less than 5.00% shareholding of our Company. See "— Major changes in our Company's shareholding structure and registered capital — (3) The 2021 Capital Increase and Share transfers" for details.

(4) As of the Latest Practicable Date, Yixing City Langu Gongfang E-commerce Co., Ltd. was owned as to 80.00% by Guangzhou Kangrui and as to 20.00% by Mr. Zhang Zihao (張子豪), an independent third-party (except his interest in Yixing City Langu Gongfang E-commerce Co., Ltd.).

(5) As of the Latest Practicable Date, Shenzhen City Langu Industrial Innovation Co., Ltd. was owned as to 60.0% by Guangzhou Kangrui and as to 40.00% by Shenzhen City Jiaguwen Creative Design Co., Ltd. (深圳市甲古文創意設計有限公司) ("Shenzhen Jiaguwen"). Mr. Liu Wen (劉文) is the controlling shareholder of Shenzhen Jiaguwen and held 38.84% and 6.59% of the equity interest in Shenzhen Jiaguwen directly and through two intermediatory shareholding entities, respectively, as of the Latest Practicable Date. Mr. Li Ming (李明) is a substantial shareholder of Shenzhen Jiaguwen and held 16.60% of the equity interest in Shenzhen Jiaguwen through an intermediatory shareholding entity as of the Latest Practicable Date. The remaining equity interest was held by 11 minority shareholders, who are either venture capital funds or individual investors, and none of them held more than 10.00% equity interest in Shenzhen Jiaguwen, as of the Latest Practicable Date.

(6) As of the Latest Practicable Date, Chengdu Hekang Langu Tea Co., Ltd. was owned as to 51.00% by Guangzhou Kangrui and as to 49.00% by Chengdu Shiyu Shuangcheng Corporate Management Center (Limited Partnership) (成都詩煜雙成企業管理中心) (有限合夥), which in turn was equally owned by Mr. Gui Junchuan (歸俊川) as its sole general partner and Ms. Yang Xinai (楊新愛) as its limited partner, both of whom are independent third-parties (except their interest in Chengdu Hekang Langu Tea Co., Ltd.).

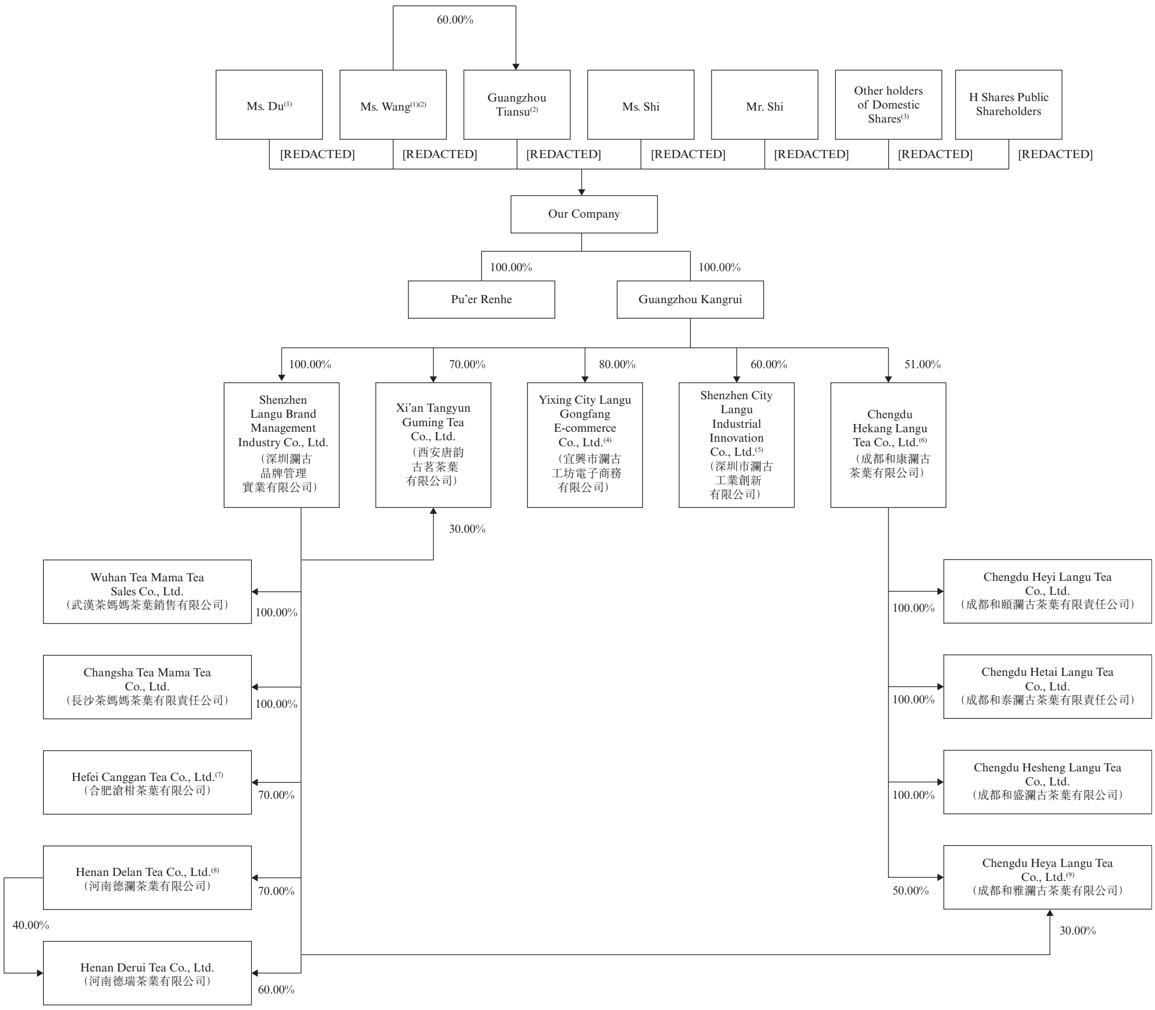
(7) As of the Latest Practicable Date, Hefei Canggan Tea Co., Ltd. was owned as to 70.00% by Shenzhen Langu Brand Management Industry Co., Ltd., our wholly-owned subsidiary, and as to 30.00% by Ms. Ding Xinhui (丁新薈), an independent third-party (except her interest in Hefei Canggan Tea Co., Ltd.).

(8) As of the Latest Practicable Date, Henan Delan Tea Co., Ltd. was owned as to 70.00% by Shenzhen Langu Brand Management Industry Co., Ltd. and as to 30.00% by Mr. Li Yang (李陽), an independent third-party (except his interest in Henan Delan Tea Co., Ltd. and Henan Derui Tea Co., Ltd.).

(9) As of the Latest Practicable Date, Chengdu Heya Langu Tea Co., Ltd. was owned as to 50.00% by Chengdu Hekang Langu Tea Co., Ltd., as to 30.00% by Shenzhen Langu Brand Management Industry Co., Ltd. and as to 20.00% by Chengdu Chenyun Jingya Cultural Communication Co., Ltd. (成都陳韻靜雅文化傳播有限公司), which was in turn owned as to 90.00% by Ms. Chen Yiju (陳義菊) and as to 10.00% by Ms. Chen Lin (陳琳), both of whom are independent third-parties (except their interest in Chengdu Heya Langu Tea Co., Ltd.).

HISTORY AND CORPORATE STRUCTURE

The following chart sets forth our simplified corporate structure immediately after the completion of [REDACTED], without taking into account any H Share which may be issued upon the exercise of [REDACTED]:



(1) to (9) See notes to the corporate structure on pages 157 to 158.

OUR MISSION

We persevere in craftsmanship to pursue the genuine taste and present awesome and wholesome tea leaf products (匠心持守真味，奉獻健康好茶).

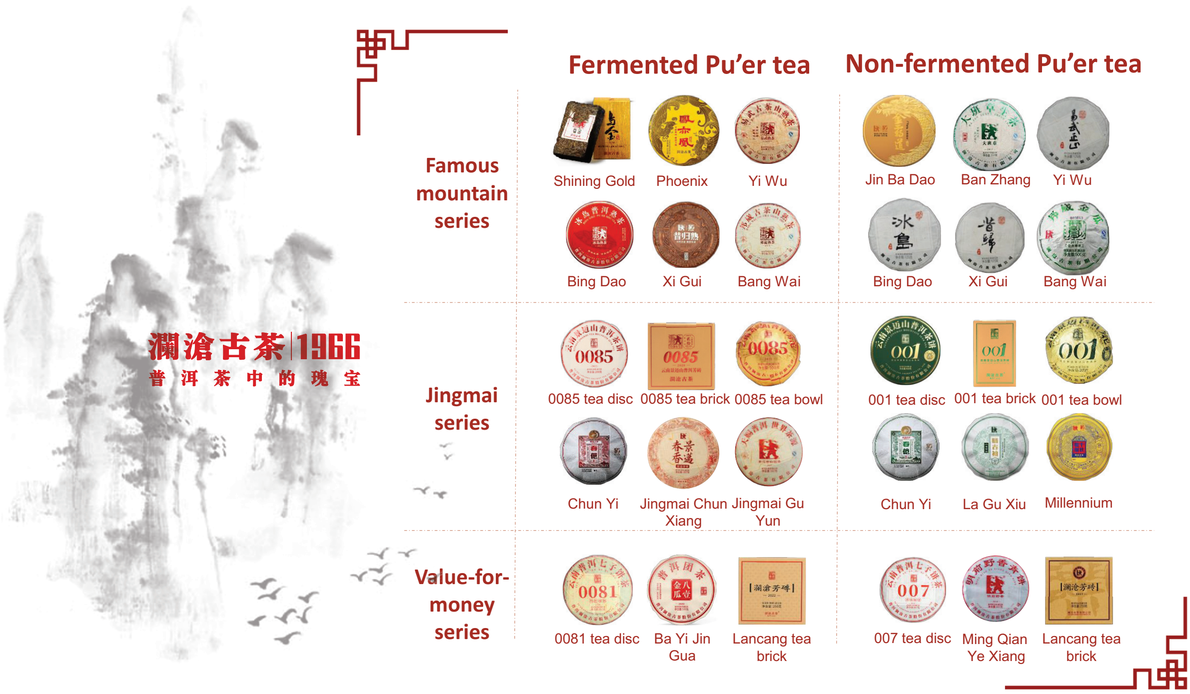
OVERVIEW

We are the third largest Pu'er tea company in China in terms of revenue generated from Pu'er tea products in 2022, according to the F&S Report. With stringent quality requirements running through the entire industrial chain, we are among the very few tea companies in China experienced in raw material management, product development, production, end customer reach and membership services, according to the F&S Report, which we believe set us apart from our competitors. After twenty years of operation, we have established ourselves as one of the most famous Pu'er tea brands in China. We are among the very few tea companies whose products have been included as one of the Top Ten Famous Teas in Yunnan Province for four consecutive years, and our products ranked first in the 2021 list. We are also one of the two tea companies recognized as Yunnan Top 10 Green Food Enterprises by certain provincial government departments including Yunnan Department of Agriculture and Rural Affairs in 2022, and among the few Pu'er tea companies included in the list of Key National Leading Enterprises for Agricultural Industrialization accredited by the Ministry of Agriculture and Rural Affairs of China in 2019.

Tea, a traditional Chinese beverage with a history of several thousands of years and considered beneficial for health, has in recent years gradually reclaimed its glamor from old times. The rising awareness of a healthy lifestyle and the consistently increasing per capita disposable income in China have driven up, and are expected to continue to drive up, the total size of the tea market in China. The market size of China's tea leaf market in terms of revenue increased from RMB240.6 billion in 2017 to RMB331.8 billion in 2022 at a CAGR of 6.6%, and is expected to reach RMB441.2 billion in 2027 at a CAGR of 5.9% from 2022 to 2027; and in particular, the Pu'er tea market in China is expected to increase from RMB17.4 billion in 2022 to RMB24.4 billion in 2027 at a CAGR of 7.0%, according to the F&S Report. Leveraging our brand and market position, we believe we are able to capitalize on the growth opportunity in the relevant markets.

Over twenty years of operation, we have established *Lan Cang Gu Cha* as our core brand, under which we have developed and structured two product lines, *i.e.*, *1966* and *Tea Mama*, and launched a new product line, *Iland Tea*, in July 2022, to meet the various demands from different groups of consumers, such as Pu'er enthusiasts, sophisticated tea drinkers, broader mass consumers, and new middle-class consumers with stronger purchasing power, who are perceived to be more fashionable and more generous to themselves.

To better market different products according to their difference features, we further classified our products under three product lines into various product series. During the Track Record Period, *1966* and *Tea Mama* had been our major sources of revenue. The following chart is an illustration of our product matrix.



Since its origin in Jingmai Mountain, Yunnan Province in the year of 1966, *1966* has focused on the development, manufacturing and sales of classic Pu'er tea leaf products. We have a track record of successful product development and iteration under *1966*. Highly regarded among Pu'er tea enthusiasts, our bedrock products under *1966* include, among others, *Shining Gold*, *0085*, *001*, *0081* and *007*, most of which have been iterated for almost 20 years, which is a rare achievement in the Pu'er tea industry, according to the F&S Report. Based on our industry insights, we are able to introduce to the market each year a multitude of products well received among consumers. *1966* has historically enjoyed stable and sizable growth, serving as the bedrock of our business. During the Track Record Period, the revenue from *1966* was RMB299.1 million, RMB413.9 million, RMB301.4 million, RMB166.0 million and RMB155.2 million for 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively, accounting for 73.8%, 74.1%, 65.1%, 72.7% and 66.9% of the total revenue for each period, respectively. The gross profit from *1966* during the Track Record Period amounted to RMB229.4 million, RMB297.0 million, RMB224.9 million, RMB110.3 million and RMB101.7 million for 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively.

Against the backdrop of rising awareness of a healthy lifestyle and an increasing interest in traditional Chinese tea beverages among the broad mass consumers in China, *Tea Mama* was first introduced to the market as a consumer goods product line in 2014 with a mission to bring motherly love and care to our customers. Leveraging our in-depth understanding of Pu'er tea, we introduced *Little Green Mandarin* under *Tea Mama*, which became one of our hot-selling products soon after its launch in 2015. We are the first tea company in China, according to the F&S Report, to standardize the manufacturing process of the traditional Chenpi Pu'er tea and led the formulation of the food standard of *Xinhui Little Green Mandarin Peel Pu'er Tea*. Moreover, we have capitalized on our rich product development experience in Pu'er tea and applied it to other types of teas, such as black tea, white tea and flavored tea, and creatively employed less traditional but more convenient product forms such as disposable tea cups and tea bags, enriching the product portfolio of *Tea Mama*. During the Track Record Period, the revenue from *Tea Mama* was RMB94.8

million, RMB126.7 million, RMB144.4 million, RMB52.8 million and RMB69.9 million for 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively. During the same period, the gross profit from *Tea Mama* was RMB53.0 million, RMB66.0 million, RMB75.0 million, RMB25.5 million and RMB35.7 million, respectively. With a rich product portfolio, we believe that we have laid a solid foundation for the growth of *Tea Mama*, which is expected to become our next source of growth.

At the same time, with our in-depth industry insights, we believe that we have acutely identified the need among younger consumers for tea products that are both tasty and aesthetically enjoyable and launched *Iland Tea* in July 2022. We strive to build *Iland Tea* into a product line that features quality products, fashionable packaging and convenience in drinking.

We believe the quality of our products is key to our success. The Lancang flavor, which stands for our unique, recognizable and stable flavor feature, is attributable to our ability to source high quality rough tea leaves, our accumulation of unique production techniques and our stringent quality control measures. Harnessing our experience in fermentation and blending, which are the two core manufacturing procedures of Pu'er tea, we have accumulated a wealth of production data and unique production techniques, which allow us to exert control over the flavor of our tea leaf products and ensure stable product quality across different batches of production. Moreover, the vast majority of our tea leaves are sourced from Pu'er, Lincang and Xishuangbanna, the three major production areas of Pu'er tea in Yunnan, and in particular, Jingmai Mountain in Pu'er, which hosts some of the largest, oldest and best-preserved ancient tea tree plantations in the world and is currently nominated to be included in the World Heritage List for the ancient tea tree plantations in the region. According to the F&S Report, we were the largest purchaser of rough tea leaves from ancient tea trees in Jingmai Mountain in terms of procurement volume during the Track Record Period. With years of local presence, we have built strong and stable relationships with over 100 tea leaf cooperatives in major production areas of Pu'er tea in Yunnan. As of June 30, 2023, we had over 3,700 tonnes of rough tea leaves and in-process tea leaves in more than 15 different years stored in our specialized warehouses, which were sourced from tea plantations in major mountains in the three major production areas of Pu'er tea in Yunnan. Underpinned by our strong relationship with suppliers, adequate stock levels and specialized raw material inventory management, we are able to timely respond to constantly evolving market demands and see to the long-term stable production of our products, which may require blending of tea leaves sourced in different years and from different mountains.

In addition, we have established a national sales network, consisting of direct sales network and distributor sales network, which covers substantially all provincial administrative divisions across China. As of the Latest Practicable Date, we had 549 offline stores, among which 23 were self-operated stores and 526 were distributor-operated stores. Approximately 70% of our distributors as of June 30, 2023 had been part of our sales network for more than three years. During the Track Record Period and up to the Latest Practicable Date, we had been continuously making efforts on managing and optimizing our distributor sales network and distributors' overall performance, and at the same time expanded into online sales channels such as stores on e-commerce platforms, such as Tmall, WeChat, Douyin, Kuaishou and JD.com. We have executed certain growth strategies for our e-commerce operations. In particular, we recruited additional talents for our e-commerce team, regularly organized live streaming sessions on major e-commerce platforms, deployed an advanced logistic management system specifically designed for e-commerce operations, and continued to diversify our product matrix and marketed a series of exclusive products targeting Internet consumers. In the six months ended June 30, 2023, 10.3% of our total revenue was from sales made through our self-operated online stores.

COMPETITIVE STRENGTHS

We believe the following competitive strengths have contributed to our success and differentiated us from our competitors:

One of the most famous Pu'er tea brands in China with high growth potential

We are one of the most famous Pu'er tea brands in China, according to the F&S Report. We are the third largest Pu'er tea companies in China in terms of revenue generated from Pu'er tea products in 2022, according to the same source. We are among the very few tea companies whose products have been included as one of the Top Ten Famous Teas in Yunnan Province for four consecutive years, and our products ranked first in the 2021 list. We are also one of the two tea companies recognized as Yunnan Top 10 Green Food Enterprises by Yunnan Department of Agriculture and Rural Affairs in 2022, and among the few Pu'er tea companies included in the list of Key National Leading Enterprises for Agricultural Industrialization accredited by the Ministry of Agriculture and Rural Affairs of China in 2019.

After twenty years of operation, under *Lan Cang Gu Cha*, our core brand, we have developed and structured a comprehensive product architecture consisting of two product lines, *i.e.*, *1966* and *Tea Mama*, and launched a new product line, *Iland Tea*, in July 2022. Such a comprehensive product architecture has enabled us to reach different customer types, such as Pu'er enthusiasts, sophisticated tea drinkers, broader mass consumers and new middle-class consumers, allowing for greater growth potentials. Our revenue increased by 37.8% from RMB405.5 million in 2020 to RMB558.7 million in 2021, while China's Pu'er tea market size in terms of sales revenue increased by 15.6% from 2020 to 2021.

We regularly host events and campaigns to increase consumers' exposure to Chinese tea culture and further enhance our brand awareness. The events and campaigns we host, such as *Journey Home (回家之旅)*, *Red May (紅五月)*, *Chun Yi Tea Master Competition (春億大師賽)*, *Masters in China (大師在中國)* and *Yangcheng Golden Autumn (羊城金秋)*, regularly attract a large number of participants. In particular, we have held the *Journey Home* event for 13 consecutive years by inviting tea enthusiasts across the country to visit Jingmai Mountain, our birthplace, each year in April to participate in traditional tea ceremonies, experience tea making, and visit ancient tea tree plantations, which serves as an important connection between us and tea enthusiasts. *Journey Home* was awarded the prize of Top Ten Model Tea Events (中國茶事様板十佳) at the China International Tea Expo (中國國際茶葉博覽會) in 2018, and was the only tea event organized by a tea company in the list of awards in that year. We were forced to cancel such event in 2022 due to COVID-19.

We seek to maintain and promote our brand awareness with professional marketing and branding services. We have established our Lan Cang Gu Cha Industrial Design Innovation Center, which is one of the leading industrial design innovation centers in China's tea industry according to the F&S Report, to serve our needs for branding and product design and promotion, particularly for *Tea Mama*. Our industrial design innovation center partners with a well known industrial design firm, which is particularly experienced in the industrial designing for food and beverage brands. Leveraging our industrial design innovation center's insights into consumer aesthetics and market trends, we have been able to produce various innovative products under *Tea Mama*, including tea products with various novel packaging forms, electronic tea wares and ergonomic tea utensils.

Unique production techniques and sound research and development capabilities

After years of specialization in the production of Pu'er tea, we have developed a unique set of blending and fermentation processes for our Pu'er tea products. Years of study and tests over tea leaves from various production areas have turned into a wealth of production data in blending and fermentation, enabling us to exert control over the temperature and humidity during the fermentation of tea leaves and blend tea leaves from different years and different production areas into a new generation of tea leaf products with stable flavors across different generations. The unique and recognizable Lancang flavor speaks for our unique production techniques and delicate control over the flavor of our tea leaf products.

Harnessing our advantage in production techniques, we are able to develop a series of bedrock products under *1966* highly regarded in the Pu'er tea industry, including, among others, *Shining Gold*, *0085*, *001*, *0081* and *007*, most of which have been iterated for almost 20 years, which is a rare achievement in the Pu'er tea industry, according to the F&S Report. Capitalizing on our Pu'er production techniques, we standardized the manufacturing process of the traditional Chenpi Pu'er tea and introduced to the market our *Little Green Mandarin* in 2015, which quickly turned into one of our hot-selling products. Our sound product development capabilities allow us to keep innovating and bring forth novel flavors such as jasmine Pu'er tea, ginseng Pu'er and ginger Pu'er, or tea leaf products in more convenient and portable product forms such as disposable tea cups and tea bags. Innovation in flavors and product forms allows us to cater to the evolving demands of various customer types and enables us to expand into the fast-moving consumer goods market.

As of June 30, 2023, our tea production employees had an average of over five years of experience in tea production. We have established a sound talent training system, enabling senior employees to pass on their production techniques to younger employees, ensuring the inheritance of these skills by the next generation. We also work with masters and experts in Pu'er tea to further strengthen our research and development capabilities. In 2020, we set up an academician and expert workstation in collaborations with top Pu'er experts such as Professor Caiyou Lyu at the Tea College of Yunnan Agricultural University in an effort to promote industry-university-research cooperations in China's tea industry and improve our innovation capabilities. Our academician and expert workstation delves into the research and development of tea tree resource protection and the preliminary process for rough tea leaf production. We share our research results with tea leaf cooperatives that have stable relationships with us by regularly organizing training sessions. We believe such practice not only fulfills our social obligations but also helps improve the supply capacity of these tea leaf cooperatives, allowing us to source rough tea leaves with stable quality. In the same year, the Ministry of Human Resources and Social Security of China and the Ministry of Finance of China jointly accredited the in-house studio founded by our technical director, Ms. Meixuan Zhu, as one of the national skill masters' studios.

Unmatched access to high quality raw materials and rich inventory of tea leaves

Stable supply of high quality raw materials is crucial to our business success. The majority of our flagship tea leaf products were made from quality tea leaves sourced from major Pu'er tea production areas, including Jingmai Mountain, which hosts some of the largest, oldest and best-preserved ancient tea tree plantations in the world and is currently nominated to be included in the World Heritage List for the ancient tea tree plantations in the region. According to the F&S Report, we were the largest purchaser of rough tea leaves from ancient tea trees in Jingmai Mountain in terms of procurement volume during the Track Record Period. With years of local presence, we have built strong and stable relationships with over 100 tea leaf cooperatives in Pu'er, Lincang and Xishuangbanna, the three major production areas of Pu'er tea in Yunnan. We provide technical support to our suppliers to help them meet our production and quality requirements to ensure our quality control measures extend into the production of raw materials. In addition, we have maintained long-term cooperation with high-quality ecological tea tree plantations with an aggregate area of over 1,900 mu as of June 30, 2023 to further ensure the stable supply of our raw materials.

We are aware of the importance of sustainable development and protection of ancient tea tree plantations. Therefore, we organized a number of learning activities to enhance the awareness of tea farmers and tea leaf cooperatives on the importance of the conservation of tea tree resources. In 2016, we started to cooperate with the Mangjing Village Committee of Lancang County to conduct pilot conservation program on ancient tea trees in the Mangjing area, and advocated the conservation principle of "maintain before harvest" through subsidies to locals.

Tea leaves grown in different years and different production areas can have different flavors, which can be affected by a number of factors such as precipitation, light, soil and growth cycle of trees. As of June 30, 2023, we had over 3,700 tonnes of rough tea leaves and in-process tea leaves in more than 15 different years stored in our specialized warehouses, which were sourced from tea plantations in major mountains in the three major production areas of Pu'er tea in Yunnan. Such variety in the supply of raw materials has laid a solid foundation for our continued production of flagship products as well as the development of innovative products and success in the competitive market with ever-evolving consumer demands. In addition, our good stock of rough tea leaves and in-process tea leaves can effectively prevent tea leaf spoilage as they could be preserved for decades if properly stored, according to the F&S Report.

Comprehensive sales network with omni-channel reach

We have established a national sales network, consisting of direct sales and distributor sales covering both online and offline channels. We have established offline presences in substantially all provincial administrative divisions across China. As of the Latest Practicable Date, we had 549 offline stores, among which 23 were self-operated stores and 526 were distributor-operated stores. We believe that due to our excellent brand image and outstanding product quality, our distributors tend to maintain a long-term relationship with us. As of June 30, 2023, approximately 70% of our distributors had been part of our sales network for more than three years. During the Track Record Period and up to the Latest Practicable Date, we had been continuously making efforts on managing and optimizing our distributor sales network and distributors' overall performance, as indicated by the number of distributors with per store annual order of over RMB2.0 million, which increased from 26 as of January 1, 2020 to 39 as of December 31, 2022. At the same time, we have expanded into online sales channels such as stores on e-commerce platforms, such as Tmall, WeChat, Douyin, Kuaishou and JD.com. We have executed certain growth strategies for our e-commerce operations. In particular, we recruited additional talents for our e-commerce team, regularly organized live streaming sessions on major e-commerce platforms, deployed an advanced logistic management system specifically designed for e-commerce operations, and continued to diversify our product matrix and marketed a series of exclusive products targeting Internet consumers. In the six months ended June 30, 2023, 10.3% of our total revenue was from sales made through our self-operated online stores.

In our nationwide stores, we provide professional tea tasting services to allow our customers to enjoy premium tea leaf products in a professional tea tasting setting, accommodating their needs for socializing with friends. Teahouses in our stores feature a unified decoration style of oriental elegance and are staffed with professional tea sommeliers to provide our customers with an immersive experience in tea tasting. Tea sommeliers in our stores are well trained to ensure the quality of our tea tasting services across our stores. We have established a well-rounded tea sommelier development system and regularly hold exams and competitions to test their knowledge and skills in tea tasting, tea ceremony and tea culture in general. Tea sommeliers certified by us can receive monetary rewards from us if they pass our internal review. The tea sommelier development system is not only instrumental in promoting tea culture and enhancing our brand image, but also conducive to maintaining a stable retention rate of employees in our stores and enhance sales performance of such stores. As of the Latest Practicable Date, there were 282 tea sommeliers certified by us working at our stores.

In addition, we strategically designate selected stores with large floor areas and location advantage as Urban Lounges (城市會客廳) to increase our brand visibility. Located mostly in busy urban areas in tier-1 cities and new tier-1 cities, Urban Lounges serve as a display window of our culture and brand. As of the Latest Practicable Date, we had designated 38 stores as Urban Lounges. We are committed to the continuing innovation of our retail stores and the enhancement of their value. Our innovation of retail stores as embedded in our Urban Lounges and tea sommelier development system was highly acclaimed in the Chinese Tea Leaf Innovation White Paper 2021.

Stringent quality requirements and craftsmanship in production

We adhere to the craftsmanship spirit of striving for the best. All of our tea leaf products must undergo the same standard production procedures, be it a flagship product, such as *Shining Gold, 0085,* and *001*, or a more affordable product such as *0081* and *007*. We insist on manual sorting as a supplement to machine sieving, which can reduce the impurities left in tea leaves to the greatest extent. We have achieved HACCP and ISO9001 certifications for the rigid quality management system we have adopted. Certain of our raw materials have received major quality certifications including organic production certifications from the European Union and the United States.

We insist on building our production bases close to the production areas of key raw materials so as to avoid the impact of long-distance transportation which may affect the flavor of raw materials. As of the Latest Practicable Date, we had two production bases, both located in Pu'er, Yunnan. Our production base in Lancang is our primary production base, where substantially all tea leaf products under *1966* are manufactured. Our production base in Simao is our secondary production base, which is mostly designed for the production of tea leaf products under *Tea Mama*, including black tea, white tea and flavored tea other than Chenpi Pu'er.

We are often involved in the formulation of industry standards. We standardized the manufacturing process of the traditional Chenpi Pu'er tea, which has now become the industry standard, according to the F&S Report. In 2018, we led and directed the formulation of the food standard of *Xinhui Little Green Mandarin Peel Pu'er Tea*. We were also involved in the promulgation of *Pu'er tea storage technical norms (local standards-DB5308/T 53–2020)* and *Pu'er tea processing technical norms (local standards-DB5308/T 58–2020)*.

Entrepreneurial management laser-focused on our success in the tea leaf industry

Our entrepreneurial management team has been essential in driving the growth of our business. In particular, our leaders, Ms. Chunyi Du and Ms. Juan Wang, are instrumental in our development and business expansion.

Ms. Du, nicknamed "tea mama" by the professionals in the tea industry and the tea enthusiast community for her love and focus on Pu'er tea, has been intimately involved in the Pu'er tea industry for over 55 years. As a renowned craftswoman in Pu'er tea production, she has been indispensable in the capture and preservation of our featured Lancang flavor through the development of our distinct blending and fermentation techniques and standardized production process. She has been recognized as a heart-and-soul figure in the Pu'er tea industry through various awards and recognitions, such as the Global Pu'er Tea Top Ten Outstanding Persons and Tea Horse Award by the 8th China Pu'er Tea Festival and the 2nd Global Pu'er Tea Carnival Organizing Committee in 2007, the Master of Pu'er Tea Heritage Craft by Yunnan Provincial Department of Agriculture and Yunnan Provincial Human Resources and Social Security Bureau in 2018, and Outstanding Chinese Tea Master by China International Tea Culture Institute in 2020, just to name a few.

Ms. Wang, our general manager, is a successful entrepreneur with over 18 years of experience in the sales of tea leaf products and corporate operation. With her sharp insights and deep knowledge in consumer need and innovation in the tea industry, she has been leading the commercialization of our products, structuring of our product architecture and expansion and optimization of our sales network, successfully transforming us from a local tea company into a significant player in the industry with national presence.

Our management team is strong in execution and keen on innovation. They bring to our Company profound experience in the tea industry, covering all major operation aspects such as production, research and development, sales and marketing. We believe that our senior management team has extensive industry expertise, innovative vision and strong execution capabilities, and is capable of building on our competitive strengths and successfully implementing our strategies and future plans.

BUSINESS STRATEGIES

We intend to enhance our competitive strengths and pursue the following strategies to expand our business:

Enhance our inventory management and production capabilities

In anticipation of future sales growth, we plan to establish modernized logistics and warehousing centers to enhance our inventory management capabilities as we strive to enlarge our inventory of raw materials and optimize warehouse inbound and outbound processes of finished products for fast warehousing flow. In addition, we plan to strategically improve our production capabilities and production environment, both of which are crucial in applying our sophisticated production processes. In particular, we plan to establish new production base in Guangdong for the production of our Chenpi Pu'er tea products, in anticipation of the future increase in demand for such products. We also plan to upgrade and expand certain facilities in our current production base in Lancang.

Continue to optimize our national sales network and enhance our sales and servicing capabilities

We plan to continue to optimize our national sales network by adopting differentiated online and offline strategies for different product lines. For *1966*, due to the cultural attributes attached to classic Pu'er tea that makes it beyond mere consumer beverage, we believe it is necessary to continue to expand our physical presence through offline stores to engage with our customers and maintain a strong bond with them, and therefore, we plan to open more offline self-operated stores for *1966*. On top of this, we also plan to further broaden our online sales channel matrix for *1966* to empower its offline stores through leverage of online traffics. For *Tea Mama*, we plan to open product-line-specific offline self-operated stores that exclusively sell products under *Tea Mama* for its offline expansion. At the same time, we will continue the online expansion for *Tea Mama* by establishing more self-operated online stores on major e-commerce platforms and engaging more platform-operated online stores as our key account customers. For our *Iland Tea* launched in July 2022, we plan to lay a solid foundation for this new product line mainly through online marketing and distribution. In particular, we plan to open product-line-specific online self-operated stores that exclusively sell products under *Iland tea*. In addition, we plan to take initiatives to improve our offline stores' sales and servicing capabilities.

Continue to promote our brand awareness and market visibility through differentiated strategies for different product lines

We have structured a comprehensive product architecture and delineated two product lines, i.e., *1966* and *Tea Mama*, and launched a new product line, *Iland Tea*, in July 2022, catering to the needs of various types of customers, such as Pu'er enthusiasts, sophisticated tea drinkers, broader mass consumers and new middle-class consumers. For *1966*, which is perceived to be classic products with a focus on Pu'er tea, we plan to further strengthen its existent brand awareness and continue to deepen consumers' perception of and connection with our Lancang flavor. In particular, we plan to hold various marketing and promotional events for *1996*, such as offline cultural events and traditional advertising campaigns. For *Tea Mama*, a relatively new product line, and *Iland Tea*, which we launch in July 2022, we plan to leverage the influence of our core brand *Lan Cang Gu Cha* to nourish these two product lines to quickly build up their own brand awareness and, in the meantime, employ differentiated marketing strategies to convey each product line's own message to their target consumers. In particular, we plan to hold a series of integrated online and offline branding and marketing activities to raise our influence and popularity among younger consumers for *Tea Mama* and *Iland Tea*. Such activities primarily include social media marketing, celebrity endorsement and offline marketing campaigns and events.

Further expand our business through strategic investments and acquisitions

We will selectively seek strategic investments and acquisitions to complement and improve our current business and broaden our product offerings. In particular, potential investment or acquisition targets shall be tea companies that have synergy with our business, including and not limited to companies that manufacture products we currently do not produce but intent to produce in the future, such as tea-pairing food, so that we can provide customers with more diversified products. We believe such products could also stimulate the sales of our tea leaf products, thereby creating synergies with our business. When assessing the investment or acquisition opportunities, we will primarily take into consideration (1) product portfolio of the target, (2) market shares of such products, (3) business scale, (4) growth potential, (5) synergy with our business, (6) financial condition and valuation, and (7) any potential tax or financial impact such investment or acquisition may have on us. We believe that through strategic investments and acquisitions, we can further consolidate our market leadership. We do not consider tea leaf cooperatives as potential acquisition targets, although we intend to maintain and further strengthen our long-term relationships with tea leaf cooperatives.

Upgrade our information technology infrastructure and further strengthen our research and development capabilities

In anticipation of our growth in the next few years, we plan to further improve our operational efficiency to achieve greater profitability. More specifically, we plan to upgrade our existing information technology infrastructure, such as information management system and enterprise resource planning system, with a goal to improve our operational and managerial capabilities, provide a solid foundation for future product innovation and enhanced quality control measures, and enable specialized operation in our offline stores. Meanwhile, we plan to continue to upgrade the management system underlying our membership programs to enable us to gain insights into consumer preferences and enable our distributors to provide individualized services to the satisfaction of our members. In addition, we plan to further strengthen our research and development capabilities for our product development and iteration. In particular, we plan to increase our expenditures on equipment and material procurement for research and development purpose. We also plan to strengthen our cooperation with elite universities to promote industry-university-research initiatives and recruit additional R&D personnel for the expansion of our research and development team.

OUR PRODUCTS

Overview

During the Track Record Period, we generally marketed our tea leaf products under our core brand, *Lan Cang Gu Cha*, under which we operated two product lines, *i.e.*, (1) *1966*, our classic product line focusing on Pu'er tea leaf products that target Pu'er enthusiasts and sophisticated tea drinkers, and (2) *Tea Mama*, our healthy lifestyle product line with a product portfolio that caters to a broader consumer base. We launched *Iland Tea*, a new product line, in July 2022, targeting new middle-class consumers with stronger purchasing power, who are perceived to be more fashionable and more generous to themselves.

In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, the revenue generated from sales of Pu'er tea products as a percentage of our total revenue was 94.0%, 92.2%, 88.5%, 88.4% and 86.7%, respectively. In the same periods, the revenue generated from sales of Pu'er tea products to our distributors as a percentage of our total revenue generated from distributorship was 93.9%, 92.6%, 89.4%, 89.7% and 88.1%, respectively. The following table sets forth a breakdown of our revenue by product for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue
							(Unaudited)			
	(RMB in thousands except for percentages)									
Lan Cang Gu Cha — 1966	299,139	73.8	413,910	74.1	301,379	65.1	165,950	72.7	155,243	66.9
— Non-fermented Pu'er tea products	93,232	23.0	190,581	34.1	113,681	24.6	88,917	39.0	86,735	37.4
— *007*	5,845	1.4	8,785	1.6	8,879	1.9	7,172	3.1	5,255	2.3
— *001*	34,949	8.6	51,123	9.2	44,735	9.7	33,222	14.6	29,288	12.6
— *Millennium*	—	—	80,101	14.3	1,130	0.2	961	0.4	192	0.1
— Others	52,438	13.0	50,572	9.0	58,937	12.8	47,562	20.9	52,000	22.4
— Fermented Pu'er tea products	205,150	50.6	196,996	35.3	178,453	38.5	74,510	32.6	66,675	28.7
— *0081*	17,038	4.2	27,437	4.9	21,765	4.7	15,932	7.0	15,198	6.6
— *0085*	6,070	1.5	74,677	13.4	31,462	6.8	19,094	8.4	30,287	13.1
— *Shining Gold*	93,081	23.0	16,547	3.0	11,296	2.4	3,337	1.5	2,923	1.3
— *Phoenix*	59,319	14.6	8,913	1.6	1,781	0.4	1,616	0.7	503	0.2
— *Five-star Ban Zhang*	—	—	—	—	31,106	6.7	—	0.0	2,702	1.2
— Others	29,642	7.3	69,422	12.4	81,043	17.5	34,531	15.1	15,062	6.5
— Pu'er tea sets	757	0.2	26,333	4.7	9,245	2.0	2,523	1.1	1,833	0.8
Lan Cang Gu Cha — Tea Mama	94,763	23.4	126,715	22.7	144,429	31.2	52,773	23.1	69,909	30.1
— Chenpi Pu'er tea	62,696	15.5	80,147	14.3	76,360	16.5	31,316	13.7	34,248	14.8
— Others	32,067	7.9	46,568	8.4	68,069	14.7	21,457	9.4	35,661	15.3
Other services and products[1]	11,563	2.8	18,052	3.2	17,061	3.7	9,531	4.2	6,876	3.0
Total revenue	**405,465**	**100.0**	**558,677**	**100.0**	**462,869**	**100.0**	**228,254**	**100.0**	**232,028**	**100.0**

(1) Primarily including sales of tea wares and tea making utensils, teahouse services, and sales of *Iland Tea* products. We launched *Iland Tea* in July 2022 and generated an insignificant amount of revenue from sales of *Iland Tea* products.

Lan Cang Gu Cha — 1966

As a classic product line positioned for Pu'er enthusiasts and sophisticated tea drinkers, *1966* is a tribute to our roots as our brand history traces back to 1966 in Jingmai Mountain, Yunnan Province. With years of geographic presence in one of the homes to Pu'er tea, we are able to maintain a stable supply of high-quality rough tea leaves and apply a proven set of Pu'er processing techniques to ensure the stable quality of *1966* products. Through *1966*, we have established ourselves as a leading Pu'er tea leaf brand well recognized among Pu'er enthusiasts in China, according to the F&S Report.

1966 offers a wide variety of fermented and non-fermented Pu'er tea leaf products, which can be further classified into three product series, *i.e.*, famous mountain series, Jingmai series and value-for-money series:

- Famous mountain series: comprise products made from tea leaves sourced from one or more mountains in major Pu'er production areas which are renowned for its quality tea leaves. Representative products include *Shining Gold*, *Bing Dao*, *Xi Gui* and *Yi Wu*.

- Jingmai series: comprise products made from tea leaves sourced from Jingmai Mountain, which hosts some of the largest, oldest and best-preserved ancient tea tree plantations in the world and it currently nominated to be included in the World Heritage List for the ancient tea tree plantations in the region. Representative products include *0085* and *001*. We separate such products from others made from tea leaves sourced from mountains other than Jingmai Mountain as Jingmai Mountain is our birthplace and we were the largest purchaser of rough tea leaves from ancient tea trees in Jingmai Mountain in terms of procurement volume during the Track Record Period, according to the F&S Report.

- Value-for-money series: comprise products that are more affordable to ordinary tea drinkers and suitable for their daily drink as compared to products under Famous Mountain series and Jingmai series. Representative products include *0081* and *007*.

In 2022, there were 127 Pu'er tea leaf products sold under *1966*. Generally, our *1966* products are presented in the packaging forms of tea discs, tea bowls and tea bricks. The suggested retail prices of our major Pu'er tea leaf products produced in 2022 ranged from approximately RMB471 per kilogram to RMB50,420 per kilogram. According to the F&S Report, similar to fine wine, Pu'er tea products can be preserved for a long time if properly stored in a clean and dry environment with adequate ventilation, as indicated in the national standards of China for Pu'er tea products (GB/T 22111-2008). According to the F&S Report, moderate temperature and humidity levels, ranging from 25 to 30 degrees Celsius and 40% to 70%, respectively, conduce to the aging process of Pu'er tea products, which improves the taste of Pu'er tea due to microbial activities. As a result of the foregoing, Pu'er tea products usually do not have an expiry date, and the longer Pu'er tea is preserved, the better it tastes and the higher value it possesses, according to the same source. Several other factors influence the value of Pu'er tea as well, including, among others, its geographic origin, the age of tea trees, the grade of tea leaves, the degree of fermentation and storage condition. Depending on whether rough tea leaves have been artificially fermented, Pu'er tea products can be further classified into fermented and non-fermented Pu'er tea. While fermentation adds value to Pu'er tea products and leads to a generally higher gross profit margin for fermented Pu'er tea leaf products, the geographic origin and the age of tea trees significantly affect the value of Pu'er tea products. Not only do the values of Pu'er tea from different production areas vary from that of each other, the values of Pu'er tea from the same production area but different mountains also vary greatly from mountain to mountain. In addition, the values of Pu'er tea made from tea leaves of ancient tea trees are significantly higher than that of others in general. Furthermore, the grades of rough tea leaves used in producing Pu'er tea products also affect the value of Pu'er tea to certain extents. See "—Raw Materials, Packaging Materials and Suppliers—Raw Materials and Packaging Materials."

With a rich product portfolio covering a broad spectrum of classic Pu'er tea products, we believe we have built *1966* into a well-rounded classic Pu'er tea product line that is able to cater to Pu'er enthusiasts' need for drinking, collection and gifting. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, the revenue generated from our *1966* products was RMB299.1 million, RMB413.9 million, RMB301.4 million, RMB166.0 million and RMB155.2 million, respectively, accounting for 73.8%, 74.1%, 65.1%, 72.7% and 66.9% of our total revenue in the same periods, respectively. The average selling price range of our major products under *1966*, as set forth in the following table, ranged from RMB125 to RMB13,390 per kilogram, RMB135 to RMB10,272 per kilogram, RMB145 to RMB15,969 per kilogram, RMB136 to RMB16,855 per kilogram and RMB139 to RMB11,254 per kilogram in 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively, calculated by dividing the total revenue from a given product in a given period with the total sales volume of such product in the same period. The majority of our products under *1966*, which contributed over 75% of our revenue from *1966* in 2022, had an average selling price range from RMB1,000 to RMB5,000 per kilogram in the same year. The average selling price range of our products was generally lower than their suggested retail price range, primarily because majority of our revenue was generated from sales to distributors, the selling prices to whom were significantly lower than that to retail customers, effectively driving down the average selling prices of our products. The following table sets forth key information about our major products under *1966*.

Product	Picture	Launch Time[(1)]	Description	Suggested Retail Price[(2)] (RMB/kg)
Shining Gold (烏金)		2009	Our flagship fermented Pu'er tea products, which were made from rough tea leaves of ancient tea trees from major tea mountains in various Pu'er tea production areas. *Shining Gold* has an iteration cycle of four years.	12,800
Millennium (千秋龍團)		2007	As one of our premium products, *Millennium* were made from quality rough tea leaves of ancient tea trees in different years from Jingmai Mountain. We launched the latest generation of *Millennium* in 2021.	14,957

Product	Picture	Launch Time[(1)]	Description	Suggested Retail Price[(2)] (RMB/kg)
0085 Compressed Tea Disc (0085茶餅)		1999	Our flagship fermented Pu'er tea products, which were made from rough tea leaves of ancient tea trees from tea tree plantations in Jingmai Mountain. *0085* has an iteration cycle of two years.	5,266
001 Compressed Tea Disc (001茶餅)		1999	Our flagship non-fermented Pu'er tea products, which were made from rough tea leaves of ancient tea trees from tea tree plantations in Jingmai Mountain. *001* has an iteration cycle of one year.	4,200
0081 Compressed Tea Disc (0081茶餅)		2001	Fermented Pu'er tea products made from rough tea leaves of non-ancient tea trees for daily consumption, the flavor of which is positioned for general public. *0081* has an iteration cycle of one year.	583
007 Compressed Tea Disc (007茶餅)		2003	Non-fermented Pu'er tea products made from rough tea leaves of non-ancient tea trees for daily consumption, the flavor of which is positioned for general public. *007* has an iteration cycle of one year.	471
Bing Dao Pu'er Tea (冰島普洱)		2012	Made from rough tea leaves from tea tree plantations in Bingdao Mountain. We launched the first generation of Bing Dao non-fermented Pu'er tea in 2012 and the first generation of Bing Dao fermented Pu'er tea in 2019.	33,053 (fermented) 49,000 (non-fermented)

Product	Picture	Launch Time[(1)]	Description	Suggested Retail Price[(2)] (RMB/kg)
Xi Gui (昔歸)		2012	Made from rough tea leaves from tea tree plantations in Xigui, a major Pu'er tea production area. We launched the first generation of non-fermented *Xi Gui* Pu'er tea in 2012 and the first generation of fermented *Xi Gui* Pu'er tea in 2021.	24,650 (fermented) 77,151 (non-fermented)
Five-star Ban Zhang Pu'er Tea (五星班章普洱)		2022	Made from rough tea leaves from tea tree plantations in Banzhang, a major Pu'er tea production area. We launched the first generation of fermented *Five-star Ban Zhang* Pu'er tea in 2022.	Depending on the type of packaging, 11,709-11,900

(1) For products with a history of iteration, refers to the initial launch time of the first generation product.

(2) Refer to suggested retail prices in 2022 applicable only to the latest generation of Pu'er tea leaf products. The suggested retail price is the price we recommend that our products be sold to retail customers. Distributors have certain level of discretion in adjusting the actual retail price based on the suggested retail price, but significant deviation from the suggested retail price by any distributor is a violation of the distribution agreement.

We from time to time hold grand launch events for new generations of our flagship products in famous city landmarks. Notably, in September 2016, we held a grand launch event for the third generation of *Shining Gold* in the Great Hall of the People in Beijing. The launch event received coverage from many mainstream media and were well received by Pu'er tea enthusiasts. In addition, in November 2021, we launched the 11th generation of *0085* compressed tea disc in Guangzhou Opera House, the largest performing centre in southern China and top three largest theatres in China, joined by socialites such as former coach of China women's national volleyball team, a famous musician, an outstanding young singer, as well as tea enthusiasts and most of our distributors.

Lan Cang Gu Cha — Tea Mama

With a brand image inspired by our founder, Ms. Du, who is nicknamed "tea mama," we established *Tea Mama* in 2014 with a mission to bring motherly love and care to our customers. *Tea Mama* embodies tea drinkers' pursuit of a healthy lifestyle and features a product portfolio that caters to a broader consumer base. Leveraging our profound experience in the Pu'er tea production, *Tea Mama* has successfully expanded its product portfolio into non-Pu'er tea products. In 2022, there were 126 products being sold under *Tea Mama*, covering various types of tea leaves including Pu'er tea, white tea, black tea and flavored tea, with a price range from RMB500 per kilogram to RMB15,800 per kilogram. Such product varieties offered by *Tea Mama* allows us to attract more consumers with different tea drinking preferences. In addition, in order to adapt to modern consumers' fast-paced lifestyle, we present our *Tea Mama* products in different packaging forms, such as petit tea discs, tea bags and disposable tea cups, which are easily available for drink in their daily life. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, the revenue generated from our *Tea Mama* products was RMB94.8 million, RMB126.7 million, RMB144.4 million, RMB52.8 million and RMB69.9 million, respectively, accounting for 23.4%, 22.7%, 31.2%, 23.1% and 30.1% of our total revenue in the same periods, respectively. The average selling price range of our major products under *Tea Mama*, as set forth in the following table, ranged from RMB203 to RMB1,087 per kilogram, RMB295 to RMB1,067 per kilogram, RMB432 to RMB1,165 per kilogram, RMB409 to RMB1,097 per kilogram and RMB485 to RMB1,172 per kilogram in 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively. The majority of our products under *Tea Mama*, which contributed over 75% of our revenue from *Tea Mama* in 2022, had an average selling price range from RMB500 to RMB2,000 per kilogram in the same year.

The following table sets forth key information about our major product series under *Tea Mama*.

Product	Picture	Launch Time	Description	Suggested Retail Price Range (RMB/kg, unless otherwise specified)[1]
Chenpi Pu'er tea (陳皮普洱) — Little Green Mandarin (小青柑) and Big Red Mandarin (大紅柑)		2014	An innovative combination of fermented Pu'er tea made from rough tea leaves of non-ancient tea trees and Xinhui mandarins. We launched Big Red Mandarin and Little Green Mandarin in 2014 and 2015, respectively.	3,920 (Little Green Mandarin) 2,952 (Big Red Mandarin)

Product	Picture	Launch Time	Description	Suggested Retail Price Range (RMB/kg, unless otherwise specified)(1)
White tea	 	2021	Primarily included original flavor white tea, Chenpi white tea and buckwheat white tea.	Depending on the grade of tea leaves, 1,227–21,600
Black tea	 	2014	Primarily included original flavor black tea, osmanthus black tea and rose black tea.	Depending on the grade of tea leaves, 853–6,800
Flavored tea in packaging forms of petit tea discs, tea bags and disposable tea cups	 	2016	Primarily included tea leaf products with jasmine, chrysanthemum and rose flavors.	RMB4–14 per pack for tea bags RMB9.9 per disposable tea cup

(1) The suggested retail price is the price we recommend that our products be sold to retail customers in 2022. Distributors have certain level of discretion in adjusting the actual retail price based on the suggested retail price, but significant deviation from the suggested retail price by any distributor is a violation of the distribution agreement.

We are the first tea company in China, according to the F&S Report, to standardize the manufacturing process of the traditional Chenpi Pu'er tea, *Little Green Mandarin* (小青柑) originated in Xinhui, Guangdong Province and introduced it to the market our in 2015. It is a kind of flavored tea made of Pu'er tea leaves stuffed into an immature mandarin with pulps removed. With Pu'er tea leaf scent compounded with volatile oils contained in a mandarin, *Little Green Mandarin* boasts a refreshing fragrance of flower and mandarin peel and a pleasantly sweet first taste. We procure the mandarins used in our *Little Green Mandarin* products only from Xinhui, Guangdong Province, where the best mandarins for Chenpi are grown and produced, according to the F&S Report.

Lan Cang Gu Cha — Iland Tea

With our in-depth industry insights, we believe that we have acutely identified the need among new middle-class consumers for tea products that are both tasty and aesthetically enjoyable and launched *Iland Tea* in July 2022 with suggested retail prices ranging from approximately RMB1,242 per kilogram to RMB4,363 per kilogram. We strive to build *Iland Tea* into a product line that features quality products, fashionable packaging and convenience in drinking. In 2022 and the six months ended June 30, 2023, we generated an insignificant amount of revenue from sales of *Iland Tea* products.

The following table sets forth key information about our major product series under *Iland Tea*.

Product	Picture	Launch Time	Description	Suggested Retail Price Range (RMB/kg)(1)
Fermented Pu'er tea		2022	Compressed fermented Pu'er tea in the shape of calabash, made from selected rough tea leaves sourced from Yunnan Lancang River basin.	1,350
Yunnan black tea (雲南滇紅)		2022	Made from tea leaves of tea trees in the high mountains of Yunnan, which are as thin as silk, with golden layer of fine fibers.	1,725
Chenpi white tea (陳皮白茶)		2022	Compressed Chenpi white tea in the shape of calabash, made from premium tea leaves sourced from tea tree plantations in Yunnan and Chenpi from major production areas of mandarins in Xinhui.	2,250

Product	Picture	Launch Time	Description	Suggested Retail Price Range (RMB/kg)(1)
Osmanthus white tea (桂花白茶)		2022	Made of Guilin osmanthus and selected white tea with one bud and one leaf, the appearance of which is densely covered with a layer of fine fibers.	2,600
Chenpi flavored tea sets (陳皮調味茶禮盒)		2022	Include Chenpi Pu'er tea and Chenpi white tea, both of which are made from selected rough tea leaves from Yunnan.	4,363

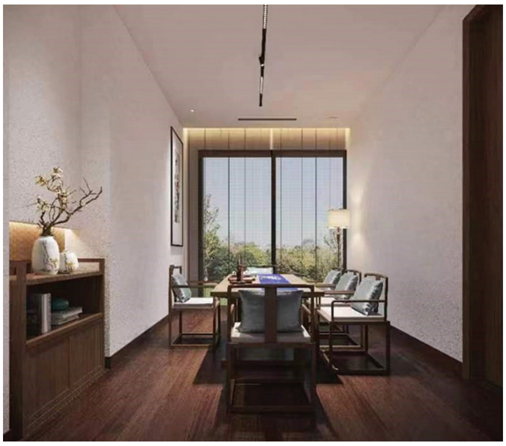
(1) The suggested retail price is the price we recommend that our products be sold to retail customers in 2022. Distributors have certain level of discretion in adjusting the actual retail price based on the suggested retail price, but significant deviation from the suggested retail price by any distributor is a violation of the distribution agreement.

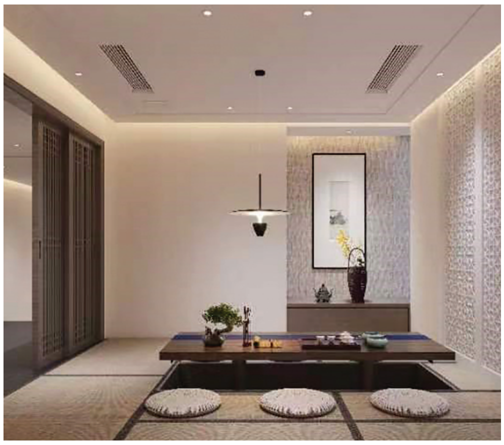
Other Services and Products

We also sold a variety of tea wares and tea making utensils and provided teahouse services to consumers in our stores during the Track Record Period. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, the revenue generated from such sales and services was RMB11.6 million, RMB18.1 million, RMB17.1 million, RMB9.5 million and RMB6.9 million, respectively, accounting for 2.8%, 3.2%, 3.7%, 4.2% and 3.0% of our total revenue in the same periods, respectively.

Our teahouse services accommodate customers' needs for venues for tea drinking and socializing with their friends. We differentiate ourselves from other tea rooms not only with our tea leaf products but also by our unique decoration style and professional tea sommeliers, which delivers to our customers a lifestyle of oriental elegance. Specifically, our unified interior decoration style features traditional Chinese style decorations and a welcoming setting suitable for business meetings and gatherings among friends alike. Our stores feature warm-toned ornaments and lighting as well as meticulously designed entrances, doorposts and embellishments, creating a cozy environment for our customers' social events. In addition, in order to provide our customers with immersive experience in tea tasting, most of our stores are staffed with professional tea sommeliers who are well trained in tea ceremony and knowledgeable in tea culture. We have established a well-rounded tea sommelier development system and regularly hold exams and competitions to test their knowledge and skills in tea tasting, tea ceremony and tea culture in general.

The images below illustrate the decoration style of tea rooms used in the provision of our teahouse services.





The following tables set forth the details of our top five products during the Track Record Period.

Product
For the six months ended June 30, 2023
2023 Fermented 0085 Pu'er Tea (2023年0085普洱熟茶)
2022 Little Green Mandarin (2022年小青柑)
2023 Non-fermented 001 Pu'er Tea (2023年001普洱生茶)
2023 Fermented 0081 Pu'er Tea (2023年0081普洱熟茶)
2022 Non-fermented Lanxiang Pu'er Tea (2022年蘭香普洱生茶)
For the year ended December 31, 2022
2022 Little Green Mandarin (2022年小青柑)
2022 Non-fermented 001 Pu'er Tea (2022年001普洱生茶)
2022 Fermented Five-star Ban Zhang Pu'er Tea (2022年五星班章普洱熟茶)
2022 Fermented Ancient Rhyme Pu'er Tea (2022年古韻金磚普洱熟茶)
2021 Fermented 0085 Pu'er Tea (2021年0085普洱熟茶)
For the year ended December 31, 2021
2021 Non-fermented Millennium Pu'er Tea (2021年千秋龍團普洱生茶)
2021 Fermented 0085 Pu'er Tea (2021年0085普洱熟茶)
2021 Non-fermented 001 Pu'er Tea (2021年001普洱生茶)
2020 Little Green Mandarin (2020年小青柑)
Fermented Xi Gui Pu'er Tea (昔歸普洱熟茶)
For the year ended December 31, 2020
2020 Fermented Shining Gold Pu'er Tea (2020年烏金普洱熟茶)
Fermented Phoenix Pu'er Tea (鳳亦凰普洱熟茶)
2020 Non-fermented 001 Pu'er Tea (2020年001普洱生茶)
2020 Little Green Mandarin (2020年小青柑)
Non-fermented Power Pu'er Tea (霸道普洱生茶)

According to the F&S Report, market players in China's Pu'er tea industry generally price aged Pu'er tea products that have been stored for years higher than the suggested retail price of the same products if sold in their production year, as the longer Pu'er tea is preserved, the better it tastes and the higher value it possesses. The suggested retail prices of our Pu'er tea products also appreciate over years of preservation. Therefore, distributors may decide on their own to stock certain products for a certain of time for future sales. Selling aged Pu'er tea products also allows us to enjoy a higher gross profit margin. In general, for the same type of Pu'er tea product, the longer it has been aged, the higher the gross profit margin it possesses.

For our products sold in 2020, 2021, 2022 and the six months ended June 30, 2023, it took an average of approximately 1.10 years, 1.03 years, 1.36 years and 1.55 years, respectively, from the product launch year, which is proximate to the production year of such products, to the year in which they were sold, calculated by taking the weighted average of the difference in years between the launch year and the year of sale of our products based on their sales amount, with the products launched and sold in the same year counted as 0.5 years. In the periods, it generally further took 0.71 years, 0.80 years, 1.03 years and 1.47 years, respectively, from the procurement of our products by our distributors, to the sales by the distributors to their end customers, which are estimated based on the inventory turnover days of the Respondent Distributors in the respective year. The following table sets forth the price appreciation for certain major products over years of preservation.

	Suggested retail price in launch year (RMB/kg)	**Suggested retail price in 2022 (RMB/kg)**	**CAGR**
Shining Gold(1)			
Shining Gold launched in 2016	2,680	16,800	35.8%
Shining Gold launched in 2020	5,880	12,800	47.5%
0085(1)			
0085 launched in 2017	2,380	7,380	25.4%
0085 launched in 2019	3,080	6,380	27.5%
0085 launched in 2021	4,800	5,280	10.0%
001(1)			
001 launched in 2018	2,347	6,947	31.2%
001 launched in 2019	2,950	6,200	28.1%
001 launched in 2020	2,950	5,700	39.0%
001 launched in 2021	4,200	5,200	23.8%
Millennium(1)			
Millennium launched in 2016	4,000	27,555	37.9%
Millennium launched in 2021	14,957(2)	14,957	nil

	Suggested retail price in launch year (RMB/kg)	Suggested retail price in 2022 (RMB/kg)	CAGR
0081(1)			
0081 launched in 2018	359	863	24.5%
0081 launched in 2019	415	807	24.8%
0081 launched in 2020	527	723	17.1%
0081 launched in 2021	555	611	10.1%
007(1)			
007 launched in 2018	303	751	25.5%
007 launched in 2019	359	639	21.2%
007 launched in 2020	471	583	11.3%
007 launched in 2021	471	527	11.9%
Phoenix(1)			
Phoenix launched in 2020	10,868	12,269	6.2%

(1) These product series were selected for the demonstration of price appreciation, primarily due to their relatively significant revenue contribution during the Track Record Period.

(2) For *Millennium* launched in 2021, the pre-sale discount price for VIP members before its official launch was RMB6,923 per kilogram.

MARKETING AND BRANDING

Branding

The history of our brand can be traced back to 1966, when Jingmai Mountain Tea Workshop (景邁茶訓班), with our founder, Ms. Du, as one of its key members, was promoted on Jingmai Mountain, which was the starting point of their tea-making business. Capitalizing on the proximity to one of the birthplaces of Pu'er tea and access to high quality ancient tea tree plantations, we have become a well-known tea leaf product producer specializing in the development, processing and manufacturing of traditional Pu'er tea and developed *Lan Cang Gu Cha 1966* into a go-to product line for classic Pu'er tea leaf products. In recent years, we have employed a multi-product-line strategy. In particular, we have established *Tea Mama* to tap into a broader fast-moving consumer goods market and cater to the needs of different consumers. We launched a new product line, *Iland Tea*, in July 2022, targeting new middle-class consumers with stronger purchasing power, who are perceived to be more fashionable and more generous to themselves.

We seek to maintain and promote our brand awareness with professional marketing and branding services. We have established our Lan Cang Gu Cha Industrial Design Innovation Center, which is one of leading industrial design innovation centers in China's tea industry according to the F&S Report, to serve our needs for branding and product design and promotion. Our industrial design innovation center partners with a well known industrial design firm, which is particularly experienced in the industrial designing for food and beverage brands.

We have a dedicated marketing team with rich industry experience, who are responsible for the implementation of our multi-product-line strategy. As of the Latest Practicable Date, our marketing team had a total of 275 members. Our general manager, Ms. Juan Wang, who are also our marketing team leader, has over 18 years of extensive marketing experience in the tea leaf product market.

We have long-term plans for the development of our brand and strong brand communication capabilities. We have developed differentiated marketing planning, image designs and promotion strategies based on the development stages of each product line, which we believe has helped to reinforce our market position and brand recognition.

Online and Offline Campaigns

We are committed to conveying the spirit and proposition of our brand to the consumers. We regularly organize a series of online and offline campaigns throughout the year to promote our tea leaf products as well as the tea culture in general, consolidate our distribution system and attract more consumers.

We usually organize the following offline campaigns every year for various participants on the tea industry value chain.

- *Journey Home (回家之旅)*. Each year in April, we invite tea enthusiasts for a trip in Jingmai Mountain, our birthplace and one of the origins of Pu'er tea to participate in traditional tea ceremonies, experience tea making, and visit ancient tea tree plantations. Through *Journey Home*, we are able to strengthen our bond with consumers and further enhance their understanding on our corporate culture. *Journey Home* was awarded the prize of Top Ten Model Tea Events (中國茶事樣板十佳) at the China International Tea Expo (中國國際茶葉博覽會) in 2018, and was the only tea event organized by a tea company in the list of awards in the same year.

- *Red May (紅五月)*. As our management observed, May is often a busy month for new store open-ups and store anniversary sales. Therefore, every year in May, we organize tea related events such as tea tasting sessions in our stores across the country, with a goal to help our stores connect and engage with customers and raise our brand awareness.

- *Chun Yi Tea Master Competition (春億大師賽)*. As our highest-level competitive event, *Chun Yi Tea Master Competition* provides participating tea sommeliers with the opportunities to showcase their knowledge and skills in Pu'er tea. Consumers could also taste our tea leaf products with unique Lancang flavor, which stands for our unique, recognizable and stable flavor feature, and better comprehend our brand culture by observing such event.

- *Masters in China (大師在中國)*. From time to time, we organize tea-related cultural events, such as dance performances, concerts and fashion shows, to disseminate tea culture and our corporate value to consumers. For each *Masters in China* event, we collaborate with at least one master in their fields, such as the coach and members of China women's national volleyball team, traditional Chinese musician, art and craft master, fashion designer, violinist, and singer, to attract more participants and further enhance our brand awareness.

- *Yangcheng Golden Autumn (羊城金秋)*. *Yangcheng Golden Autumn* is a carnival for tea enthusiasts and our distributors held in the autumn each year, which encompasses various activities, including grade four and six tea sommelier assessments, tea tasting sessions and new products releases. Such campaign aims to increase the loyalty of our existing customers, enhance our brand visibility among tea enthusiasts, and build up a team of professional tea sommeliers for better delivery of tea culture education among our customers.

In addition to our offline campaigns that we believe have been widely recognized among consumers and enhanced our brand awareness and consumer loyalty, we have also leveraged online campaigns for brand promotion. We cooperated with TV shows with high ratings, such as Taste of China (中國味道) and News 1+1 (新聞1+1), for our tea leaf products placement, and a media platform operated by People's Daily (人民日報) to introduce our products to a broader audience. We established our WeChat public account and Weibo account to disseminate tea knowledge and host tea culture study programs online. We live stream on platforms such as WeChat and Douyin, and produce three to five short videos a week to promote our brand and tea leaf products. Since 2020, we have also cooperated with China women's national volleyball team as its official supplier for Pu'er tea leaf products.

Urban Lounges

To increase our brand visibility and further increase customer engagement, we strategically designate certain stores with large floor areas in busy urban areas in tier-1 cities and new tier-1 cities as Urban Lounges, where our customers could enjoy premium tea leaf products in a professional tea tasting setting. We determine the designation of Urban Lounges based on a variety of factors, such as foot traffic volume and vehicle traffic volume, availability of parking, distance from competitors and neighboring population density, floor areas, rental rate levels and required rental terms. As of the Latest Practicable Date, there were 38 stores designated as Urban Lounges, which included both our self-operated stores and distributor-operated stores. Each Urban Lounge is able to host at least three tea rooms with a total floor area of over 150 square meters. The photos below illustrate the decoration style of our Urban Lounges.

OUR SALES NETWORK AND CUSTOMERS

Our Sales Network

We have a nationwide offline sales network, covering substantially all provincial administrative divisions across China. We engage distributors to distribute our products. In addition, we also sell directly to consumers through our self-operated stores. Since 2020, we have also expanded our sales network into key account channels including hypermarket chains and platform-operated online stores.

The following table sets forth a breakdown of revenue contribution from our distributors, direct sale customers and key accounts for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue
							(Unaudited)			
	(RMB in thousands except for percentages)									
Sales to distributors[(1)]	320,443	79.0	448,495	80.3	335,064	72.4	178,097	78.0	175,673	75.7
Sales to direct sale customers	84,452	20.8	93,912	16.8	116,276	25.1	47,326	20.7	50,137	21.6
— Offline sales to retail customers	33,159	8.2	51,815	9.3	62,042	13.4	19,719	8.6	26,204	11.3
— Online sales to retail customers	51,293	12.6	42,097	7.5	54,234	11.7	27,607	12.1	23,933	10.3
Sales to key accounts[(2)]	570	0.2	16,270	2.9	11,529	2.5	2,831	1.3	6,218	2.7
Total	**405,465**	**100.0**	**558,677**	**100.0**	**462,869**	**100.0**	**228,254**	**100.0**	**232,028**	**100.0**

(1) We completed the commercial franchising filing with the Department of Commerce of Yunnan Province in February 2020. We do not charge our distributors a franchise fee or charge them for their use of our trade name, trademarks and other business resources.

(2) Including sales to a hypermarket chain, as well as a platform-operated online store by JD.com.

We sell our products through both offline channels and online channels. Our offline channels include self-operated stores, distributor-operated stores and hypermarket chains. Distributor-operated stores consist of primarily exclusive stores, where distributors are not allowed to sell products other than ours without our permission, and, to a lesser extent, authorized stores, where distributors are authorized to sell one or more of our products but have the autonomy to decide what other products can be sold in such stores. Over 95% of our revenue generated from sales to distributors was attributable to exclusive stores in each year during the Track Record Period, respectively. Online channels include our self-operated online stores on major e-commerce platforms in China, including Tmall, WeChat, Douyin, Kuaishou and JD.com, and platform-operated online stores, of which the e-commerce platforms are responsible for the overall operation. We have executed certain growth strategies for our e-commerce operations. In particular, we recruited additional talents for our e-commerce team, regularly organized live streaming sessions on major e-commerce platforms, deployed an advanced logistic management system specifically designed for e-commerce operations, and continued to diversify our product matrix and marketed a series of exclusive products targeting Internet consumers.

The following table sets forth a breakdown of numbers of our sales channels by type for the periods indicated.

	As of December 31,			As of June 30,
	2020	2021	2022	2023
Offline channels				
Self-operated stores	17	26	24	23
Distributor-operated stores	566	531	508	520
— Exclusive stores	445	452	423	431
— Authorized stores	121	79	85	89
Hypermarket chain	—	1	1	1
Online channels				
Self-operated online stores	13	13	16	17
Platform-operated online store by JD.com	1	1	1	1

During the Track Record Period, certain independent third parties had interests in certain self-operated stores of ours, ranging from 20.0% to 49.0% of the equity interests in these stores. As of December 31, 2020, 2021 and 2022 and June 30, 2023, the number of self-operated stores in which independent third parties had interests was one, nine, eight and eight, respectively. In 2020, 2021, 2022 and the six months ended June 30, 2023, the revenue generated from these self-operated stores was RMB2.9 million, RMB8.5 million, RMB11.0 million and RMB5.2 million, respectively, representing 0.7%, 1.5%, 2.4% and 2.2% of our total revenue, respectively. During the same period, we had interests in certain distributor-operated stores, all of which were exclusive stores, ranging from 20.0% to 45.0% of the equity interests in these stores. As of December 31, 2020, 2021 and 2022 and June 30, 2023, the number of distributor-operated stores in which we had minority interests was nil, 17, 20 and 20, respectively. In 2020, 2021, 2022 and the six months ended June 30, 2023, the revenue generated from sales to these distributor-operated stores was nil, RMB16.8 million, RMB18.3 million and RMB8.4 million, respectively, representing nil, 3.0%, 3.9% and 3.6% of our total revenue, respectively. We introduced independent third parties to invest in certain self-operated stores of ours and invested in certain exclusive stores of our distributors' primarily to leverage their experience and resources in local markets. The investment from independent third parties in our self-operated stores and our investment in certain distributor-operated stores were both conducted in the ordinary course of business under normal commercial terms and at arm's length. For stores in which both we and independent third parties hold interests, each party would appoint representatives to partake in the management and operation of such stores. We have designated at least one employee as supervisor of each distributor-operated store in which we have equity interests.

The number of our authorized stores decreased from 121 as of December 31, 2020 to 79 as of December 31, 2021, primarily due to our initiative to terminate relationships with distributors whose track record did not meet our enhanced distributor selection criteria. See also "—Our Sales Network and Customers—Our Distributors."

During the Track Record Period, the investment payback period for a self-operated stores typically ranged from six months to 35 months. Certain self-operated stores had a relatively long investment payback period primarily because of their positioning as our flagship stores that serve as marketing and advertising channels for our brand and require heavier investment than others. According to the F&S Report, such practice is common in the industry. During the same period, the number of our loss-making self-operated stores was seven, 14, 12 and 12 in 2020, 2021, 2022 and the six months ended June 30, 2023, respectively. Such loss-making self-operated stores were typically in their ramp-up period as we tapped into a new market. The number of our loss-making self-operated stores increased from seven in 2020 to 14 in 2021 as we opened nine self-operated stores in 2021 to boost our offline presence, among which seven self-operated stores commenced operation in the second half of 2021.

As of the Latest Practicable Date, we had a total number of 549 stores, including 23 self-operated stores and 526 distributor-operated stores, in mainland China, covering 29 provincial-level administrative regions and over 150 cities, as well as one distributor-operated stores in Hong Kong, China. The map below is an illustration of the geographic coverage of our stores as of the same date.

Our Distributors

We engage distributors to distribute our products. Typically, our distributors sell our products directly to retail customers. Our relationship with distributors is a buyer and seller relationship as distributors acquire ownership of the products we deliver to them, and no return, exchange or refund is allowed except for limited circumstances such as quality defects or damage during transportation. In 2020, 2021, 2022 and the six months ended June 30, 2023, the value of returned products from distributors represented 0.13%, 0.27%, 0.37% and 0.78% of our total revenue, respectively.

Generally, we only allow distributors to sell our products through their own stores. In the nascent years of our sales network expansion, certain distributors with relevant regional resources and industrial experience were enlisted to help us expand our sales network in predetermined geographic areas. We refer to them as regional distributors. Regional distributors are allowed to refer distributor candidates to us, who, if qualified, will enter into distribution agreements with us directly. Such distributors have the discretion to place orders for our products either with us or with their regional distributor referees. However, other than the circumstances described above, we do not allow distributors to further develop distributors on their own. To motivate regional distributors, we provide them with our products as rewards based on the overall performance of such regional distributors, including the performance of distributors they serve.

As of December 31, 2020, 2021 and 2022 and June 30, 2023, there were 566, 531, 508 and 520 distributors in our distribution network, respectively, among which 16, 16, 12 and 12 were regional distributors, respectively. As of the same dates, 97, 108, 112 and 93 of our distributors were referred to us by regional distributors, respectively. In 2020, 2021, 2022 and the six months ended June 30, 2023, the revenue generated from our direct sales to distributors referred by regional distributors was RMB37.5 million, RMB69.0 million, RMB53.0 million and RMB24.6 million, respectively, representing 11.7%, 15.4%, 15.8% and 14.0% of our revenue generated from distributorship, respectively. We prohibit distributors from further developing distributors on their own and require all distributors to enter into distribution agreements directly with us. Regional and non-regional distributors are managed and evaluated under the same standards, supervised by our regional sales directors. To prevent our distributors from further developing distributors on their own, our distributor supervision team and distributor management and service team regularly conduct research on sellers who sell our products in the market and confirm such sellers' distributor status with us. In the event that our teams determine that relevant sellers are not part of our distribution network, they would conduct further investigations into whether such sellers are unauthorized sub-distributors. In addition, we also conduct regular inspections for suspicious activities indicating distributors' actions to further develop distributors on their own. In particular, with the assistance of third-party agencies, our distributor supervision team and distributor management and service team regularly conduct investigations into unauthorized sales of our products by third parties, and trace distributors who sell our products to these unauthorized sellers. Furthermore, in the event that we discover certain distributors' significant deviation or irregularity from our retail pricing policy, during the course of our investigation for retail price disruption against such distributors, we would also investigate whether such distributors have further developed distributors on their own, as such deviation or irregularity indicates that such actions may have occurred. Any distributor, regional or non-regional, in material violation of distribution agreement risks losing the performance bond they deposit with us. Therefore, our Directors are of the view that there is no material risk of channel stuffing in respect of distributors referred by regional distributors have been identified, and the recoverability of accounts receivables from them is similar to all other distributors in general.

We value our distributors' business operation capabilities and their cooperative relationships with us. As of June 30, 2023, approximately 70% of our distributors had been part of our sales network for more than three years. We do not rely on any single distributor or a few distributors. Our revenue from any single distributor accounted for no more than 6% of our total revenue in any given period during the Track Record Period.

As part of our strategic cooperation with our local business partners, we incorporated Chengdu Hekang Langu Tea Co., Ltd. (成都和康瀾古茶葉有限公司) ("Chengdu Hekang") and Hefei Canggan Tea Co., Ltd. (合肥滄柑茶葉有限公司) ("Hefei Canggan") with certain business partners who hold or held direct or indirect interests in our distributors. See "History and Corporate Structure—Corporate Development of Our Company—Incorporation of joint ventures and non-wholly-owned subsidiaries with local business partners" for details. Our historical transaction amounts with such distributors in aggregate for 2020, 2021, 2022 and the six months ended June 30, 2023 were RMB3.5 million, RMB3.6 million, RMB1.1 million and RMB0.6 million, respectively, representing approximately 0.86%, 0.64%, 0.24% and 0.24% of the total revenue of our Group during the corresponding periods, respectively.

To the best knowledge of our Directors after making reasonable enquiries, one present employee of us had ever held indirect minority interest in one of our distributors during the Track Record Period and two former employees of us each wholly own one of our distributors. Our historical transaction amounts with such distributors in aggregate for 2020, 2021, 2022 and the six months ended June 30, 2023 were nil, RMB1.6 million, RMB0.5 million and RMB1.8 million, representing nil, 0.28%, 0.11% and 0.75% of the total revenue of our Group during the corresponding periods, respectively. Our Directors consider that the present or former employment relationships between the distributors' shareholders and our Group have no significant impact on our transactions with such distributors, because (1) each of such distributors has been reviewed and selected based on our internal criteria impartially and the relevant employees have been screened off the selection procedures, and (2) each of such distributors has entered into the standard distributorship agreements with our Group and is subject to all of our Group's internal rules and policies in connection with the distributorship without preferential treatment.

Save as disclosed above and in "History and Corporate Structure—Corporate Development of Our Company—Incorporation of joint ventures and non-wholly-owned subsidiaries with local business partners," our Directors confirm that, to their best knowledge having made reasonable enquiries, they are not aware of any other relationships (including business, shareholding, employment, family, trust, financing and fund flows) between our Group's distributors, their shareholders, directors or senior management and our Company, its subsidiaries, their shareholders, directors or senior management, and their respective close associates during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period and up to the Latest Practicable Date, we had not provided any financial assistance to any of our distributors for any purpose.

Selection of New Distributors and Assessment of Existing Distributors

We select new distributors throughout the year and conduct annual assessment of existing distributors in the fourth quarter per annum.

We adopt strict distributor selection criteria for new distributors to ensure that they can effectively operate stores and enhance our brand reputation and consumer loyalty. Major considerations of our distributor selection criteria include:

- *Business qualification*. Distributor candidates shall have obtained requisite business license registration with a business scope covering at least sales of tea leaf products.
- *Business premises*. Distributor candidates shall have stable business premises within agreeable locations pursuant to our standards.
- *Financial resources*. Distributor candidates shall demonstrate their ability to access adequate financial resources for the operation of their stores.
- *Management ability*. Distributor candidates shall demonstrate their operational and management capabilities in personnel training, products selling, and marketing and promotion.
- *Compliance record*. Distributor candidates shall have no record of material violations of laws and regulations.

We stringently review our business relationship with existing distributors through the annual assessment. Besides taking into account of major considerations of our selection mechanism for new distributors, we also evaluate the performance of a distributor by looking at its actual annual purchase amount with us. We may terminate business relationship with exiting distributors for, among other reasons, breach of the distribution agreement, including materially disrupting the retail prices of our products, and failure to satisfy our selection mechanism on an on-going basis.

The following table sets forth the total number of our distributors and their movements (including addition and termination) for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2020	2021	2022	2023
Number of distributors at the beginning of the year	649	566	531	508
Number of new distributors	75	93	85	39
— Number of new distributors for exclusive stores	55	84	52	26
— Number of new distributors for authorized stores	20	9	33	13
Number of terminated distributors	(158)	(128)	(108)	(27)
— Number of terminated distributors for exclusive stores	(50)	(69)	(81)	(18)
— Number of terminated distributors for authorized stores	(108)	(59)	(27)	(9)
Number of distributors at the end of the year	**566**	**531**	**508**	**520**

The number of terminated distributors exceeded the number of new distributors in 2020, 2021 and 2022, which was mainly because we raised the threshold for distributor selection and terminated business relationships with certain distributors whose track record did not meet our enhanced distributor selection criteria. During the Track Record Period, we raised the threshold for distributor selection by requiring distributor candidates to decorate offline stores to better display our brand, adapt to our distributor management policies including our requirement to deploy digitalized distributor management systems, such as Youxin Cloud, and refrain from taking actions that could disrupt our retail price system, primarily because we believe that we could better regulate our distributor sales channels through such enhanced threshold, ensuring the long-term healthy growth of our business. As a result, the average purchase amount per distributor increased from RMB0.57 million in 2020 to RMB0.85 million in 2021. Such average purchase amount decreased from RMB0.85 million in 2021 to RMB0.66 million in 2022, primarily due to COVID-19 recurrences. See "—COVID-19 Outbreak and Effects on Our Business." Among the terminated distributors in 2020, 2021, 2022 and the six months ended June 30, 2023, 108, 59, 27 and nine were distributors operating authorized stores, respectively, whose revenue contribution was insignificant in such periods.

During the Track Record Period and up to the Latest Practicable Date, there were no material unsettled disputes or litigations between terminated distributors and us.

Major Terms of Distribution Agreements

We typically enter into standard distribution agreements with our distributors per annum. Major terms of our standard distribution agreements include:

- *Duration*. The duration of distribution agreements is typically one year. We may renew the distribution agreements in the event that the distributors pass our annual assessment.

- *Right to use our trademark*. We authorize our distributors to use our trademarks within the duration and scope of distribution agreements.

- *Cash deposit for performance bond*. Distributors are required to pay a certain amount of cash deposit for performance bond, which is usually 10% of their estimated annual purchase amount with us, to ensure the proper performance of distribution agreements. If distributors breach the distribution agreements in any aspect, we have the right to impose fines, which can be deducted in part or in full from such cash deposit, and distributors are required to replenish the cash deposit within five business days.

- *Management on prices*. We provide our distributors with suggested retail prices of our products and regularly update such prices on Youxin Cloud, covering products to be sold in their production year and aged Pu'er tea products that have been stored for years. In particular, we regularly update suggested retail prices of aged Pu'er products over years of preservation and such prices generally appreciate to certain extent depending on the specific age of the products. Prior to our official deployment of Youxin Cloud in November 2021, we published and regularly updated suggested retail prices of our products in the National Sales Management System. Our distributors shall not take any actions that may materially disrupt the retail prices of our products. Otherwise, the non-compliant distributors risk losing the performance bond they deposit with us.

- *Distribution area*. Our distributors are only permitted to sell our products in a predetermined geographic area.

- *Estimated annual purchase amount*. Distributors declare an estimated annual purchase amount in their distribution agreements based on their respective sales capabilities and product demands. We consider the estimated annual purchase amounts as one of the factors in determining the upper limits for distributors' orders of popular products and in assessing distributor performance. Generally, we award distributors with higher estimated annual purchase amounts by giving them priority in purchasing popular products that are in high demand but short supply, and we reserve the right to terminate relationships with distributors whose actual annual purchases fall significantly below their estimated amounts.

Nonetheless, as advised by our PRC Legal Advisor, the abovementioned estimated annual purchase amounts stipulated in our standard distribution agreements do not constitute mandatory purchase obligations imposed on distributors. Our Directors also confirmed that during the Track Record Period and up to the Latest Practicable Date, none of our distributor relationships were terminated solely for failing to meet the estimated annual purchase amounts. As further confirmed by our Directors, there is no minimum sales requirement imposed on its distributors.

- *Qualification requirements*. We require our distributors to have the ability to distribute our products and satisfy our requirements on working capital, staff, business premises, warehouse and others (including office facilities, business-related auxiliary facilities and equipment).

- *Payment*. We require our distributors to make payment into our designated account through bank transfer before the delivery of products. Our distributors typically pay us in advance before they can receive our products. On the premise that distributors pay cash deposit for performance bond on time and in full, they can apply for a credit period and credit limit from us. The credit limit will not exceed the cash deposit amount and must be settled by the 15th of the following month at the latest.

- *Logistics*. While we decide the mode of transportation in logistics, most of our distributors bear the delivery charges for delivering our products to their designated warehouses.

- *Limitations on return or exchange*. We typically do not accept return or exchange of products from our distributors. We only accept returns and exchanges if the quality of our products does not meet specific quality standards or our products are worn or damaged in transit. Our distributors should submit written applications for returns and/or exchanges in three days after the delivery of our products. According to the F&S Report, our return and exchange policy is in line with industrial practice in China.

- *Confidentiality*. Distributors shall keep confidential the information about our system, prices for distributors and other material information that they have learned within the duration of distribution agreements.

- *Termination*. Grounds for termination under the distribution agreements include, among others, unauthorized grant, assignment or transfer of our trademark, selling products of our competitors or any counterfeits of our products, selling our products on third-party platforms without our permission, and other actions that are harmful to our interests. We are entitled to terminate the distribution agreements if our distributors breach the distribution agreements.

During the Track Record Period, we did not experience material breach of distribution agreements that had a significant impact on our business. During the same period, we did not have any material disputes with our distributors that had a significant impact on our business.

Distributor Management

Distributor Management Policy and Inspection

We believe that effective management of our distribution network is crucial to our success. We have adopted a detailed distributor management policy that is agreed to by our distributors. Under our current distributor management policy, we have the right to, among others, (1) require distributors to provide sales reports to us, which should include information of their sales activities such as sales volume, inventory level, etc., (2) require distributors to adopt our distributor management system in the manner as we specify, (3) require distributors to accommodate our inspections over their sales activities and inventory, and (4) impose penalties on or termination business relationship with distributors who exhibit irregularities in their operational activities.

We have a distributor supervision team, which consisted of nine employees as of the Latest Practicable Date, to supervise our distributors' sales activities. We have also established a distributor management and service team consisting of 32 sales managers as of the Latest Practicable Date, who actively manage the sales practices of our distributors and regularly pay visits to our distributors to provide them with operational advice and learn their need. During the Track Record Period and up the Latest Practicable Date, for each provincial administrative division where our distributors have offline presence, we had assigned at least one member in our distributor supervision team or sales manager to overlook distributor activities in such region, who in general paid visits to our distributors on a monthly basis. To further increase the frequency of on-site inspection, we have engaged third party marketing research agencies to dispatch mystery shoppers to visit our stores to conduct anonymous checks over distributors' behavior. Based on the foregoing, we believe the frequency and coverage of our on-site inspections are adequate to enable us to effectively monitor our distributors' sales activities and unsold inventory.

Our Efforts to Digitalize Distributor Management

In the early years of our development, we did not actively pursue the digitalization of distributor management because we believed the cost of such digitalization initiatives outweighed their benefit due to the buyer-seller nature of our relationship with distributors. As our business expanded, it has become increasingly necessary for us to step up our distributor management measures to have a better grasp and control over the traceability and retail pricing of our products. To this end, we introduced National Sales Management System and Product Matrix Code Management System digitalize our distributor management, whose functions were later integrated into Youxin Cloud, a comprehensive cloud-based store management system. Prior to our adoption of Youxin Cloud, we posted our product launching information, retail pricing policy and sales guidance on our National Sales Management System, which our distributors could access any time. We started to assign unique matrix codes for our products in July 2017, and subsequently promoted the use of Product Matrix Code Management System. Distributors were urged to scan the code with a code reader each time a product was sold and immediately input the corresponding sales data including the selling dates, types and quantities of products sold to our internal database. When we received reports of certain distributor's significant deviation or irregularity from our retail pricing policy, we would initiate an investigation for retail price disruption against such distributor, and distributors who failed to scan the code and upload sales data for a suspicious transaction that to certain extent indicates such distributors' deviation or irregularity from our retail pricing policy would be presumed to be engaging in retail price disruption activities. Product Matrix Code Management System was intended to enhance our ability to trace the sales of our products. With the help of Product Matrix Code Management System, cross-checked by distributors' reporting of their inventory level at year end, we were also able to obtain insights into the inventory level of our distributors. However, such insights into the inventory level of distributors were estimation based upon incomplete record as some distributors were reluctant to adopt the system as they found it burdensome to use, and we were not able to achieve extensive adoption of Product Matrix Code Management System among our distributors.

We continued to further digitalize our distributor management to enhance effectiveness of our distributor management measures, improve user experience of our digital systems, and increase the adoption rate of our distributor management systems among distributors. In November 2021, we began to officially deploy Youxin Cloud in replacement of Product Matrix Code Management System and National Sales Management System. Youxin Cloud is a cloud-based distributor and store management system that was developed by an independent third-party SaaS service provider. Youxin Cloud not only integrates functions from Product Matrix Code Management System and National Sales Management System, but also provides a suite of store management functions to enable distributors to place orders, sell products, settle payments and review and access to membership benefits in one stop on their personal mobile devices, and thus is a significant improvement in user experience for distributors.

We have made it mandatory for all exclusive stores to adopt and use Youxin Cloud. Moreover, we have installed a series of measures to not only enforce the mandatory requirement but also incentivize distributors to adopt Youxin Cloud:

- With a goal to create a tool that empowers our distributors, we have made Youxin Cloud a portal where distributors can perform most of their daily store management jobs. We have also designated Youxin Cloud as the principal official channel for our distributors to receive our product launching information, retail pricing policy and sales guidance.

- Through Youxin Cloud, distributors could offer discounted tea leaf products as membership benefits to their customers, and we will subsidize such membership benefits as incentives for distributors to adopt Youxin Cloud.

- We dispatch members of our distributor supervision team and distributor management and service team to perform on-site checks on the usage of Youxin Cloud by distributors, and provide distributors with on-the-spot guidance on using Youxin Cloud.

- We regularly conduct statistical analysis on the usage of Youxin Cloud by distributors, and based on which, reward distributors who have actively used Youxin Cloud with incentive bonuses and products and initiate private sessions with distributors who were reluctant to use Youxin Cloud to persuade them to adapt for our distributor management policy. For those distributors who are slow in adopting Youxin Cloud, we may impose certain punishments on them, such as restricting them from tapping into our membership benefit resources for retail customers, reducing their purchase volume upper limit for certain popular products, and disqualifying such distributors from being included in our excellent distributor list.

- After the launch of Youxin Cloud, we asked our distributors to provide their inventory lists separately on a semi-annual basis in 2022 and a quarterly basis in 2023, so that we can conduct cross-checks between such lists and the inventory information of the distributors retrieved from Youxin Cloud.

Through these measures, we believe we have made it not only mandatory but also desirable for distributors to adopt Youxin Cloud. As of the Latest Practicable Date, the majority of our distributors had deployed Youxin Cloud, including 394 out of 436 exclusive stores and 25 out of 90 authorized stores. We believe the lower adoption rate of Youxin Cloud by our authorized stores would not cause material adverse impacts on our monitoring of distributors' unsold inventory level, because the revenue generated from authorized stores during the Track Record Period was insignificant, accounting for less than 2.0% of the revenue generated from sales to distributors and less than 1.5% of our total revenue in 2022.

We have engaged SHINEWING Risk Services Limited ("Shinewing Risk"), an independent risk consulting firm, as our internal control and IT consultant, to review the implementation of Youxin Cloud as part of our integrated distributor management system. Based on the review results, Shinewing Risk did not note any material adverse findings with respect to the effectiveness of Youxin Cloud in monitoring our distributors' inventory level after having (1) reviewed the internal distributor management policies, the operation process of Youxin Cloud and the authorization management of Youxin Cloud, (2) conducted walk-through testings over various datapoints collected by Youxin Cloud, and (3) interviewed the management team of our Company.

Based on the review of Shinewing Risk and having considered the high coverage of Youxin Cloud over our distributors, the measures we have taken to ensure the usage of Youxin Cloud by our distributors which have deployed the system, and that no material inconsistency with the information retrieved from Youxin Cloud was identified in the onsite inspections of our Group's distributor supervision team on the distributors' sales activities and unsold inventory, our Directors are of the view that Youxin Cloud is effective in monitoring our distributors' sales activities and inventory level.

Our Inquiries into the Unsold Inventory Level of Distributors

Before our official deployment of Youxin Cloud in November 2021, we did not gain a comprehensive insight into our distributors' unsold inventory level through Product Matrix Code Management System, as some distributors were reluctant to adopt the system as they found it burdensome to use. Therefore, in or around the end of 2019 and 2020, we made inquiries into the unsold inventory level of our distributors by surveying them for the types and quantity of our products in their inventory as of December 31, 2019 and 2020, respectively, to learn the unsold inventory data. Our inquiries then were limited to the unsold inventory data for products purchased from us since 2017.

In the process of importing distributors' inventory data into Youxin Cloud after our official deployment in November 2021, we made similar inquiries to our distributors in connection with their overall inventory of our products, including those purchased (1) prior to 2017 and (2) since 2017, to ensure the adequacy and accuracy of such inventory data in Youxin Cloud. In January 2023, we also made inquiries into the overall unsold inventory data as of December 31, 2022 of our distributors on top of such information extracted from Youxin Cloud, as a cross-check against the accuracy of such data in Youxin Cloud.

Our Directors are of the view that these inquiries and information extracted from Youxin Cloud were able to provide sufficient information on the inventory level of our distributors during the Track Record Period on the following basis:

(1) the revenue contribution of the distributors who responded to our inquiries and/or provided through Youxin Cloud as to their unsold inventory data (the "Respondent Distributors") as of the end of each period during the Track Record Period accounted for over 90% of our revenue generated from sales to distributors in respective period;

(2) the information retrieved from Youxin Cloud and our on-site inspections over distributors' inventory level since Youxin Cloud's deployment did not reveal any material discrepancies indicating that their responses to our inquiries were inaccurate; and

(3) the level of unsold inventory for the Track Record Period collected from our distributors as further illustrated below was reasonable according to Frost & Sullivan.

Unsold Inventory Level of Distributors for Products Purchased Prior to 2017

Based on (1) the feedback from the Respondent Distributors in respect of the quantity of the relevant stock; and (2) an estimated unit price of such stock with reference to its book value as stated in our management accounts and an estimated margin based on our historical product margin from 2019 to 2022, the Respondent Distributors had an unsold inventory for products purchased prior to 2017 of approximately RMB55.4 million as of December 31, 2022. Such amount was not considered when assessing the reasonableness of the level of our distributors' unsold inventory, given that (1) such amount is immaterial as it only accounted for 9.4% of the overall unsold inventory of the Respondent Distributors as of December 31, 2022; (2) such amount included products sold to distributors over a span of over ten years; (3) each Respondent Distributor on average had an unsold inventory of products purchased prior to 2017 of only approximately RMB140,000; (4) it is common practice for distributors for Pu'er tea products to stock aged products from prior years for offline retail display as well as to satisfy customer demands for aged products, as the longer Pu'er tea is preserved the better it tastes and the higher value it possesses, according to the F&S Report; and (5) we do not possess the unsold inventory data for products purchased prior to 2017 as of December 31, 2020.

Inventory Level and Turnover Days of Distributors for Products Purchased in and after 2017

The inventory turnover days of the Respondent Distributors were 258.1 days, 293.8 days, 375.0 days and 537.0 days in 2020, 2021, 2022 and the six months ended June 30, 2023, respectively. According to the F&S Report, it is common industry practice for distributors to maintain certain level of inventory of Pu'er tea products based on their respective procurement amounts in their ordinary course of business in order to offer a wide variety of Pu'er tea products to satisfy different needs (primarily including aging, flavor, package and product series) from end-customers, and the level of unsold inventory of Respondent Distributors as of the end of each period during the Track Record Period were in line with market averages, which ranged from 15% to 40% in Pu'er tea industry during the same period, calculated by dividing the total value of unsold Pu'er tea products of a distributor from 2020 to the first half of 2023 by the accumulative value of Pu'er tea products that such distributor sourced from tea companies in the same period. Such market averages were based on interviews with industry participants including tea product manufacturers and tea product distributors, conducted by our industry consultant, Frost & Sullivan. For the purpose of such interviews, Frost & Sullivan primarily selected three types of market participants, including (1) well-known distributors for Pu'er tea products with considerable annual sales, (2) major Pu'er tea product manufacturers with considerable market shares, and (3) industry experts with extensive knowledge regarding distributors for Pu'er tea products from major tea product associations.

	As of/for the year ended December 31,			As of/for the six months ended June 30,
	2020	2021	2022	2023
	(RMB in millions except for percentages and days)			
Inventory of Respondent Distributors for products purchased from 2017 to the date indicated[(1)]	227	351	531	628
Inventory of Respondent Distributors as a percentage of accumulative procurement of such distributors from 2017 to the date indicated[(2)]	18.8%	22.5%	26.6%	28.7%
Inventory turnover days of Respondent Distributors[(3)]	258.1 days	293.8 days	375.0 days	537.0 days

(1) Such value is an estimation for illustrative purposes only as it is calculated by adding up the total inventory value of each product, which is in turn calculated by multiplying the total number of units of certain product in inventory by the average unit purchase price from us. The average unit purchase price of a certain product is calculated by dividing the total sales amount of such product from 2017 to the date indicated by the units of such product sold in such period.

(2) Such value is an estimation for illustrative purposes only as it is calculated by dividing the inventory of Respondent Distributors for products purchased (the calculation of which is elaborated in Note 1 above) by the accumulative procurement of such distributors from 2017 to the date indicated. The accumulative procurement of such distributors is calculated by adding up the sales value of the products sold from us to such distributors during the respective period based on the information extracted from our management accounting system.

(3) Such value is an estimation for illustrative purposes only as it is calculated by dividing the average balance of inventory for a period by procurement amount of the Respondent Distributors for that period and multiplying the number of days in each period. Such procurement amount of the Respondent Distributors during each period was estimated by using the accumulative total procurement of Respondent Distributors from 2017 to the end of each period subtracting such accumulative procurement from 2017 to the end of the preceding period end. According to the F&S Report, the inventory turnover days of distributors for Pu'er tea products in China typically ranged from 300 to 1,000 days during the Track Record Period, based on interviews conducted by Frost & Sullivan with (i) large distributors for Pu'er tea products with considerable annual sales volume, and (ii) industry experts with extensive knowledge regarding distributors for Pu'er tea products as well as other types of tea products including white tea, black tea and flavored tea. These industry experts came from major tea products associations, including (i) China Tea Marketing Association (中國茶葉流通協會), a non-profit national industry organization that researches the development and

trends of China's tea industry and implements relevant national policies under the supervision and guidance of the Ministry of Civil Affairs of China (中國民政部) and the All-China Federation of Supply and Marketing Cooperatives (中華全國供銷合作總社), as well as (ii) Yunnan Tea Marketing Association (雲南茶葉流通協會), a non-profit social organization in Yunnan Province, which promotes the development of the Yunnan tea industry, researches relevant market information and undertakes certain administrative functions entrusted by relevant local government. According to the same source, distributors for Pu'er tea products in China had such long inventory turnover days primarily because they need to stock diversified Pu'er tea products in their inventory for timely responses to the demand for such products among their end customers, and may decide on their own to stock certain products for future sales instead of purchasing aged products directly, as it is foreseeably unfeasible to purchase certain products from us years after production due to the popularity or scarcity of such products and the price of Pu'er tea products generally become higher after aging.

The inventory turnover days of Respondent Distributors increased from 258.1 days in 2020 to 293.8 days in 2021, primarily because along with our business growth in 2021, our distributors increased their purchase amount with us to satisfy their own customers' demand for more diversified products, resulting in a fair increase in their inventory level, which in turn led to an increase in the inventory turnover days. Such inventory turnover days further increased to 375.0 days in 2022, primarily because our distributors were also particularly affected by the outbreaks of COVID-19 in 2022, as evidenced by continuous store closures, reduced operating hours and canceled tea tasting sessions, among others, all of which effectively reduced offline customer traffic for our distributor-operated stores. The inventory turnover days of Respondent Distributors further increased from 375.0 days in 2022 to 537.0 days in the six months ended June 30, 2023, primarily due to a higher ending inventory balance as of June 30, 2023 because distributors increased purchase amount out of optimism in light of the market sentiment from the expected recovery over the pandemic. According to the F&S Report, there was no significant deviation of Respondent Distributors' inventory turnover days from relevant industry range.

Based on observations of distributor inventory turnover in prior years, over 80% of products purchased from us in a given year would normally be sold by our distributors in the next two years. Due to the nature of Pu'er tea leaf products, our distributors tend to maintain certain level of inventory of Pu'er tea leaf products in order to cater to customer demands for aged products. Therefore, our Directors are of the view that our distributors' unsold inventory level for products purchased from us was reasonable during the Track Record Period.

No Material Risk of Channel Stuffing

Having considered that (1) our relationship with distributors is a seller-buyer relationship, no return, exchange or refund is allowed except for limited circumstances, and in 2020, 2021, 2022 and the six months ended June 30, 2023, the total value of returned products represented 0.31%, 0.41%, 0.48% and 1.09% of our total revenue, respectively, (2) our distributors are not subject to mandatory sales targets, (3) we generally require payment by distributors before delivery and payment for cash deposit for performance bond to us, particularly for flagship products, and we had short trade receivable turnover days during the Track Record Period, (4) Pu'er tea leaf products usually do not have an expiry date and it is common practice in the industry for distributors to maintain certain level of inventory of Pu'er tea leaf products to cater to customer demands for aged products, (5) we prohibit distributors from further developing distributors on their own, (6) through analyzing the sales and inventory data collected from our distributors, we advise our distributors on their order placement with us to avoid overstocking, (7) we have adopted effective and adequate measures, including the deployment of Youxin Cloud, to monitor the sales activities and the unsold inventory of our distributors, and (8) the level of unsold inventory for the Track Record Period collected from our distributors was reasonable according to Frost & Sullivan, the Directors are of the view that our sales corresponded to actual end-customer demand and we were not subject to material risk of channel stuffing during the Track Record Period.

Our Direct Sale Customers

Our direct sale customers include retail customers, who usually purchase from our self-operated stores and self-operated online stores.

We believe that the relationships with direct sale customers are beneficial to strengthening our market leadership and enable us to better serve both large and small customers. For example, we can directly receive consumers' feedbacks on our products, which help us to adjust our marketing strategies in a timely manner and control the direction of research and development of our products.

Generally, we accept returns or exchanges from our direct sale customers only for quality defects or damage during transportation. In 2020, 2021, 2022 and the six months ended June 30, 2023, the value of returned products from direct sale customers represented 0.18%, 0.14%, 0.11% and 0.11% of our total revenue, respectively.

Membership Program for Individual Customers

We have established our membership program for individual customers, which allows them to earn points on their purchases with us and to participate in our promotional events. Membership level goes up with individual customers' aggregated purchase amount within a period of time, which allows such customers to enjoy larger discounts in accordance with their membership level and other benefits such as points redemption and value packs for our tea leaf products. We encourage our distributors to recommend this membership program to their customers, so that such customers can also enjoy these membership rewards, thereby further increasing the customer stickiness.

Our Key Account Customers

We began to engage key account customers, which primarily include hypermarket chains and platform-operated online stores, in 2020 to reach more customers both online and offline. The e-commerce platforms are responsible for the overall operation of their platform-operated online stores. Our key account customers have a buyer and seller relationship with us and resell our products to their retail customers. Collection of receivables with such key account customers generally follows payment cycles pre-negotiated with such key account customers, which were typically 60 days during the Track Record Period. In addition, according to our purchase agreements with platform-operated stores, the e-commerce platforms that operate such stores have the right to demand product returns for any reason, and we only recognize revenue from such stores when they sell our products to their retail customers. All of our key account customers during the Track Record Period were reputable public companies with large business operations, and we had not experienced any product returns from them that would cause material adverse impacts on our business and results of operations during the same period and up to the Latest Practicable Date.

Major Customers

In 2020, 2021, 2022 and the six months ended June 30, 2023, our revenue from the five largest customers in total amounted to RMB82.1 million, RMB92.4 million, RMB76.2 million and RMB45.7 million, accounting for 20.2%, 16.6%, 16.5% and 19.8% of our total revenue, respectively. In the same periods, our revenue from the single largest customer amounted to RMB23.0 million, RMB27.8 million, RMB21.3 million and RMB13.4 million, accounting for 5.7%, 5.0%, 4.6% and 5.8% of our total revenue, respectively. In 2020, 2022 and the six months ended June 30, 2023, all of the five largest customers were our distributors. In 2021, four of the five largest customers were our distributors and the remaining one was our key account customer.

To the best of our knowledge after reasonable inquiry, none of our Directors, their respective associates or Shareholders who owned five percent or more of the total issued share capital of our Company had any interest in any of our Group's five largest customers during the Track Record Period, and all of our five largest customers during the same period were independent third parties.

The following table sets forth the details of our top five customers during the Track Record Period.

Customers	Revenue amount (RMB in thousands)	Percentage of total revenue (%)	Credit term	Principal business activities	Payment method	Year of commencement of business relationship	Background
For the year ended December 31, 2020							
Dongguan Lanxiang Tea Trading Co., Ltd. (東莞市藍香茶葉貿易有限公司) and its related parties	23,006	5.7	15 to 45 days	Sales of tea and related products	Bank transfer	2009	Established on July 14, 2014, and its registered office is located in Dongguan City, Guangdong Province, with registered capital of RMB0.5 million as of the Latest Practicable Date
Guangxi Guweichun Trading Co., Ltd. (廣西古味醇商貿有限公司)	19,655	4.8	15 to 45 days	Sales of tea and related products	Bank transfer	2009	Established on January 11, 2017 and its registered office is in Nanning City, Guangxi Province, with registered capital of RMB2.0 million as of the Latest Practicable Date
Xi'an Diancai Daobo Trading Co., Ltd. (西安滇彩道播商貿有限公司)	14,314	3.5	15 to 45 days	Sales of tea and related products	Bank transfer	2012	Established on July 12, 2017, and its registered office is located in Xi'an City, Shanxi Province, with registered share capital of RMB1.0 million as of the Latest Practicable Date
Jilin Province Wanhesheng Tea Culture Co., Ltd. (吉林省萬和聖茶文化有限公司)	13,755	3.4	15 to 45 days	Sales of tea and related products	Bank transfer	2012	Established on January 19, 2017, and its registered office is in Changchun City, Jilin Province, with registered capital of RMB0.5 million as of the Latest Practicable Date
Yunnan Luoling Technology Co., Ltd. (雲南邏靈科技有限責任公司)	11,376	2.8	15 to 45 days	Sales of tea and related products	Bank transfer	2007	Established on February 19, 2009, and its registered office is located in Kunming City, Yunnan Province, with registered share capital of RMB3.0 million as of the Latest Practicable Date
Total	**82,106**	**20.2**					

Customers	Revenue amount (RMB in thousands)	Percentage of total revenue (%)	Credit term	Principal business activities	Payment method	Year of commencement of business relationship	Background
For the year ended December 31, 2021							
Guangxi Guweichun Trading Co., Ltd. (廣西古味醇商貿有限公司)	27,771	5.0	15 to 45 days	Sales of tea and related products	Bank transfer	2009	Established on January 11, 2017 and its registered office is in Nanning City, Guangxi Province, with registered capital of RMB2.0 million as of the Latest Practicable Date
Jilin Province Wanhesheng Tea Culture Co., Ltd. (吉林省萬和聖茶文化有限公司) and its related parties	22,303	4.0	15 to 45 days	Sales of tea and related products	Bank transfer	2012	Established on January 19, 2017, and its registered office is in Changchun City, Jilin Province, with registered capital of RMB0.5 million as of the Latest Practicable Date
Dongguan Lanxiang Tea Trading Co., Ltd. (東莞市藍香茶葉貿易有限公司) and its related parties	14,397	2.6	15 to 45 days	Sales of tea and related products	Bank transfer	2009	Established on July 14, 2014, and its registered office is located in Dongguan City, Guangdong Province, with registered capital of RMB0.5 million as of the Latest Practicable Date
Jinan Dianming Trading Co., Ltd. (濟南滇茗商貿有限公司)	14,106	2.5	15 to 45 days	Sales of tea and related products	Bank transfer	2017	Established on November 11, 2015, and its registered office is located in Jinan City, Shandong Province, with registered capital of RMB6.0 million as of the Latest Practicable Date
Customer A(1)(2)	13,788	2.5	60 days	Retail and wholesale business	Bank transfer	2021	Established on April 18, 2003, and its registered office is located in Shenzhen City, Guangdong Province, with registered share capital of USD326.6 million as of the Latest Practicable Date
Total	**92,365**	**16.6**					

(1) Customer A is a subsidiary of a listed company on the New York Stock Exchange.

(2) We could not disclose the identity of Customer A because it has rejected our request to publicly disclose its identity.

Customers	Revenue amount (RMB in thousands)	Percentage of total revenue (%)	Credit term	Principal business activities	Payment method	Year of commencement of business relationship	Background
For the year ended December 31, 2022							
Guangxi Guweichun Trading Co., Ltd. (廣西古味醇商貿有限公司)	21,297	4.6	15 to 45 days	Sales of tea and related products	Bank transfer	2009	Established on January 11, 2017, and its registered office is located in Nanning City, Guangxi Province, with registered capital of RMB2.0 million as of the Latest Practicable Date
Dongguan Lanxiang Tea Trading Co., Ltd. (東莞市藍香茶葉貿易有限公司) and its related parties	19,693	4.3	15 to 45 days	Sales of tea and related products	Bank transfer	2009	Established on July 14, 2014, and its registered office is located in Dongguan City, Guangdong Province, with registered capital of RMB0.5 million as of the Latest Practicable Date
Yunnan Luoling Technology Co., Ltd. (雲南邏靈科技有限責任公司)	12,527	2.7	15 to 45 days	Sales of tea and related products	Bank transfer	2007	Established on February 19, 2009, and its registered office is located in Kunming City, Yunnan Province, with registered share capital of RMB3.0 million as of the Latest Practicable Date
Jilin Province Wanhesheng Tea Culture Co., Ltd. (吉林省萬和聖茶文化有限公司) and its related parties	12,039	2.6	15 to 45 days	Sales of tea and related products	Bank transfer	2012	Established on January 19, 2017, and its registered office is located in Changchun City, Jilin Province, with registered capital of RMB0.5 million as of the Latest Practicable Date
Shenzhen Chanlin Trading Co., Ltd. (深圳市禪林商貿有限責任公司) and its related parties	10,612	2.3	15 to 45 days	Sales of tea and related products	Bank transfer	2018	Established on January 19, 2018, and its registered office is located in Shenzhen City, Guangdong Province, with registered capital of RMB0.1 million as of the Latest Practicable Date
Total	**76,168**	**16.5**					

Customers	Revenue amount (RMB in thousands)	Percentage of total revenue (%)	Credit term	Principal business activities	Payment method	Year of commencement of business relationship	Background
For the six months ended June 30, 2023							
Guangxi Guweichun Trading Co., Ltd. (廣西古味醇商貿有限公司)	13,367	5.8	15 to 45 days	Sales of tea and related products	Bank transfer	2009	Established on January 11, 2017 and its registered office is in Nanning City, Guangxi Province, with registered capital of RMB2.0 million as of the Latest Practicable Date
Dongguan Lanxiang Tea Trading Co., Ltd.(東莞市藍香茶葉貿易有限公司)and its related parties	11,982	5.2	15 to 45 days	Sales of tea and related products	Bank transfer	2009	Established on July 14, 2014 and its registered office is located in Dongguan City, Guangdong Province, with registered capital of RMB0.5 million as of the Latest Practicable Date
Yunnan Luoling Technology Co., Ltd.(雲南邏靈科技有限責任公司)	8,057	3.5	15 to 45 days	Sales of tea and related products	Bank transfer	2007	Established on February 19, 2009 and its registered office is located in Kunming City, Yunnan Province, with registered share capital of RMB3.0 million as of the Latest Practicable Date
Jilin Province Wanhesheng Tea Culture Co., Ltd.(吉林省萬和聖茶文化有限公司) and its related parties	6,309	2.7	15 to 45 days	Sales of tea and related products	Bank transfer	2012	Established on January 19, 2017 and its registered office is in Changchun City, Jilin Province, with registered capital of RMB0.5 million as of the Latest Practicable Date
Shenzhen Chanlin Trading Co., Ltd.(深圳市禪林商貿有限責任公司) and its related parties	6,024	2.6	15 to 45 days	Sales of tea and related products	Bank transfer	2018	Established on January 19, 2018 and its registered office is located in Shenzhen City, Guangdong Province, with registered capital of RMB0.1 million as of the Latest Practicable Date
Total	**45,738**	**19.8**					

PRODUCTION

Production Process

We have accumulated rich experience in the production of tea leaf products. The production process from fresh tea leaves to refined tea leaves needs to go through two stages, namely, preliminary process and refinement process. Preliminary process refers to the production of rough tea leaves from fresh tea leaves, while refinement process refers to the stage in which rough tea leaves are made into refined tea leaves through a series of processing steps. Since our establishment, we have focused on the refinement of tea leaves and procure rough tea leaves from tea leaf cooperatives. While the preliminary process is completed by tea leaf cooperatives, from whom we purchased rough tea leaves as our raw materials, in order to ensure that the quality of such rough tea leaves meets our quality requirements, we provide technical guidance on the preliminary process for the tea leaf cooperatives. See "—Quality Control—Our Quality Assurance Program—Raw Material Quality Control" for details on the technical guidance we provided to the tea leaf cooperatives.

Different Pu'er tea products have different production times due to different production processes involved. Such differences in production time are primarily reflected in the time for fermenting and blending processes. Assuming that rough tea leaf reserves are adequate, the production time of non-fermented Pu'er tea is generally one month. The production time of fermented Pu'er tea is longer than that of non-fermented Pu'er tea, because the production of fermented Pu'er tea involves an additional fermenting process. Taking into account our current production techniques and production capacities, it generally takes us two to three months to complete the fermenting process. The following diagram summarizes the key steps of our refinement process for our Pu'er tea leaf products.

The uniqueness of our production techniques was mostly attributable to the long-term commitment of our research and development team and tea production team to research and development of fermenting and blending processes. As one of the core production processes for Pu'er tea products, we ferment rough tea leaves tonnes each time during the fermenting process, and continuously monitor the temperature and the humidity during such process, based on which we also adjust the fermenting environment for rough tea leaves if required. See "—Production—Production Process." Our research and development team has systematically recorded, analyzed and compared relevant fermenting data in a span of over twenty years. Specifically, our research and development team has compared and analyzed a large number of fermenting results for rough tea leaves sourced from different production areas, educing unique fermenting formulae for our Pu'er tea products. Based on these fermenting formulae, we can adjust fermenting environment to increase the success rate of fermentation and achieve stable post-fermentation flavors. In addition, our research and development team has also conducted similar production data recording, analyzing and comparing for the blending process, enabling us to correctly select the appropriate blending raw materials based on blending formulae, thereby stabilizing and improving the quality of our Pu'er tea products. Our unique fermentation and blending processing techniques ensoul Lancang flavor, one of the most popular tea flavors on the market, to our Pu'er tea products, making our products representative of such flavor. Together with the proven capabilities of our research and development team, our Directors believe that we could continuously create new production formulae for new products, and differentiate ourselves from competitors and contribute to our business growth.

The refinement process of rough tea leaves refers to the process of fermenting (only for the refinement of fermented Pu'er tea), sieving, sorting, blending, pressing and drying. In this process, raw material selection, tea leaves blending, fermentation and pressing all require not only high-level skills, but also systematic production data recording, analysis and comparison. Our unique fermentation and blending processing techniques ensoul Lancang flavor, one of the most popular tea flavors on the market, to our Pu'er tea products, making our products representative of such flavor.

- *Fermenting*. Fermentation is a unique process in the refinement process of fermented Pu'er tea, which refers to the process of oxidative fermentation and accelerated aging of rough tea leaves. We require personnel working in our fermentation workshops make careful preparations before performing such process, including but not limited to ensuring the sanitation of the fermentation site and fermentation tools, checking the accuracy of measuring tools such as thermometers and hygrometers, and detecting the moisture of the materials used for fermentation.

- *Sieving*. During the sieving process, we use different sieve holes to separate tea leaves according to their characteristics, grades and product requirements, and to a certain extent, screen out impurities.

- *Sorting*. Due to the limitations of sieving machines, we devote manpower to manually sort out impurities that cannot be sorted out by sieving machines to make sure the tea leaves meet our high standard for purity.

- *Blending*. Blending refers to the process in which we blend tea leaves from different years and with different origins in a certain proportion according to production requirements. The blending process requires the blender to have a sufficient understanding of the characteristics of the raw materials being blended to correctly select the appropriate blending raw materials. Our blending craft aims to stabilize and improve the quality of our tea leaf products. Therefore, our blending raw materials cover tea leaves of different grades, origins, seasons, years and degrees of fermentation.

- *Pressing*. During the pressing process, tea leaves are pressed into certain shapes, such as discs, bowls and bricks before being sent for packaging. We strictly control the pressing time and ensure the quality of each batch of Pu'er tea leaf product with appropriate moisture degree.

Production Bases

As of the Latest Practicable Date, we had two production bases, both located in Pu'er, Yunnan. Our production base in Lancang is our primary production base, where substantially all tea leaf products under *1966* are manufactured. Our production base in Simao is our secondary production base, which is mostly designed for the production of tea leaf products under *Tea Mama*, including black tea, white tea and flavored tea other than Chenpi Pu'er.

In anticipation of a continuing increase in consumers' demand for our products, we decided to increase the production capacity of the Lancang production base by adding a production facility in Lancang. Our anticipation of such continuing increase was primarily based on (1) favorable growth rates of the size of relevant markets, including markets of white tea, black tea and flavored tea, and (2) our continuous efforts in expanding our online sales channels. In October 2021, such new production facility was completed with an annualized theoretical production capacity of 293.6 tonnes per year. In 2022, the theoretical production capacity of such new production facility had increased to 489.1 tonnes per year after its ramp-up period. The utilization rate of the Lancang production base decreased from 90.3% in 2022 to 63.3% in the six months ended June 30, 2023, primarily because we strategically prepared more work-in-progress, which was not included in the production volume calculation. Our strategic decision to accumulate additional raw materials and work-in-progress was undertaken to provide flexibility for potential adjustments to our product launch strategy in anticipation of evolving post-pandemic market condition.

In anticipation of the growing demand for certain tea leaf products under *Tea Mama*, including black tea, white tea and flavored tea (other than Chenpi Pu'er), we added new production equipment for the Simao production base, which resulted in an increase in capacity by 37.5% from 116.8 tonnes per year in 2020 to 160.6 tonnes per year in 2021. The utilization rate of the Simao production base continued to increase from 18.9% in 2020 to 25.4% in 2021, and further to 40.2% in 2022.

The following table sets forth the details of our production bases for the periods indicated.

Production base	Production capacity (tonnes)(1)				Production volume (tonnes)(2)				Utilization rate (%)(3)			
	2020	2021	2022	First six months in 2023	2020	2021	2022	First six months in 2023	2020	2021	2022	First six months in 2023
Lancang County, Pu'er City (普洱市瀾滄縣)	635.1	684.0(4)	1,124.2(5)	562.1	518.7	592.0	1,015.0	355.9	81.7	86.5	90.3	63.3
Simao District, Pu'er City (普洱市思茅區)	116.8	160.6(6)	160.6	80.3	22.1	40.9	64.6	27.5	18.9	25.4	40.2	34.2

(1) Production capacity is calculated based on the assumption that our production facilities operate 2,920 hours per year.

(2) During the Track Record Period, the Lancang production base was utilized for the production of tea leaves to be used in our Chenpi Pu'er products, the later production stage of which was outsourced to a third party processing partner. See "—Production Outsourced to Third Parties." The production of such tea leaves to be used in our Chenpi Pu'er products was not reflected in the production volume of the Lancang production base in the Track Record Period as such tea leaves to be used in Chenpi Pu'er products were not counted as finished goods.

(3) Utilization rate is calculated by dividing the production volume of finished goods of a given period by the production capacity of the same period.

(4) The increase in capacity was the result of our addition of a new production facility in Lancang, which was completed in October 2021 with an annualized theoretical production capacity of 293.6 tonnes per year. The new facility was used for production for approximately two months in 2021, thereby increasing the production capacity of the Lancang production base by 7.7% from 635.1 tonnes in 2020 to 684.0 tonnes in 2021.

(5) The increase in capacity was primarily due to the capacity increase of the new production facility in Lancang after its ramp-up period.

(6) The capacity of the Simao production base increased by 37.5% from 116.8 tonnes per year in 2020 to 160.6 tonnes per year in 2021 due to our addition of new production equipment.

Planned Warehousing Centers

We believe that the demand for our tea leaf products will continue to increase. In preparation for such increase in the future, we expect our inventory level to continue to increase in anticipation of enlarged production scale in the future. The increased inventory level has strained our limited warehousing spaces. Therefore, we plan to further expand our warehousing spaces by (1) building a logistics and warehousing center in Pu'er within the next three years and (2) leasing another logistics and e-commerce center in Foshan within the next three years.

We have acquired a parcel of land in Pu'er in June 2020 with an aggregate area of approximately 20,000 square meters, which is intended for our planned logistics and warehousing center in Pu'er. As of the Latest Practicable Date, such logistics and warehousing center was in the phase of designing and we had not commenced the construction. We have obtained an ownership certificate for the said land.

For our logistics and e-commerce center in Foshan, we entered into a leasing agreement, pursuant to which, the lease term has commenced since October 2022. See "Future Plans and [REDACTED]." In addition to the warehousing function, we also designated approximately 19.0% of the aggregate area of such center as an e-commerce base to support our e-commerce operations, for which we recruited additional talents in 2022. As of the Latest Practicable Date, all members of our e-commerce team had been assigned to work at our ecommerce base, ensuring efficiency in daily e-commerce operations, covering product development, sales operations, and packaging and shipping. With such e-commerce base, we have been able to strategically and efficiently manage and operate our self-operated online stores in all material aspects. Leveraging our e-commerce team's insights into the e-commerce live streaming industry, we have been able to efficiently organize live streaming sessions on major e-commerce platforms to market and sell our products, attracting considerable consumer traffic to our self-operated online stores. In addition, designating such e-commerce base within the logistics and e-commerce center in Foshan enables us to better respond to the higher logistics speed demand from our customers, so as to adapt promptly to changing e-commerce live streaming industry. We believe that this strategy makes it possible for us to comprehensively and efficiently manage and promote the development of our e-commerce operations.

Equipment and Machinery

We purchase our production lines from relevant companies in China. We regularly inspect and maintain the production equipment. To ensure production safety and efficiency, we have employed maintenance personnel to regularly inspect and maintain our key production equipment and machinery. Our major production equipment and machinery have an estimated average useful life of ten years. We use straight-line basis to make provision and depreciation, with an annual rate of 9.5%. The remaining useful life of such equipment and machinery was approximately 5.2 years on average as of June 30, 2023.

Production Outsourced to Third Parties

For outsourced tea leaf products, we provide refined tea leaves and packaging materials to third-party processing partners, and may rely on them to provide other ingredients and/or raw materials and complete the processing and production of such products. We outsource the production of some flavored tea leaf products to independent third parties to allow us to focus on the provision of high-quality tea leaves, leverage third-party processors for their specialized production facilities, and avoid the impact of long-distance transportation that may affect the flavor of raw materials and unnecessarily large capital expenditure. From the selection of natural ingredient to the delivery of finished flavored tea leaf products, we require commissioned third-party processing partners to strictly abide by our production requirements and national and industry production standards. We dispatch supervisors to track the production process to ensure that each stage is reliable and safe. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, our consigned processing expenses were RMB14.2 million, RMB16.2 million, RMB16.9 million, RMB6.3 million and RMB9.8 million, respectively, accounting for 11.8%, 8.5%, 10.7%, 7.0% and 10.6% of our cost of sales, respectively.

We have stringent criteria for selecting third party processing partners. In particular, we select third party processing partners mainly by assessing their commercial qualifications, processing standards, internal and third-party product inspection reports and ingredient inspection reports, in the case where certain ingredients and/or raw materials are to be provided by them. During the Track Record Period and up to the Latest Practicable Date, we had two major processing partners, one for processing our Chenpi Pu'er products, *i.e., Little Green Mandarin* and *Big Red Mandarin*, and the other for packaging and assembling certain tea leaf products, with whom we have cooperated for more than eight years and six years as of the Latest Practicable Date, respectively. Our processing partners are required to possess all licenses and permits necessary to conduct their operations. We routinely review and assess our processing partners' performance to ensure their quality and stability.

We believe our processing partners would provide us with sufficient support, and in any event, we could engage alternative third party processing partners within a short period as replacements considering that normally there are abundant candidates that provide processing services available on the market as advised by Frost & Sullivan. Leveraging our rich industry experience and expanded operational scale, we have strong bargaining power in negotiating production service fees and other terms with our processing partners. Major terms of the outsourcing agreements with certain third-party processing partner include:

- *Service scope*. The processing partner agrees to provide processing services according to agreed-upon criteria, and provide certain ingredients and raw materials if required, while we are responsible to provide adequate tea leaves and packaging materials.

- *Production service fee*. The production service fee stipulated in the agreement, which usually covers the costs for ingredients and raw materials to be provided by the processing partner if any, is subject to a minimum production volume. If our actual order placed during a given period could not satisfy such minimum production volume requirement, we may be required to pay additional fees.

- *Quality control*. We prohibit the processing partner to assign their obligations under the agreement to third parties, and require them to follow the agreed-upon production criteria and comply with relevant laws and regulations. In addition, the processing partner shall provide us with internal and third-party product inspection reports, and keep records related to production and quality control. Parties also agree to jointly review production processes for improving quality control measures, if necessary. Furthermore, we have the right to conduct on-site inspections and sample checks at our discretion.

- *Payment*. We are usually required to settle the production service fee with processing partner monthly by bank transfer and within 10 days after we receive the invoices.

- *Confidentiality*. The parties shall keep the production process know-how acquired in connection with this agreement confidential.

- *Liability*. Where any party breaches any material term under this agreement, such party shall compensate the other for the losses incurred as a result of the breach, and the other shall have the right to rescind the agreement.

QUALITY CONTROL

We have established an enterprise quality management system, covering the raw material and packaging material supply chain, product manufacturing, storage, logistics and sales, to ensure our products comply with relevant quality standards. We implement stringent policies to manage raw materials and packaging materials suppliers regarding their admission and elimination, in order to strictly control the quality of the materials supply. We strictly implement product safety and quality control standards and take corresponding control measures throughout our entire product process, in order to ensure that all of our products meet the relevant national safety standards, and our strict internal quality standards. We have also set up a dedicated channel and product quality assurance team to extend quality control to storage, logistics and sales. As of the Latest Practicable Date, we had 50 employees responsible for the quality assurance. During the Track Record Period and up to the Latest Practicable Date, we (1) did not receive any fines, product recall orders or other penalties from the relevant competent authorities regarding material product quality issues, (2) did not receive any material product returns from our customers, or (3) receive any material complaints from the consumers.

Our Quality Accreditations

We have set up a stringent quality assurance system to ensure the quality of our products. Specifically, we have obtained major quality accreditations, including the certification of ISO9001 Quality Management System, ISO22000 Food Safety Management System, GB/T 19630 China Organic Certification, Certification of Environmental Standards GmbH and Hazard Analysis Critical Control Points Certification. Moreover, certain of our raw materials have received organic production certifications from relevant agencies in the European Union and the United States.

In addition to the quality accreditations and certifications mentioned above, we have adopted various measures to ensure our continuous compliance with relevant food safety laws and regulations. In particular, we have obtained all necessary qualifications required by relevant food safety laws and regulations for our production bases and self-operated stores, and continue to monitor the status of such qualifications. Moreover, we require all distributors to obtain all necessary qualifications such as food operation license for the sales of our products, and failure to do so constitutes violation of our distribution agreements. In addition, we have established internal policies for employees at our production bases, requiring them to obtain and renew health certificates on an ongoing basis. We also make the status of such health certificates public for inspection in our production bases. As advised by our PRC Legal Advisor, we had complied with all material aspects of relevant food safety laws and regulations as of the Latest Practicable Date. During the Track Record Period and up to the Latest Practicable Date, we had not received any material complaints from consumers that may adversely affect our business and results of operations.

Our Quality Assurance Program

We ensure the continuous supply of quality products from different production bases through the effective implementation and continuous improvement of our stringent quality assurance system.

Raw Material Quality Control

We have implemented the supplier admission and assessment system and created a qualified supplier catalogue in which we record suppliers' names, products and services provided and the dates of their establishments of business relationships with us. Through regular performance evaluation on the suppliers in various aspects such as their prices, delivery cycle, after-sale service, product quality and on-site audit results, the suppliers which fail to pass the evaluation will be removed from the supplier catalogue. For example, we bring back samples for rough tea leaves for comparison and tasting, to ensure that the quality of such purchased raw materials meet our standards. In addition, we provide free technical guidance for the tea leaf cooperatives in the improvement of their preliminary processing techniques of rough tea leaves so as to assure the rough tea leaves we source from them meet our quality requirements.

In order to prevent unqualified raw materials and packaging materials from being used in production, we have established a procurement acceptance system to inspect each batch of raw materials that arrive at the manufactory plants, and only the raw materials and packaging materials that meet the standards can be accepted.

Production Process Quality Control

We follow relevant standards for the production of our products, including the national mandatory standards and our strict internal standards. We have established comprehensive operating procedures to conduct quality control throughout the entire production process in order to ensure that the quality of our products meets the requirements.

We require our personnel involved in production activities to follow strict hygiene standards. Our production personnel are required to change clean work clothes, including hats and shoes, and thoroughly clean themselves before entering into the production area. Equipment and machinery for the production process are subject to their respective detailed cleaning and sterilization requirements depending on functions and usages, in order to ensure product safety.

We conduct comprehensive supervision and inspections on the entire production process to ensure that all of our production equipment, machinery and personnel operation satisfy the national mandatory standards and our stricter internal standards.

Finished Products Quality Control

Our quality management extends to the storage, delivery and sales process of our products. In particular, by leveraging on the sales personnel located in different parts of China, we are able to closely keep track of the quality status of our products during their life cycles, to identify potential quality exposures and to ensure the stable quality of our products.

In addition, we also cooperate with independent supervision and inspection centers for quality control of our finished products, including the National Center for Pu'er Tea Products Quality Supervision and Inspection.

To ensure that the quality of the finished products we produce every year can meet our high standards, we store a small amount of sample products launched in previous years for comparison. We believe that such approach allows us to ensure that our finished products in a given year retain stable flavors that their series should have even each fermentation and blending process includes many variables that could cause flavor changes.

We implement the application of anti-counterfeiting QR codes for our major products. Consumers can quickly confirm the authenticity of the products by scanning such codes with their mobile phones. We have also set up procedures to handle consumer complaints, including consumer service hotlines and other feedback mechanism. In addressing the consumers' complaints, we undertake to communicate and liaise with the consumers in a timely manner and to commence the quality investigation procedures. If our customer complaint team deems it is necessary after such investigation, we promptly accept the return or exchange request from complaining customer.

RAW MATERIALS, PACKAGING MATERIALS AND SUPPLIERS

Raw Materials and Packaging Materials

The principal raw material we use in the production of our products is rough tea leaves, which are used in producing Pu'er tea, black tea, white tea and flavored tea. We take a holistic approach in making purchasing decisions of rough tea leaves. Factors affecting our purchasing decisions include the price, type, quality and origin of a certain batch of rough tea leaves as well as our long-term product development plan. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, our purchase for rough tea leaves amounted to RMB99.9 million, RMB196.9 million, RMB165.1 million, RMB144.6 million and RMB100.7 million, respectively.

The purchasing prices of our raw materials fluctuate due to a variety of factors, including supply and demand, our ability to negotiate prices with suppliers, logistics and others. For the price of a certain batch of rough tea leaves, we take into consideration multiple factors, primarily including the cost of fresh tea leaves and the cost of the preliminary process. We annually conduct market research on the pricing trend of rough tea leaves by leveraging our strong relationship with local tea leaf cooperatives. The cost of fresh tea leaves substantially depends on the origin, type and season of fresh tea leaves. For example, costs of fresh tea leaves of ancient tea trees are significantly higher than that of cultivated tea tree leaves in general. The appearance of fresh tea leaves may also affect its costs. Costs of the preliminary process may slightly fluctuate depending on specific processing techniques.

We believe that rough tea leaves sourced by us can be classified as high quality, primarily because (1) the vast majority of our rough tea leaves are sourced from the three major production areas of Pu'er tea in Yunnan, one of the most suitable provinces for growing tea trees due to its rich rainfall, fertile land and relatively less polluted environment, according to the F&S Report; (2) with years of local presence, we have built strong and stable relationships with over 100 tea leaf cooperatives in the major production areas of Pu'er tea, covering majority of sources of supply for rough tea leaves in Jingmai Mountain, according to the F&S Report; (3) we have established a comprehensive supplier management policy, pursuant to which we only establish business relationship with tea leaf cooperatives who are able to provide us with nationally recognized third-party test reports for their rough tea leaves; and (4) rough tea leaves to be sourced by us have to satisfy both an agreed upon quality standard and national quality standard, pursuant to our standard supply agreement for rough tea leaves. See also "—Quality Control—Our Quality Assurance Program—Raw Material Quality Control."

Apart from raw materials, we also need packaging materials, which primarily consist of cardboard and metal packaging materials, to produce our products. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, purchase for packaging materials amounted to RMB16.5 million, RMB49.9 million, RMB37.9 million, RMB15.7 million and RMB10.9 million, respectively.

During the Track Record Period, we did not experience any significant shortage of raw material and packaging material supplies, and the raw materials and packaging materials provided by our suppliers did not have any significant quality issues.

Our Suppliers

We primarily purchase raw materials such as rough tea leaves, packaging materials, logistics and transportation services, and processing services from suppliers for our business operations. We do not own any tea leaf plantations or any tea trees, but instead, source rough tea leaves from the tea leaf cooperatives in major tea production areas in Yunnan Province, where the soil quality and humidity are well suited to give these tea leaves their freshness and taste. We source such rough tea leaves for both Pu'er tea products and non-Pu'er tea products. Our suppliers for packaging materials are primarily located in Yunnan Province and Guangdong Province. Our independent third party processing partners primarily provide processing services for our flavored tea products, such as *Little Green Mandarin*, while we are responsible to provide adequate tea leaves and packaging materials.

Supplier Selection and Management

We consider several factors in the evaluation and selection of suppliers, including but not limited to the suppliers' background, reputation, and industry experience, and most importantly the quality and price of their supplies. All new suppliers must go through our internal supplier admission process before entering into supply agreements with us. Some of them are subject to an onsite inspection conducted by us on their facilities on an as-needed basis to evaluate their quality control and test the raw material and packaging material samples.

We have established a comprehensive supplier management policy with the following significant procedures:

- Prior to being admitted to our qualified supplier list, supplier candidates shall provide us with nationally recognized third-party test reports for their products and pass our internal sampling tests.

- When quality issues arise, our procurement department will initiate audit action targeting liable suppliers as a corrective measure to help such suppliers comply with our quality standards.

- For suppliers with recurring quality issues, we organize a joint investigation team consisting of employees from at least three departments. If our investigation team concludes that the quality issues are material, liable suppliers will be added to our corporate level blacklist.

- We conduct annual assessments for existing suppliers in our qualified supplier list each year.

Key Contractual Terms of Supply Agreements for Rough Tea Leaves

We generally purchase rough tea leaves on a quarterly basis. Set forth below is a summary of our standard supply agreement for rough tea leaves that we enter into with tea leaf cooperatives.

- *Term*. Typically one year subject to annual review and renewal. We also enter into long-term supply agreements typically for five years with major tea leaf cooperatives.

- *Quality*. We only source rough tea leaves produced by tea leaf cooperatives themselves, and may require such cooperatives to pluck and process fresh tea leaves according to our guidelines. The quality of rough tea leaves has to satisfy both an agreed-upon quality standard and national quality standard.

- *Pricing*. The price of rough tea leaves is typically set forth in a written quote as separately agreed between the tea leaf cooperatives and us. Such price fluctuates in line with market conditions.

- *Delivery*. Tea leaf cooperatives are generally responsible for arranging the delivery of rough tea leaves to our designated location at their own expense.

- *Inspection and acceptance*. After receiving rough tea leaves, we conduct the quality inspection and have the right to return or price adjustment if the quality of rough tea leaves received fails to satisfy either the agreed-upon quality standard or national quality standard.

- *Credit term*. We are generally required to settle payments with tea leaf cooperatives within the same year after we have received invoices.

- *Payment*. We only settle payments with tea leaf cooperatives by bank transfer.

We have maintained long-term and stable business relationships with a large number of tea leaf cooperatives and expect to maintain amicable relationships with them. In particular, with years of local presence, we have built strong relationships with over 100 tea leaf cooperatives in the major production areas of Pu'er tea, covering majority of sources of supply for rough tea leaves in Jingmai Mountain, according to the F&S Report. Through these tea leaf cooperatives, we could access high quality rough tea leaves in the region, which we believe cannot be easily acquired by our competitors as it typically takes a significantly long time for tea companies to establish stable business relationships with such cooperatives to gain access to high quality rough tea leaves, according to the F&S Report. Since our inception in Yunnan, we have been committed to maintaining amicable relationships with local tea leaf cooperatives, primarily by establishing stable, trusted and mutually beneficial business relationships with them. We also provide free technical guidance on the tea tree resource protection and the preliminary process for rough tea leaf production to qualified cooperatives to improve their supply capacity of quality rough tea leaves. We dispatch employees to provide on-site guidance on fresh tea leaf picking techniques for sustainable development. These employees also regularly organize training sessions for tea leaf cooperatives, sharing preliminary process techniques with them. Such mutual benefit cooperation allows us to establish strong and long-term business relationships with tea leaf cooperatives.

In the six months ended June 30, 2023, more than 50% of our purchase amount of rough tea leaves were attributable to tea leaf cooperatives with over five years' business relationship with us, and more than 30% of that were attributable to tea leaf cooperatives with over ten years' business relationship with us. As of June 30, 2023, we had maintained long-term supply agreements with 35 major tea leaf cooperatives. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, our purchase amount of rough tea leaves from tea leaf cooperatives that we had maintained long-term supply agreements with was RMB76.6 million, RMB146.8 million, RMB111.5 million, RMB80.3 million and RMB65.1 million, respectively. We believe our long-term stable business relationships with such cooperatives also enable us to minimize the risks of unexpected fluctuation in the price of rough tea leaves.

Our Directors are of the view that there is no specific legal risk and/or restriction in respect of our transactions and dealings with tea leaf cooperatives, except for those normal legal risks associated with our business cooperations and restrictions set forth in supply agreements. During the Track Record Period and up to the Latest Practicable Date, we did not experience material breach of supply agreements that had a significant impact on our production and did not have any material disputes with our suppliers.

To strengthen our cooperation with local tea farmers, secure our resources of rough tea leaf materials from Jingmai Mountain and improve our procurement efficiency, we incorporated Yunnan Jingyan Tea Co., Ltd. (雲南景岩茶業有限公司) ("Yunnan Jingyan"), a tea leaf trade company which coordinates the local tea leaf cooperatives by leveraging its extensive local business network and assists us in procurement of the rough tea leaves from ancient tea tree plantations in Jingmai Mountain from the local tea leaf cooperatives, with Pu'er Ancient Iland Management Partnership Enterprise (Limited Partnership) (普洱古岩冷管理合夥企業(有限合夥)) ("Ancient Iland") in March 2022. Since its incorporation and as of the Latest Practicable Date, Yunnan Jingyan was owned as to 33.00% by us and 67.00% by Ancient Iland, which was in turn owned by the key members of the local tea leaf cooperatives and controlled by Mr. Ke Aihua (科哎華), a local tea farmer and the sole general partner of Ancient Iland. Certain partners of Ancient Iland hold indirect interest in our Company through Pu'er Guming Management Partnership (Limited Partnership) (普洱古茗管理合夥企業) (有限合夥) ("Pu'er Guming"), whose details are set out in the section headed "History and Corporate Structure—Major changes in our Company's shareholding structure and registered capital—(3) The 2021 Capital Increase and Share transfers." We received tea leaf sourcing and procurement services from Yunnan Jingyan, primarily including overall coordination, quality control and logistics and settlement in 2022 and the six months ended June 30, 2023. The transaction amount of service fees with Yunnan Jingyan for 2022 and the six months ended June 30, 2023 was RMB3.2 million and RMB1.6 million, respectively, representing 1.11% and 1.16% of our total purchase from suppliers in the same periods, respectively. Considering that Pu'er Guming held only approximately 0.95% of the total issued capital of the Company as of the Latest Practicable Date and such partners of Ancient Iland are limited partners of Pu'er Guming without involving in decision-making of Pu'er Guming, our Directors are of the view that their shareholding relationship with us does not have any significant influence on our transactions with Yunnan Jingyan, and our transactions with Yunnan Jingyan were conducted under ordinary and normal commercial terms and were fair and reasonable.

Save as disclosed above, our Directors confirm that, to their best knowledge having made reasonable enquiries, they are not aware of any other relationships (including business, shareholding, employment, family, trust, financing and fund flows) between our Group's rough tea leaves suppliers, their shareholders, directors or senior management and our Company, its subsidiaries, their shareholders, directors or senior management, and their respective close associates during the Track Record Period and up to the Latest Practicable Date.

Major Suppliers

During the Track Record Period, our major suppliers primarily consisted of suppliers of raw materials, such as rough tea leaves, and third-party processing service providers. In 2020, 2021, 2022 and the six months ended June 30, 2023, purchases from our five largest suppliers accounted for 31.7%, 26.1%, 22.5% and 27.6% of our total purchases from such suppliers, respectively. In the same periods, purchases from our largest supplier accounted for 17.2%, 15.0%, 8.4% and 8.7% of our total purchases from such suppliers, respectively. All of our five largest suppliers during the Track Record Period were independent third parties. The following table sets forth certain information of our major suppliers during the Track Record Period.

Supplier	Purchase amount	Percentage of total purchase	Year of commencement of business relationship	Credit period	Payment method	Principal business activities	Type of supplier	Background
	(RMB in thousands)	*(%)*						
For the year ended December 31, 2020								
Supplier A[(1)]	30,160	17.2	2015	For processing services: payment upon acceptance inspection and issuance of VAT invoice. For Chenpi and packaging materials: 30% advance payment upon contract signing and 70% balance payment upon issuance of VAT invoice	Bank transfer	Provision of processing services and sales of related materials	Processing services, Chenpi and packaging materials	Established on January 17, 2004 and its registered office is located in Jiangmen City, Guangdong Province, with registered share capital of RMB123.3 million as of the Latest Practicable Date. It is listed on National Equities Exchange and Quotations
Lancang Shangyun Town Guangyuan Tea Farmers Professional Cooperative (瀾滄上允鎮廣源茶葉農民專業合作社)	8,762	5.0	2011	Payment within the year of purchase	Bank transfer	Sales of rough tea leaves	Rough tea leaves	Established on June 10, 2011 and its registered office is located in Pu'er City, Yunnan Province, Yunnan Province, with registered share capital of RMB0.1 million as of the Latest Practicable Date
Lancang Mangjing Wengdala Tea Farmers Professional Cooperative (瀾滄芒景翁達臘茶葉農民專業合作社)	5,635	3.2	2011	Payment within the year of purchase	Bank transfer	Sales of rough tea leaves	Rough tea leaves	Established on September 2, 2011 and its registered office is located in Pu'er City, Yunnan Province, with registered share capital of RMB9,100 as of the Latest Practicable Date
Lancang Jingmai Yushu Tea Farmers Professional Cooperative (瀾滄景邁玉淑茶葉農民專業合作社)	5,608	3.2	2011	Payment within the year of purchase	Bank transfer	Sales of rough tea leaves	Rough tea leaves	Established on January 12, 2011 and its registered office is in Pu'er City, Yunnan Province, with registered share capital of RMB0.2 million as of the Latest Practicable Date
Lancang Kaimei Tea Factory (瀾滄開梅茶廠) and its related parties	5,357	3.1	2016	Payment within the year of purchase	Bank transfer	Sales of rough tea leaves	Rough tea leaves	Established on September 21, 2017 and its registered office is located in Pu'er City, Yunnan Province, with registered share capital of RMB1.9 million as of the Latest Practicable Date
Total	**55,522**	**31.7**						

(1) We could not disclose the identity of Supplier A because it has rejected our request to publicly disclose its identity.

Supplier	Purchase amount	Percentage of total purchase	Year of commencement of business relationship	Credit period	Payment method	Principal business activities	Type of supplier	Background
	(RMB in thousands)	*(%)*						
For the year ended December 31, 2021								
Supplier A	51,880	15.0	2015	For processing services: payment upon acceptance inspection and issuance of VAT invoice. For Chenpi: 30% advance payment upon contract signing and 70% balance payment upon issuance of VAT invoice	Bank transfer	Provision of processing services and sales of related materials	Processing services and Chenpi	Established on January 17, 2004 and its registered office is located in Jiangmen City, Guangdong Province, with registered share capital of RMB123.3 million as of the Latest Practicable Date. It is listed on National Equities Exchange and Quotations
Lancang Jingmai Yushu Tea Farmers Professional Cooperative (瀾滄景邁玉淑茶葉農民專業合作社)	10,730	3.1	2011	Payment within the year of purchase	Bank transfer	Sales of rough tea leaves	Rough tea leaves	Established on January 12, 2011 and its registered office is in Pu'er City, Yunnan Province, with registered share capital of RMB0.2 million as of the Latest Practicable Date
Lancang Shangyun Town Guangyuan Tea Farmers Professional Cooperative (瀾滄上允鎮廣源茶葉農民專業合作社)	10,462	3.0	2011	Payment within the year of purchase	Bank transfer	Sales of rough tea leaves	Rough tea leaves	Established on June 10, 2011 and its registered office is located in Pu'er City, Yunnan Province, with registered share capital of RMB0.1 million as of the Latest Practicable Date
Lancang Changhao Tea Co., Ltd. (瀾滄昌皓茶葉有限公司)	8,841	2.6	2021	Payment within the year of purchase	Bank transfer	Sales of raw materials for tea leaf products	White tea related raw materials	Established on September 15, 2017 and its registered office is located in Pu'er City, Yunnan Province, with registered share capital of RMB9.0 million as of the Latest Practicable Date
Lancang Jingmai'en Tea Farmers Professional Cooperative (瀾滄景邁依恩茶葉農民專業合作社)	8,193	2.4	2016	Payment within the year of purchase	Bank transfer	Sales of rough tea leaves	Rough tea leaves	Established on April 27, 2016 and its registered office is located in Pu'er City, Yunnan Province, with registered share capital RMB0.2 million as of the Latest Practicable Date
Total	**90,106**	**26.1**						

Supplier	Purchase amount	Percentage of total purchase	Year of commencement of business relationship	Credit period	Payment method	Principal business activities	Type of supplier	Background
	(RMB in thousands)	*(%)*						
For the year ended December 31, 2022								
Supplier A	24,471	8.4	2015	Payment upon acceptance inspection and issuance of VAT invoice	Bank transfer	Provision of processing services and sales of related materials	Processing services	Established on January 17, 2004 and its registered office is located in Jiangmen City, Guangdong Province, with registered share capital of RMB123.3 million as of the Latest Practicable Date. It is listed on National Equities Exchange and Quotations
Lancang Changhao Tea Co., Ltd. (瀾滄昌皓茶葉有限公司)	11,880	4.1	2021	Payment within the year of purchase	Bank transfer	Sales of raw materials for tea leaf products	Rough tea leaves, and white tea and black tea related raw materials	Established on September 15, 2017, and its registered office is located in Pu'er City, Yunnan Province, with registered share capital of RMB9.0 million as of the Latest Practicable Date
Lancang Jingmai Yushu Tea Farmers Professional Cooperative (瀾滄景邁玉淑茶葉農民專業合作社)	10,556	3.6	2011	Payment within the year of purchase	Bank transfer	Sales of rough tea leaves	Rough tea leaves	Established on January 12, 2011 and its registered office is in Pu'er City, Yunnan Province, with registered share capital of RMB0.2 million as of the Latest Practicable Date
Jiangmen Xinhui District Tianlu No.2 Chenpi Tea Culture Co., Ltd (江門市新會區天祿二號陳皮茶葉文化有限公司)	9,582	3.3	2017	Payment upon acceptance inspection and issuance of VAT invoice	Bank transfer	Sales of rough tea leaves	Chenpi	Established on February 12, 2015 and its registered office is located in Jiangmen City, Guangdong Province, with registered share capital of RMB2.0 million as of the Latest Practicable Date
Lancang Kaimei Tea Factory (瀾滄開梅茶廠) and its related parties	9,046	3.1	2016	Payment within the year of purchase	Bank transfer	Sales of rough tea leaves	Rough tea leaves	Established on September 21, 2017 and its registered office is located in Pu'er City, Yunnan Province, with registered share capital of RMB1.9 million as of the Latest Practicable Date
Total	**65,535**	**22.5**						

Supplier	Purchase amount	Percentage of total purchase	Year of commencement of business relationship	Credit period	Payment method	Principal business activities	Type of supplier	Background
	(RMB in thousands)	*(%)*						
For the six months ended June 30, 2023								
Lancang Changhao Tea Co., Ltd. (瀾滄昌皓茶葉有限公司)	11,913	8.7	2021	Payment within the year of purchase	Bank transfer	Sales of raw materials for tea leaf products	Rough tea leaves, white tea and black tea related raw material	Established on September 15, 2017 and its registered office is located in Pu'er City, Yunnan Province, with registered share capital of RMB9.0 million as of the Latest Practicable Date
Shuangjiang Mengku Iceland Ancient Tea Farmers Professional Cooperative (雙江勐庫冰島古茶農民專業合作社)	10,443	7.7	2011	Payment within the year of purchase	Bank transfer	Sales of rough tea leaves	Rough tea leaves	Established on March 22, 2011 and its registered office is located in Lincang City, Yunnan Province, with registered share capital of RMB66,600 as of the Latest Practicable Date
Jiangmen Xinhui District Tianlu No.2 Chenpi Tea Culture Co., Ltd (江門市新會區天祿二號陳皮茶葉文化有限公司)	5,879	4.3	2017	Payment upon acceptance inspection and issuance of VAT invoice	Bank transfer	Sales of rough tea leaves	Chenpi	Established on February 12, 2015 and its registered office is located in Jiangmen City, Guangdong Province, with registered share capital of RMB2.0 million as of the Latest Practicable Date
Mengla County Yiwu Junwen Tea Industry Professional Cooperative (勐臘縣易武俊文茶業專業合作社)	5,343	3.9	2015	Payment within the year of purchase	Bank transfer	Sales of rough tea leaves	Rough tea leaves	Established on October 9, 2013 and its registered office is located in Xishuangbanna Dai Autonomous Prefecture, Yunnan Province, with registered share capital of RMB131,000 as of the Latest Practicable Date
Lancang Kaimei Tea Factory (瀾滄開梅茶廠) and its related parties	4,057	3.0	2016	Payment within the year of purchase	Bank transfer	Sales of rough tea leaves	Rough tea leaves	Established on September 21, 2017 and its registered office is located in Pu'er City, Yunnan Province, with registered share capital of RMB1.9 million as of the Latest Practicable Date
Total	**37,635**	**27.6**						

We have maintained long-term and stable relationships with our suppliers. For our five largest suppliers in 2020, 2021, 2022 and the six months ended June 30, 2023, we had maintained business relationships with these suppliers on average for approximately seven years.

None of our Directors, their respective associates or Shareholders who owned five percent or more of the total issued share capital of our Company had any interest in any of our Group's five largest suppliers during the Track Record Period.

Overlapping of Customers and Suppliers

During the Track Record Period, some of our customers were also our suppliers for marketing services, rough tea leaves, tea wares and utensils and processing services. Negotiations of the terms of our sales to and purchases from these overlapping customers and suppliers were conducted on an individual basis and the sales and purchases were neither inter-connected nor inter-conditional with each other. All of our sales to and purchases from these overlapping customers and suppliers were conducted in the ordinary course of business under normal commercial terms and in arm's length transactions. In 2020, 2021, 2022 and the six months ended June 30, 2023, the revenue from these overlapping customers and suppliers was RMB7.2 million, RMB8.6 million, RMB2.4 million and RMB1.4 million, respectively, accounting for approximately 1.8%, 1.5%, 0.5% and 0.6% of our total revenue in the same periods, respectively; the gross profit generated from these overlapping customers and suppliers was RMB5.8 million, RMB6.3 million, RMB0.9 million and RMB0.5 million, respectively, accounting for approximately 2.0%, 1.7%, 0.3% and 0.4% of our total gross profit in the same periods, respectively. In the same periods, the purchase amount for goods and services from such overlapping customers and suppliers was RMB18.1 million, RMB16.6 million, RMB21.7 million and RMB7.6 million, accounting for approximately 7.9%, 4.2%, 5.5% and 4.2% of our total purchase amount in each year, respectively.

During the Track Record Period, due to demand from customers for aged tea leaf products or production of tea set products that required aged tea leaves, we purchased some tea leaf products from previous years, of which we were out of stock, from some of our distributors, sold such products to other customers or packaged them as part of our tea set products. Such purchases were solely driven by customer demand and our tea set launching pace, and conducted in the ordinary course of business under normal commercial terms in arm's length transactions. In addition, such practice is common in China's Pu'er tea industry, according to the F&S Report. In 2020, 2021, 2022 and the six months ended June 30, 2023, the purchase amount attributable to these overlapping customers and suppliers was RMB0.5 million, RMB2.7 million, nil and nil, accounting for approximately 0.2%, 0.7%, nil and nil of our total purchase amount in each period, respectively. In the same periods, the revenue from these overlapping customers and suppliers was RMB48.5 million, RMB49.5 million, RMB43.3 million and RMB29.8 million, accounting for approximately 12.0%, 8.9%, 9.4% and 12.8% of our total revenue in each period, respectively; the gross profit generated from these overlapping customers and suppliers was RMB33.3 million, RMB30.6 million, RMB27.8 million and RMB19.0 million, accounting for approximately 11.7%, 8.3%, 9.1% and 13.6% of our total gross profit in each period, respectively.

INVENTORY

We maintain a reserve of approximately 3,700 tonnes of rough tea leaves and in-process tea leaves throughout the year, which are mainly stored in the standardized storage environment of our primary production base in Pu'er City, Yunnan Province. For better storage, our warehouse is equipped with dehumidifiers and we conduct daily testing of temperature and humidity degrees.

We stock high-quality rough tea leaves every year. Sufficient raw material reserves help us ensure the stable production of classic products, and the diversity of raw material reserves also helps us to carry out diversified blending and innovation. Such inventory strategy provides us a powerful guarantee for the sustainable long-term development of our business. See "Risk Factors—Risks Relating to Our Business—Any failure to manage our inventory effectively would materially and adversely affect our results of operations, financial condition and cash flows" for risks relating to our inventory strategy.

We also stock a considerable amount of products in progress and finished products to enable us to quickly respond to changes in the market trend and cater to consumers' demand for moderately aged Pu'er tea products. Our inventories of work in progress primarily included tea leaves that is going through the refinement process. Fermented rough tea leaves can be completed as finished products in a relatively short period.

The following table sets forth our inventory breakdown. See also "Financial Information—Discussion of Certain Items from the Consolidated Statements of Financial Position—Inventories."

	As of December 31,			As of June 30,
	2020	**2021**	**2022**	**2023**
	(RMB in thousands)			
Raw materials	71,026	136,673	158,357	173,224
Work in progress	207,957	243,375	272,986	280,153
Finished goods	191,357	256,789	353,894	382,881
Inventories — gross	470,340	636,837	785,237	836,258
Less: provision for impairment[(1)]	—	(1,167)	(1,582)	(1,699)
Inventories — net	**470,340**	**635,670**	**783,655**	**834,559**

(1) Mainly related to the impairment of a limited number of flavored tea products with floral ingredients, which have expiry dates.

Inventory Control

We have an inventory control policy in place to monitor our inventory levels. We perform the following inventory management procedures to keep track of incoming and outgoing inventories and monitor our inventory levels.

- The inventory should be stacked neatly with information cards attached in ample warehouse space.
- Responsible departments should examine each batch of inventory before admitting such inventory into warehousing facilities.
- The security and anti-theft system should be inspected on a regular basis.
- The warehouse personnel should check the inventory level every month, and the finance department should monitor the inventory at least once every six months.
- The inventory inspection results should be recorded in writing and reviewed and signed by authorized personnel.
- The inventory level should be reported to the finance department for recording and future reference.

In 2020, 2021, 2022 and the six months ended June 30, 2023, our inventory turnover days, which are calculate based on average inventories divided by cost of sales times number of days, were approximately 1,345 days, 1,061 days, 1,641 days and 1,588 days, respectively. As of December 31, 2020, 2021 and 2022 and June 30, 2023, finished products, which primarily include Pu'er tea leaf products, accounted for approximately 40.7%, 40.4%, 45.2% and 45.9% of our total inventories, respectively. According to the F&S Report, during the Track Record Period, the inventory turnover days of Pu'er tea product manufacturers in China like us typically ranged from 800 to 1,900 days. According to the same source, Pu'er tea product manufacturers had such long inventory turnover days primarily because (1) the blending process requires such manufacturers to stock adequate rough tea leaves sourced in different years and from different mountains in preparation for stable future production, and (2) the fermentation process requires different types of rough tea leaves to be fermented in batches based on different fermenting formulae, which could lead to a prolonged fermentation time depending on the types of rough tea leaves required and the complexity of the fermenting formulae. According to the F&S Report, there was no significant deviation of our inventory turnover days from such industry range.

PRICING

We price our products based on various factors, including the product type, the weight per unit, the quality, the purchase cost of rough tea leaves, the type of rough tea leaves and the amount of such type being blended into a particular product, the geographic origin and age of tea trees, the market price of the tea leaf products, also the price of tea leaf products offered by our competitors and market demand. Prices of our products can also be affected by the overall strength of our brand as well as processing techniques used for certain products. For example, fermented Pu'er tea products tend to be priced higher than non-fermented Pu'er tea products as the fermentation process for fermented Pu'er teas create an organoleptic quality that is vastly different from non-fermented Pu'er teas, thereby adding value to the products and leading to a higher pricing for fermented Pu'er tea leaf products. Moreover, the complexity of product blending may also affect the product pricing. Generally speaking, more complex blends consist of more batches of raw materials from different mountains and in different years, which requires us to make significant up-front and continuous investment over the course of several years in terms of product planning, rough tea leaf sourcing, fermentation and blending. Taking fermentation for example, each time we put down tonnes of rough tea leaves for fermentation, closely and continuously monitor the temperature, humidity and oxygen level of the fermentation environment and apply various fermenting formulae leveraging our unique processing techniques in order to achieve a stable flavor across different iterations, which constitutes an essential feature of our products. Therefore, we are inclined to give products with complex blending a higher pricing and a premium product positioning, and such practice is commensurate with the resources we invest in such product.

We provide our distributors with suggested retail price ranges of our products. Our distributors shall not take any actions that may materially disrupt the retail prices of our products. Our sales management team periodically review our distributors' retail prices. See "—Our Products" for details of the suggested retail prices of our products. However, during certain marketing activities, we allow a certain degree of discount to better promote our products.

RESEARCH AND DEVELOPMENT

We launch new products and explore new product categories through continuous product research and development. As of the Latest Practicable Date, we had 47 technical staff with an average of approximately four years' experience in product research and development. Our research and development team is primarily responsible for the applied research, such as developing new fermenting and blending formulae, flavors, tastes, packaging designs and process development for our new products. In addition, Ms. Du, our founder, and Ms. Meixuan Zhu, our technical director, have over 55 years and 33 years of experience in the tea production industry, respectively, both of whom have provided significant guidance to our research and development team.

We value investment in scientific research and standard research and have participated in the formulation and revision of multiple standards of tea leaf products, including two local standards, five group standards and six enterprise standards.

Each of our product development projects primarily consists of the following key steps:

- *Project pre-research.* At the initiation stage of our product development process, we collect market information, including consumer preferences, to determine the main direction of product development.

- *Project approval*. Based on the information evaluation at the pre-research step, we conduct a feasibility analysis to determine whether the project is approved for development.

- *Research and development*. Research and development mainly includes product content research and development, packaging research and development and process study.

- *Product testing*. Product testing may focus on the product's taste, designing and market potential.

- *Mass production*. After the new product passes the product testing, we start mass production of the product.

The establishment of our research and development system helps us to combine market and consumer preference trends, and pioneer and innovate new products to accommodate modern people's fast-paced lifestyles. In recent years, we have focused our research and development on healthy tea leaf products that are easy to carry, easy to brew and easy to drink. In addition, we first launched the Chenpi Pu'er tea products in 2014 and successfully introduced our *Little Green Mandarin* series products to the market in 2015, which was the first in its type by standardized mass production on the market, according to the F&S Report.

OUR EMPLOYEES

We believe that our long-term growth depends on the expertise, experience and development of our employees. Our human resources center is responsible for recruiting, managing and training our employees. We have a labor union that is able to protect our employees' rights, assist us in attaining our economic objectives and encourages employees to participate in management decisions.

We recruit employees primarily through recruitment websites, on-campus recruitment and local Human Resources and Social Security Bureaus. We provide induction training to every new employee. In addition, we formulate and implement training plans for our employees on a regular basis. For example, we develop education materials for tea sommeliers and organize exams annually to test their knowledge and skills in tea tasting, tea ceremony and tea culture in general.

As of the Latest Practicable Date, we had 846 full-time employees. Generally, we enter into labor contracts with our employees. As of the same date, most of our employees were in Yunnan Province and Guangdong Province. The following table sets forth the number of our employees by function as of the Latest Practicable Date.

	Number of employees
Production and operation	356
Administrative and management	171
Sales and marketing	272
Research and development	47
Total	**846**

We are required by PRC social insurance and housing provident fund laws and regulations to make contributions for mandatory social insurance and housing provident funds for our employees. During the Track Record Period, we did not make adequate contributions to the social insurance and housing provident funds with respect to certain of our employees, most of whom are production line workers, as required by the relevant PRC laws and regulations. See "—Legal Proceedings and Compliance—Compliance—Social Insurance and Housing Provident Funds" and "Risk Factors—Risks Relating to Our Business—We may be required to make additional contributions of social insurance fund and/or housing provident fund and late payments and fines under PRC laws and regulations."

We have maintained a good relationship and expect to maintain an amicable relationship in the future with our employees. During the Track Record Period and up to the Latest Practicable Date, there were no material strikes which had an adverse impact on our operation and no material disputes between the Group and our employees.

DATA PRIVACY AND PROTECTION

During our provision of tea leaf products, with the prior consent of our customers and distributors, we collect and maintain their personal information to the extent necessary and in accordance with the relevant laws and regulations on data privacy and security in China. We have taken measures to maintain the confidentiality of such information to ensure regulatory compliance. Specifically, we perform de-identification on raw data stored, during which we redact personal identifiable data, such as name, identification number and phone number of a specific customer or distributor. Since the collection, storage, usage, retention and transmission of information that can be identified as specific individuals or reflect the relevant activities of specific individuals are all subject to relevant data protection laws and regulations, the de-identification of raw data is necessary for us to efficiently protect personal data of our customers and distributors. We also set up an access control system for personal information in our internal system so that it cannot be viewed without proper authorization or exported in bulk. We set up firewalls to prevent information loss or leakage caused by cyber-attacks. In addition, we from time to time examine the security of our data storage system. We strictly restrict the range of data that our employees are authorized to access based on their seniority and function. We have entered into confidentiality agreements with our employees to prevent improper use or disclosure of information.

In addition, we continue to pay close attention to the legislative and regulatory developments in cybersecurity and data protection and conduct routine cybersecurity and data protection compliance check and rectification to keep pace with regulatory development. In particular, we have established a comprehensive set of internal cybersecurity and data protection rules and policies. We have also formulated the overarching data security management policy, user personal information protection management policy and network security management policy, which provide the principal management rules on cybersecurity and data protection.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material data leakage or data loss, nor did we experience any material unauthorized use of customers' or distributors' personal information.

Regulatory authority-initiated security review

Regulatory authority may initiate cybersecurity reviews if it is of the opinion that the network product or service, data processing activities or [REDACTED] in a foreign country affects or is likely to affect national security.

To avoid such concerns, we are taking a more prudent approach in business operation and can prepare measures to reduce its risk of exposure to the implementation of the Cybersecurity Review Measures:

- Pay close attention to the latest trends in the critical information infrastructure (the "CII") identification by industry authorities and maintain continuous communication with competent and regulatory authorities and local government departments;

- Adopt relevant security measures and internal control system to reduce the risks of data leakage, theft and destruction and illegal control, preferably, as encouraged by Cybersecurity Law, voluntarily participate in the CII protection system and perform relevant obligations to make advance preparations for possible future CII protection efforts;

- Be more conservative in network products or services procurement process; and

- Conduct personal information security impact assessment and relevant internal assessment to address security issues/concerns that may raise national security concerns in data processing activities.

Our Directors and our PRC Legal Advisor are of the view that the Cybersecurity Review Measures and the Draft Regulations on Cyber Data Security Management, if implemented in current form, will not have material adverse effects on our business operations or the proposed [REDACTED]. However, with the continuous expansion of our business and growth of our customer and distributor base, there can be no assurance that the constantly evolving regulations on the collection and use of personal information in China will have no material adverse effect on us. See "Risk Factors—Risks Relating to Our Business—We are in possession of certain information regarding our customers, and the improper collection, storage, use or disclosure of such information could materially and adversely affect our business and reputation." We will closely monitor the rule-making process of the relevant regulatory requirement and adjust our data practices in a timely manner to comply with the relevant laws and regulations, if necessary.

AWARDS AND RECOGNITION

During the Track Record Period and up to the Latest Practicable Date, we received a number of awards and recognitions in connection with our business. Some of the significant awards and recognitions we have received are set forth below.

Awards and Recognition	Awarding Parties	Year of Award
Top Ten Famous Teas in Yunnan Province (雲南省十大名茶) in 2018 for Harbinger-of-spring Pu'er tea (春億金瓜普洱茶), in 2019 for 001 Compressed Tea Disc (001茶餅), in 2020 for 0081 Compressed Tea Disc (0081茶餅) and in 2021 for our Pu'er tea products	Office of the Leading Group for Building World-class "Green Food Brands" in Yunnan Province (雲南省打造世界一流"綠色食品牌"工作領導小組辦公室)	2018–2021
National leading enterprise in agricultural industrialization (農業產業化國家級重點龍頭企業)	Ministry of Agriculture and Rural Affairs of China	2019
Yunnan Top 10 Green Food Enterprises (雲南綠色食品10強企業)	Yunnan Department of Agriculture and Rural Affairs (雲南省農業農村廳) Yunnan Department of Industry and Information Technology (雲南省工業和信息化廳) and Yunnan Department of Human Resources and Social Security (雲南省人力資源和社會保障廳)	2022
Top 100 Chinese Tea Enterprises (中國茶業百強企業) in 2019, 2020 and 2021	China Tea Marketing Association (中國茶葉流通協會)	2019–2021
Yunnan Province Time-honored Brand (雲南老字號)	Department of Commerce of Yunnan Province (雲南省商務廳)	2019
Leading Enterprise in Pu'er City (普洱市重點龍頭企業)	Pu'er City Government	2016
Winner of World Tea Championship (世界茶業金獎賽冠軍)	World Tea Championship & Expos and Desert Green Foundation	2019
Top Ten Pu'er Tea Brands in China (中國普洱茶十大品牌)	Yunnan Pu'er Tea Association (雲南省普洱茶協會)	2013

Awards and Recognition	Awarding Parties	Year of Award
Top Ten Influential Enterprises of Pu'er Tea in Yunnan Province (雲南省普洱茶十大影響力企業)	Yunnan Pu'er Tea Association (雲南省普洱茶協會)	2017
Vice President Enterprise of Yunnan Pu'er Tea Association (雲南省普洱茶協會副會長單位)	Yunnan Pu'er Tea Association (雲南省普洱茶協會)	2017

INTELLECTUAL PROPERTY

Our intellectual property portfolio consists of trademarks, patents, copyrights and domain names. Our intellectual property is important to our business. See "Appendix IV—Statutory and General Information—2. Further Information about Our Business—B. Our Intellectual Property Rights."

We protect our intellectual property rights, including trademarks, patents, copyrights and domain names, in accordance with the relevant laws and regulations and contractual agreements. We have established an intellectual property management system, and improve and update our intellectual property management system in line with the business development.

When dealing with the infringement of our intellectual property rights, we found incidents about counterfeit products and other infringements against our products through internal and external channels, including: (1) our sales companies and sales personnel across the country; (2) our staff from legal department when they visit the markets; and (3) complaints and reports by consumers through customer service hotline. After discovering incidents of infringements, we will collect supporting information, make an assessment on whether an infringement actually takes place, and analyze the feasibility of to defend our rights and the approaches we may take. Based on different product infringements and specific circumstances, with the support of intellectual property experts or legal consultants, we defend our rights through targeted approaches, including but not limited to filing industrial and commercial complaints and litigations.

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

Our know-hows in production are invaluable assets to us as we pride ourselves of the unique production techniques we possess. We have entered into confidentiality agreements with our core tea production and research and development employees to prevent such employees from disclosing our know-how secrets to others without our proper authorization. Our employment contracts also stipulate that any intellectual property, especially those relevant to blending and fermentation processes, created by such employees in the course of and after a specific period of their employment shall belong to us. In addition, we have taken certain measures to minimize the risks of divulging our know-how secrets during the course of production and daily operations. In particular, we do not engage any third-party processing service providers to carry out any production processes involving our know-how secrets and only make the same group of tea production employees responsible for certain critical production points, preventing them from carrying out all critical production steps. We have also established research and development and technical document management policies, which only grant relevant employees access to our know-how secrets.

ENVIRONMENTAL PROTECTION

We are subject to various PRC environmental laws and regulations, the implementation of which involves regular inspections by local environmental protection authorities. See "Regulatory Overview—Laws and Regulations on Environmental Protection." We have adopted environmental protection measures to make our operations more energy efficient and environmentally friendly and to ensure effective compliance with applicable PRC environmental laws and regulations.

We adhere to the principles of waste and pollutant emission reduction, energy saving and an overall environmentally friendly approach in the way we operate. During the Track Record Period, all of our production plants met the national compulsory standards for waste water and exhaust gas emission.

In order to ensure the rational use and sustainable development of tea tree resources, we have been committed to the rational development and protection of ancient tea forests for many years, providing free technical guidance for tea leaf cooperatives in the improvement of their preliminary processing techniques of rough tea leaves. At the same time, we organized a number of learning activities to enhance the awareness of tea farmers and tea leaf cooperatives on the importance of the conservation of tea tree resources, so as to strengthen the protection of natural resources. In 2016, we started to cooperate with the Mangjing Village Committee of Lancang County to conduct pilot conservation program on ancient tea trees in the Mangjing area, and advocated the conservation principle of "maintain before harvest" through subsidies to locals.

As advised by our PRC Legal Advisor, during the Track Record Period and up to the Latest Practicable Date, we were in compliance with applicable PRC environmental laws and regulations in all material aspects, and not subject to any material administrative penalties for violations of applicable PRC environmental laws or regulations which would have a material adverse effect on our business.

OCCUPATIONAL HEALTH AND SAFETY

We are subject to the PRC laws and regulations in respect of employee health and safety. We have in place safety guidelines with which our employees are required to strictly comply and equip our production personnel with adequate safety equipment. We regularly evaluate our equipment and production facility to ensure their safety for our operations. We also conduct trainings for employees to strengthen their awareness and knowledge on safety procedures and accident prevention from time to time. During the Track Record

Period and up to the Latest Practicable Date, we did not experience any material accidents involving personal injury or property damage, and we were not subject to any material claims, lawsuits, penalties or disciplinary actions as a result of any material accidents.

COVID-19 OUTBREAK AND EFFECTS ON OUR BUSINESS

The outbreak of COVID-19 that began in late 2019 has materially and adversely affected the global economy. In response to the pandemic, the Chinese government implemented necessary pandemic prevention measures from time to time during the past three years. While the pandemic came under control in China from the second quarter of 2020, there was a rise in COVID-19 cases, including the COVID-19 Delta and Omicron variant cases, in various cities in China in 2022.

Our Directors have carried out a holistic review of the impact of the COVID-19 on our operations and confirmed that as of the Latest Practicable Date, COVID-19 has, or may have, the following impacts on our business.

Throughout 2022, multiple outbreaks of new variants of COVID-19 across China has repeatedly caused disruptions to the operation of our stores in the affected regions, including temporary store closures, reduced operating hours, reduced offline customer traffic and canceled tea tasting sessions. Most of our stores such as those in Shanghai, Changchun, Xi'an and Guangzhou experienced temporary closures for approximately one to two months. In addition, certain stores in Beijing, Chengdu and Hefei, among others, experienced reduced offline customer traffic throughout 2022 due to curtailed operating hours and canceled tea tasting sessions. Such impact on our brick-and-mortar presence represented an immense headwind on our business in 2022. We were also forced to wage certain marketing campaigns online instead of offline or even abandon the planned marketing campaigns. For example, we were forced to abandon our plan for *Journey Home* (回家之旅)[(1)] in 2022 due to lack of feasibility.

Our results of operations for 2022 were negatively affected by the COVID-19 pandemic in China, primarily due to (1) disruption in our business operations, such as disrupted offline store operations in affected regions and cancellation of certain offline campaigns, and (2) consumer pessimism in light of the pandemic which suppressed the demand for our products. Our results of operations were particularly affected by the outbreaks of COVID-19 in 2022, primarily due to the emergence and spread of the Omicron variant of COVID-19 that led to outbreaks across the country and resulted in dampened consumer confidence. Our revenue decreased by 17.1% from RMB558.7 million in 2021 to RMB462.9 million in 2022. Our net profit decreased by 45.3% from RMB129.0 million in 2021 to RMB70.5 million in 2022. The average purchasing amount per distributor from us decreased by 21.9% from RMB0.85 million in 2021 to RMB0.66 million in 2022.

(1) *Journey Home* is one of regular offline campaigns we organize annually. See "—Marketing and Branding—Online and Offline Campaigns."

In 2022, COVID-19 had slowed down and created hurdles for our overall expansion plan. In terms of our offline sales network expansion, we had taken a more cautious approach until the complete alleviation of the surge of COVID-19 infections that began in December 2022. The number of our self-operated stores and distributor-operated stores decreased slightly from 26 and 531 as of December 31, 2021 to 24 and 508 as of December 31, 2022, respectively. Since the alleviation of the pandemic and the adjustment of the pandemic prevention measures, all of our stores have resumed normal business operations. We have not observed significant impact that COVID-19 outbreaks have had on our supply chain or any abrupt decline in utilization rates of our production plants as Yunnan Province, where all of our production plants and most of our suppliers are located, was less affected by the outbreaks. Our logistics and transportation service providers in certain provinces in China were affected by COVID-19 outbreaks. For example, delivery of our products in affected cities, such as Xi'an, Guangzhou and Shanghai, were affected. While we were not subject to any claim due to delays in deliveries of our products as of the Latest Practicable Date, disrupted transportation experienced by our logistics and transportation service providers reduced sales volume of our products and slowed down our expansion in certain affected provinces to certain extent. As of the Latest Practicable Date, most of our employees had recovered once or more from COVID-19 infections.

Given the phase-out of the pandemic prevention measures, we believe that while COVID-19 outbreaks may affect our short-term growth, we do not expect such outbreaks to have a material adverse effect on our long-term overall business and financial performance. In response to COVID-19 outbreaks, we had proactively taken measures to mitigate its potential impacts on us and our distributors, including adjusting our product launching plan, increasing spending on marketing and advertising, and providing more support to our offline stores. In spite of the impact from the COVID-19 pandemic, our management remains optimistic over the growth of our business as we continue to execute our growth strategies, such as building up our e-commerce operation team and adding a new logistics and e-commerce center in Foshan. See "Future Plans and [REDACTED]" for details of our new logistics and e-commerce center in Foshan. Moreover, we continued to attract talents to join our company. The total number of employees increased from 693 as of December 31, 2021 to 846 as of the Latest Practicable Date.

In February 2023, the Chinese government declared its victory over COVID-19. However, the actual impact caused by the COVID-19 pandemic will depend on its subsequent development. We are closely monitoring the development of the COVID-19 pandemic and continuously evaluating any potential impact on our business operations. See "Risk Factors—Risks Relating to Our Business—The outbreak of COVID-19 adversely affected, and may continue to affect, the demand for our products and our business operations."

LICENSES, PERMITS AND APPROVALS

We are required to maintain various licenses, permits and approvals in order to operate our business. We are not required to obtain any additional licenses for our online sales to customers. We continually monitor our compliance with the requirements related to licenses, permits and approvals in order to ensure that we have all such licenses, permits and approvals which are necessary to operate our business. As advised by our PRC Legal Advisor, during the Track Record Period and up to the Latest Practicable Date, we had obtained all requisite licenses, approvals and permits from relevant authorities that are material to the operation of our existing business.

The following table sets out a list of material licenses, permits and approval currently held by us.

License/Permit	Entity Holding the License/Permit	Grant Date	Expiration Date
Food Production License	Lancang Ancient Tea	March 29, 2023	March 28, 2028
	Pu'er Renhe	July 14, 2022	May 5, 2027
Food Operation License	Lancang Ancient Tea	December 27, 2019	December 26, 2024
	Pu'er Renhe	November 30, 2022	April 19, 2025

INSURANCE

We maintain certain insurance policies, including comprehensive insurance for our inventories and production facilities, commercial auto insurance, supplementary accident insurance for drivers and passengers, and accident insurance for our employees, which are consistent with the customary practice in China. We currently do not maintain product liability insurance for our products, and we do not carry any litigation insurance. Our Directors consider that our existing insurance coverage is consistent with industry practice in China and sufficient for our present operations.

RISK MANAGEMENT AND INTERNAL CONTROL

We are exposed to various risks during our operations. We have established risk management systems with relevant policies and procedures that we believe are appropriate for our business operations. Our policies and procedures relate to managing our procurement, production, as well as monitoring our sales performance and product quality.

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

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

Sales and delivery of products through e-commerce platforms involve certain customer privacy information, such as personal information, contact information and user address. We sell our products on e-commerce platforms primarily through self-operated online stores on e-commerce platforms, under which circumstances we have access to customers' network identity information, address and contact information, which will be used for product delivery. We also have access to their trading records. See "Risk Factors—Risks Relating to Our Business—Our information technology and software systems may encounter malfunction, unexpected system failure, interruption, insufficiency or security breaches." We highly value the protection of the privacy and personal information of our customers, and also treat and process customers' personal information with high prudence. We have technical support for data protection and various safeguards to ensure information security. We comply with the international information security management system standard (ISO27001) and the national standard (GB/T22080–2016), and accordingly deploy behavior control, firewall, anti-virus software. In addition, with database audits, high-strength firewalls and security reinforcement provided by established security vendors, we regularly organize tests and perform security scans on our systems. We have also formulated the Data Security Management Policy, which requires our employees to abide by information security regulations, in order to ensure safety of the relevant information involved in the business operations.

PROPERTIES

As of the Latest Practicable Date, all of our production plants were located in China.

According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which require a valuation report with respect to all the Group's interests in land or buildings, for the reason that, as of June 30, 2023, we had no single property with a carrying amount of 15% or more of our total assets.

Owned Properties

As of the Latest Practicable Date, we owned nine parcels of land with an aggregate area of approximately 161,101.6 sq.m. in China. We have obtained land use right certificates for such nine parcels of land.

As of the Latest Practicable Date, we owned 22 buildings with an aggregate gross floor area of approximately 44,263.2 sq.m. in China. We have obtained building ownership certificates for such 22 buildings.

Leased Properties

As of the Latest Practicable Date, we leased 57 buildings relating to our business operations in total with an aggregate gross floor area of approximately 56,386.5 sq.m., which have been mainly used as stores, offices, production facilities and warehousing centers. As of the same date, there were defects in some of our leased properties. See "—Legal Proceedings and Compliance—Compliance—Leased Properties" and "Risk Factors—Risks Relating to Our Business—We lease properties in various place as premises for our self-operated stores, office spaces and warehouses. Any non-renewal of leases, substantial increase in rent, or any failure to comply with applicable laws and regulations may affect our business and financial performance."

In addition, as of the Latest Practicable Date, we leased one parcel of land with an area of 617.7 mu (equivalent to 411,800.0 sq.m.) and contracted one parcels of land with an aggregated area of 1,297.0 mu (equivalent to 864,666.6 sq.m.). The relevant local governments have issued a written confirmation to us indicating that we have the legal right to use such two parcels of land.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

We may from time to time become a party to various legal, arbitration or administrative proceedings arising in the ordinary course of our business. As of the Latest Practicable Date, there were no litigation, arbitration or administrative proceedings pending or threatened against the Company or any of the Directors which could have a material and adverse effect on our financial condition or results of operations. During the Track Record and up to the Latest Practicable Date, there were no litigation, arbitration or administrative proceedings against the Company or any of the Directors which had caused a material and adverse effect on our financial condition or results of operations.

Compliance

We are subject to various regulatory requirements and guidelines issued by regulatory authorities in China. During the Track Record Period and as of the Latest Practicable Date, we did not commit any material non-compliance of the laws and regulations, and we did not experience any noncompliance incident, which taken as a whole, in the opinion of our Directors, is likely to have a material and adverse effect on our business, financial condition or results of operations. As advised by our PRC legal advisors, during the Track Record Period and up to the Latest Practicable Date, we had complied with the relevant laws and regulations in all material respects in China.

Leased Properties

As of the Latest Practicable Date, we leased 57 buildings relating to our business operations in total with an aggregate gross floor area of approximately 56,386.5 sq.m. We had obtained valid title certificates or real estate purchase agreements from relevant landlords of 41 leased buildings with an aggregate gross floor area of approximately 12,810.2 sq.m. (accounting for 22.7% of the aggregate gross floor area of our leased buildings relating to our business). Among the other 16 of our leased buildings:

- in respect of three of our leased buildings with an aggregate gross floor area of approximately 9,454.7 sq.m. (accounting for 16.8% of the aggregate gross floor area of our leased buildings relating to our business operations), we had obtained confirmations for approval of use from Lancang Lahu Autonomous County Natural Resources Bureau, Guangzhou Land Resources and Housing Administration, Guangzhou Municipal Bureau of Land and Housing Administration and Guangzhou Housing Safety Management Office. Such leased buildings are used as stores, offices and production facilities. As advised by our PRC Legal Advisor, these four government authorities are competent authorities for issuing confirmations for approval of use in respect of these three of our leased buildings.

- in respect of 13 of our leased buildings with an aggregate gross floor area of 34,121.7 sq.m. (accounting for 60.5% of the aggregate gross floor area of our leased buildings relating to our business operations), the landlords of such buildings had not provided us with the relevant title certificates or real estate purchase agreements. Such leased buildings are used as stores, offices, and warehousing centers. We believe that the reasons that the landlords failed to provide us with the relevant title certificates or real estate purchase agreements are beyond our control. We have established internal guidelines and will engage our inhouse legal counsel to review the title certificates and other documents of our new leased buildings to improve our evaluation of the new leased buildings from a compliance perspective. We will also consult our external legal advisor for reviewing the title certificates and other documents of our new leased buildings in order to ensure compliance with applicable PRC laws and regulations.

In addition, as of the Latest Practicable Date, we had not registered the lease agreements for 25 of our leased buildings with the relevant competent authorities in accordance with applicable PRC regulations. As advised by our PRC Legal Advisor, failure to register the lease agreements would not affect the validity and enforceability of such lease agreements. However, if we and the landlords fail to register such lease agreements as required by the relevant competent authorities, we may be subject to a fine of RMB1,000 to RMB10,000 for each of the unregistered lease agreement. As of the Latest Practicable Date, we had not been subject to any administrative penalties by the relevant competent authorities.

Our Directors are of the view that the defects of such leased buildings would not materially and adversely affect our business operations, because none of our leased buildings is material to our operation and we are able to relocate to suitable alternatives, which were available as of the Latest Practicable Date, at an estimated cost of relocation of approximately RMB0.4 million in total, if we must stop occupying any of the 16 leased buildings that we have not received relevant title certificates or real estate purchase agreements, without any delay. Our Directors are also of the view that if we were required to vacate any of such 16 leased buildings, we would not suffer any material consequential loss of income since suitable alternatives available as of the Latest Practicable Date adjoin such 16 leased buildings.

Our PRC Legal Advisor is of the view that the defects of such leased buildings would not materially and adversely affect our business operations, because (1) among the 16 leased buildings that we have not received relevant title certificates or real estate purchase agreements, eight leased buildings are used as warehousing centers, (2) among such 16 leased buildings, we have received confirmations for approval of use from competent authorities for three leased buildings, (3) as of the Latest Practicable Date, we did not encounter any obstacles in using any leased buildings, and if we were required to vacate any of such 16 leased buildings, we could relocate to suitable alternatives, and (4) Ms. Du and Ms. Wang have undertaken to, pursuant to the terms and condition of their confirmation, indemnify us against any losses which we may suffer as a result of the defects of any leased buildings that we leased prior to [REDACTED] in the event that we could not receive full indemnity from the landlords of such leased buildings.

Social Insurance and Housing Provident Funds

We are required by PRC social insurance and housing provident fund laws and regulations to make contributions for mandatory social insurance and housing provident funds for our employees. During the Track Record Period, we did not make adequate contributions to the social insurance and housing provident funds with respect to certain of our employees, most of whom are production line workers, as required by the relevant PRC laws and regulations. In 2020, 2021, 2022 and the six months ended June 30, 2023, the estimated shortfall amounts of such social insurance and housing provident fund contributions were RMB2.0 million, RMB7.0 million, RMB5.0 million and RMB0.5 million, respectively. As of the Latest Practicable Date, (1) we had not been subject to any administrative actions, fines or penalties due to shortfalls of social insurance and housing provident fund contributions, (2) we had not received any notification from the relevant PRC authorities requiring us to pay for or otherwise make up the shortfalls or any overdue charges with respect to social insurance contributions or housing provident fund contributions, (3) we were not aware of any employee complaints filed against us nor were we involved in any material labor disputes with our employees with respect to social insurance or housing provident fund contributions, and (4) Ms. Du and Ms. Wang have undertaken to, pursuant to the terms and condition of their confirmation, indemnify us against any losses and penalties which we may suffer as a result of the failure of our Group to comply with relevant laws, rules and regulations concerning social insurance and housing provident fund contributions. Considering the relevant regulatory policies, the facts stated above and the confirmations we have received from relevant PRC authorities confirming that such authorities will not require us to pay up the estimated shortfall amounts during the Track Record Period, which include confirmations from Lancang Lahu Autonomous County Public Employment and Talent Service Center, Lancang Management Department of Pu'er Housing Provident Fund Management Center, Lancang Lahu Autonomous County Social Insurance Center, Pu'er Medical Insurance Center and Lancang Lahu Autonomous County Medical Insurance Center, our PRC Legal Advisor is of the view that such authorities are competent for issuing the said confirmations and the likelihood is remote that we will be subject to centralized collection of historical shortfalls and any penalty due to the failure to make full social insurance or housing provident fund contributions for employees of us that will cause a material adverse effect on our business.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE POLICY

Due to increasing risk from climate change, we regard environmental protection as an integral corporate responsibility, and we are dedicated to lowering the environmental impact from various aspects on our business operations. Environmental stewardship and corporate social responsibility are a key part of our core growth philosophy which, along with our focus on sustainability, diversity, and public interests, may generate value for our Shareholders. As such, our Group has adopted a comprehensive policy on environmental, social and corporate governance ("ESG") responsibilities in accordance with the Listing Rules (the "ESG Policy"), which sets forth our corporate social responsibility objectives and provides guidance on practicing corporate social responsibility in our daily operations and productions.

Governance Structure

Aside from pursuing business development, we assume our corporate social responsibilities and bear environmental and social interests in mind. Our Board has overall responsibility for our sustainability strategy and reporting, and it oversees sustainability issues related to our operations.

We have delegated responsibility of reviewing different ESG aspects to various departments and subsidiaries. Our legal department is responsible for monitoring legal compliance and anti-corruption measures, our production bases are responsible for supply chain and product quality assurance, and our management center is responsible for handling human resources and employee development.

Our Board has also set up an ESG task force team consisting of representatives from different departments. Such ESG task force team handles all ESG issues that arise in our operations and reports to our Board directly. In addition, such ESG task force team is also responsible for ESG climate risk discussions and ensuring that effective climate risk management is in place. If any ESG issues have been identified, the department in charge shall report to the ESG task force team for further discussion. After preliminary organization of collected information, the ESG task force team shall report ESG issues which are deemed significant to our Board.

Furthermore, we have established workers' unions for our Company and subsidiaries for handling staff rights, welfare and benefits, and a branch office for aligning our business development, corporate social responsibilities and community investment with national interests.

Identifying Stakeholders

To effectively promote sustainable development and bring positive impact to the long-term development of the environment and community, we pledge to continuously communicate and exchange opinions with internal and external stakeholders, including, but not limited to, shareholders/investors, staff, customers, business partners, suppliers, regulatory authorities and community/non-governmental organizations, to understand their views and expectations.

The input of various stakeholders shall be incorporated while determining and assessing ESG risks and formulating relevant risk management and business strategies. After gaining further insight on which ESG aspects are deemed important by stakeholders, a materiality assessment shall be produced to determine the most material ESG topics to us. Our Board believes that transparent communications with stakeholders play a crucial role in maintaining our business sustainability.

Strategic Planning and Review

Our ESG task force team sets ESG and climate goals for our Board's consideration on an annual basis, during which it also review our progress in achieving the goals of the preceding year. Additionally, our ESG task force team convenes once a year to bring attention to ESG concerns, as well as offer solutions that can be applied to us.

Materiality Assessment

Our Board has worked with external consultants to establish a materiality assessment process and to identify material ESG risks to our Group. Upon extensive discussions and research, our Board has made the decision to adopt Sustainability Accounting Standard Board Standard (the "SASB Standard") as the basis for its material assessment. Founded in 2011, the purpose of the SASB Standard was to establish and maintain industry-specific standards that assist companies in disclosing financially material, decision-useful sustainability information to investors. On November 3, 2021, the International Financial Reporting Standards Foundation Trustees announced the creation of a new standard-setting board, the International Sustainability Standards Board (the "ISSB"), to help meet the requirement of climate-related disclosure. The ISSB encourages companies to use SASB Standard to identify the materiality of sustainability issues and risks most relevant to financial performance in each of 77 industries.

The SASB Standard was developed based on extensive feedback from companies, investors, and other market participants as part of a transparent, publicity-documented process. Upon review of each industry topic, it is concluded that the material issues identified in the "Non-Alcoholic Beverages" and "Processed Foods" in the SASB Standard are the most appropriate issues that our Group needs to concern about most. After further curation, our Board has confirmed six material issues which it deems to be most relevant to our Group. The material risks and issues identified by the SASB Standard and our Board, in no particular order, are:

- GHG Emissions;
- Energy Management;
- Water & Wastewater Management;
- Product Quality & Safety;
- Product Design & Lifecycle Management; and
- Supply Chain Management.

Third-party Assessment

Our Board also plans to engage an independent third-party to assess our performance regarding environmental protection, climate change, as well as social and governance issues to remove any bias. Results of the third-party assessment will be published as an environmental, social, and governance report (the "ESG Report") on an annual basis.

Climate-related Risks and Opportunities

Climate change is now one of the major global issues and challenges, and we understand that the impact of climate change is increasing day by day. As global warming intensifies, we will encounter a growing number of risks to our business, including, but not limited to, disruptions to supply chains, damages from natural disasters, shifts in consumer preferences, etc. Climate change will undoubtedly be of increasing concern to us as well as the tea industry as a whole for the foreseeable future. As such, we have endeavoured to identify the risks and opportunities that climate change poses to our business operations, along with corresponding strategies to mitigate risks and to take advantage of arising opportunities.

Physical Risks

We believe that extreme weather events brought about by climate change poses as both a short-term risk and long-term risk to our business.

In the short-term, extreme weather such as heavy rain, typhoons or droughts may become increasingly common due to climate change. Said unstable weather conditions not only could cause damage to tea plantations and tea processing facilities, but also could disrupt logistics and lead to delays in the transportation of tea leaf products, potentially causing financial losses to us.

In the long-term, climate change may threaten the livelihood of local plantations from which we source rough tea leaves. Tree trees grow best in sub-tropical climates, but climate change may lead to irreversible changes in temperatures and rainfall for local plantations. These changes would negatively affect the growth of tea leaves in said plantations, and thus lead to a decline in quality for our tea leaf products, which would damage the foundation of our business.

We have formulated a number of strategies to mitigate damages from these identified physical risks. We have established a management system for determining the best course of action when facing extreme weather events. For example, we may choose to send supplies to local plantations to protect tea trees and tea farmers if they are needed, or we may perform checks on logistics such as transportation or product storage to ensure our products are safe from adverse weather effects. In addition, we have also formulated countermeasures to combat the possible decline in quality of tea leaves from long-term climate change. For example, we have maintained a large quantity of rough tea leaves in our storage, allowing us to produce tea leaf products even in the event that tea plantations are unable to provide quality rough tea leaves. Furthermore, we have also been continuously searching for alternative tea plantations that could provide us with quality rough tea leaves.

Transition Risks

As climate change exacerbates, we foresee that market sentiment may shift towards preferring products that have an environmentally friendly image, as increasing awareness of climate change among the general public may lead to different product preferences. Without proper marketing, consumers may prioritize tea leaf products from companies that appear greener.

In addition, the transition towards a low-carbon economy may also bring about risks to our productions. As the electricity grid switches to renewable energy, the demand for electricity may outpace supply, possibly leading to an increase in frequency of electricity outages and unpredictable disturbances to our tea leaf production.

We have formulated a number of strategies to mitigate damages from these identified transition risks. To lower the reputation risk and the financial risk from changes in market preference, we may promote ourselves as a green company. For example, we may share sustainability concepts through media channels to promote the environmental image of our tea leaf products, which may develop customers' confidence in purchasing our tea leaf products and thus maintaining the stability of sales revenue. To lower the risk of interruptions in production due to blackouts, we may maintain a backup energy source for our production bases.

Opportunities

Despite above-mentioned physical and transition risks, we also believe that climate change may bring about opportunities to our business operation.

We plan to source more rough tea leaves from tea plantations that cause negligible adverse effect on the ecosystem, and market tea leaf products made from such rough tea leaves as environmentally friendly tea leaves. We believe that such environmentally friendly tea leaf products could attract more consumers for us, since the general public is becoming more environmentally conscious due to increasing effects of climate change.

As worsening climate change threatens the growing of tea trees, we also believe that our rough tea leaf inventory is a business opportunity to us. While the change in temperatures and rainfall may decrease the quality and output of rough tea leaves, we may position our rough tea leaf inventory as quality raw materials that retain the original quality, thus allowing us to increase profit from our tea leaf products.

Environmental

We have complied with relevant PRC environmental laws and regulations, which are strictly enforced by local environmental protection authorities through regular inspections. These include, but not limited to the followings:

- Environmental Protection Law of China
- Law of China on the Prevention and Control of Atmospheric Pollution

- Water Pollution Prevention and Control Law of China
- Catalogue of Classified Management of Discharge Permits for Stationary Pollution Sources

The following table sets forth the latest key environmental data of us in 2022.

	Total amount	Intensity (per tonne of production volume)
Purchased electricity	2,441,992.50 kWh	2,261.88 kWh
Freshwater usage	12,606.00 m^3	11.68 m^3
Non-hazardous waste	9,551.00 kg	8.85 kg
Packaging material	514,001.33 kg	476.10 kg
Scope 1 emissions	407.15 tonnes of CO_2e	0.38 tonnes of CO_2e
Scope 2 emissions	1,418.76 tonnes of CO_2e	1.31 tonnes of CO_2e

We have set our environmental targets based on the above metrics. Within the next 10 years, we aim to reduce the intensity of purchased electricity, freshwater usage, non-hazardous waste generation, packaging material usage, and Scope 1 and Scope 2 emissions by approximately 10%, with the specifics of the targets as listed below.

	Intensity within 10 years (per tonne of production volume)
Purchased Electricity	2,197,730.25 kWh
Freshwater usage	10.51 m^3
Non-hazardous waste	7.96 kg
Packaging material	428.49 kg
Scope 1 emissions	0.34 tonnes of CO_2e
Scope 2 emissions	1.18 tonnes of CO_2e

Based on our progress, our ESG task force team may adjust the 10-year target as needed. For example, if we fall behind on the originally set emissions target, we may purchase the required amount of carbon certificate or plant more trees to sequester carbon dioxide. In pursuit of social responsibility, and to align with the national target of carbon neutrality by 2060, we have also set the target of becoming carbon neutral by 2050.

To achieve carbon neutrality, our Group has planed for the following measures:

- Implementing energy saving measures, such as assigning staffs to inspect electrical appliance such as lights and production machinery. If equipment is found to be idling or left on outside of scheduled periods, the staffs shall follow up with responsible personnel;

- Replacing energy-intensive lighting such as high bay light and fluorescent lamps with high luminous efficacy light set such as LED lights when possible within our Group's operations sites;

- Reducing usage of air conditioning or other sustainable measures sustainable measures for better efficient use of energy within our Group's operations sites wherever possible;

- Reminding employees of energy-saving measures through labels for turning off lights and air conditioners before leaving work, which shall be provided in major corridors and rooms throughout the offices;

- Replacing company vehicles with hybrid or electric vehicles when possible to reduce emissions from fuel consumption;

- Encouraging the reduced usage of paper, such as adopting e-fax or intranet platforms to push paperless office environment, using recycled paper and single-sided used paper for internal use and drafting, and recycling paper used whenever possible to reduce landfill disposal; and

- Purchasing carbon certificates, planting more trees, or other sustainable measures to sequester any GHG emissions that are unavoidable.

As a responsible corporate citizen, we are committed to fulfilling our sustainability and environmental obligations.

Emissions

While the tea industry which we operate in is not highly polluting, every effort has been made to reduce generation of waste and other emissions. For example, we have advised tea plantations where we source rough tea leaves not to overuse fertilisers to avoid nutrient-rich runoff or effluent from disrupting the local ecosystem, and regularly carry out strict fertiliser residue testing on rough tea leaves sourced from them. We have implemented company-wide health, safety, social and environmental protection policies and standard operating procedures that include workplace management, process safety management, waste treatment and disposal, and emergency planning and response. Regarding any emissions and discharges which cannot be avoided, we have taken necessary measures to ensure compliance with all applicable national, industrial, and local standards, laws, regulations and policies.

Non-hazardous waste generated by us primarily consists of impurities and powdered or broken tea leaves that have been separated during the tea sieving process, whereas food waste from staff canteen and daily waste from our office operations have been deemed insignificant in comparison. From 2020 to 2022, hawse had generated 9.55 tonnes of tea impurities. We have handled these non-hazardous wastes by sending the tea impurities back to its plantations, where they may be processed into fertilizer for self-use. Though the operations of us does not generate any significant amount of hazardous waste, we have nonetheless adopted internal policies with respect to handling hazardous waste.

Use of Resources

In addition, we reduce our environmental footprint through further emphasis on energy saving, emissions control, and sustainable development. From 2020 to 2022, we had consumed 2,441,922.50 kWh of purchased electricity. We have identified that the highest energy consumption portion of our operations is the tea leaf sorting process. To address this, we have implemented an automated system for this portion of the production process, which reduces energy wastage and elevates product quality. Other high energy consumption portions of our operations include the drying process during tea refining, so that we have taken measures to reduce energy consumption through installing an automatic adjustment system which maintains the temperature and humidity optimally, while at the same time implementing stricter monitoring to prevent overloading. Furthermore, we have adopted policies to turn off idling machinery, which both prolongs the lifespan of tea processing machinery and reduces energy consumption.

We also consume various other resources for our business operations. Our office operations consumed 1,471 kg of paper from 2020 to 2022. To reduce paper consumption, we encourage double-sided printing for inner circulation documents, as well as began transition towards a paperless office environment and digital data storage system. During the tea leaf production, we used 514.0 tonnes of packaging material from 2020 to 2022. To lower the environmental impact of packaging material, we have been actively looking into alternatives for more environmentally friendly packaging materials. For example, we replaced 29.0 tonnes of packaging materials with biodegradable bamboo leaves and fibres from 2020 to 2022, while also choosing paper packaging over plastic packaging wherever possible.

Social and Governance

During the Track Record Period and up to the Latest Practicable Date, we were not subject to any material claim or penalty in relation to health, safety and social aspects, or involved in any significant workplace accident or fatality. Our Board considers that the annual cost of compliance with the applicable health, safety, social and environmental laws and regulations was not material during the Track Record Period and do not expect the cost of such compliance to be material going forward.

Under the ESG Policy, we strive to operate in a manner that protects the environment and the safety and health of our employees and communities. Our target is to sustainably connect with our employees, customers and business partners through a combination of initiatives which create long-lasting benefits to us as a community.

We believe we have adequate policies ensuring compliance with all health, safety, social and environmental protection regulations. In addition, independent third party to be engaged for ESG assessment and our ESG task force team will review relevant policies on a regular basis to ensure compliance with relevant laws and regulations.

Human Resources

We have strictly complied with relevant laws and regulations to ensure employees' interests are protected. These laws and regulations include, but not limited to the following:

- Labor Law of China
- Labor Contract Law of the PRC
- Regulations on Paid Annual Leave for Employees
- Law on the Protection of Disabled Persons of China
- Trade Union Law of China
- Law on the Protection of Women's Rights and Interests of China
- Special Rules on the Labor Protection of Female Employees
- Provisions on the Prohibition of Using Child Labor

In addition, we have also been promoting diversity through continuous implementation of equal opportunity management practices, as well as through fair treatment for all employees regardless of background. Furthermore, we are in the process of preparing diversity policies, and plan to implement said policies starting from our Board. By promoting these practices, we aim to cultivate health, wellbeing and work-life balance for all of our employees.

Furthermore, we place emphasis on the training and career development of our employees. Outside of orientation training for new staff, we encourage certain employees to undergo training to become certified tea sommeliers by offering monthly subsidies. Our labor union also brings up issues regarding employees' rights and welfare to our Board and negotiates on their behalf for additional employee benefits.

Occupational Health and Safety

We strive to provide and maintain a safe and healthy working environment whilst complying with all relevant laws and regulations. These include, but not limited to the following:

- Law of China on the Prevention and Treatment of Occupational Diseases
- Work Safety Law of China

Further to the above, we have passed inspection by relevant health authorities, who have deemed that workplaces of us are free from any factors that may contribute to occupational diseases.

We have also adopted internal policies to promote safe production within our production bases, which include stringent safety guidelines for production staff, regularly scheduled maintenance on machinery and equipment and occupational safety training for employees to raise awareness and knowledge for accident prevention.

Specifically, we (1) have various guidelines governing workplace safety and fire control, (2) inspect office premises and production bases regularly to identify emergencies and safety hazards and minimize related risks, and (3) keep health records for production staff and conduct health examinations before and during their employment with us, especially for employees directly engaged in production activities.

Labor Standards

We strictly follow relevant laws and regulations such as the Labour Law of China, the Labor Contract Law of China, and the Law on the Protection of Minors to manage our labor practices. Screening and background checks are performed when recruiting new employees. Working hours are strictly restricted to eight hours to prevent excessive workload, and forced labor is prohibited as we comply with Article 38 of the Labor Contract Law.

No child labor or forced or compulsory labor were reported and/or identified within any workplaces of ours during the Track Record Period. If any incidents of non-compliance are discovered within our workplaces, we will immediately suspend employment and carry out internal investigation.

Product Responsibility

Our Group is committed to ensuring the quality of our tea products, and we have complied with all applicable laws and regulations regarding product responsibility as of the Latest Practicable Date. These include, but not limited to the following:

- The Implementation Rules of Food Safety Law of the PRC
- Administrative Measures on Food Operation License
- Foreign Trade Law of the PRC
- Provisions on the Recordation of Customs Declaration Entities of the PRC
- Measures of the PRC for the Administration of Safety of Imported and Exported Food
- Product Quality Law of the PRC
- Law of the PRC on the Protection of Consumer Rights and Interests

To ensure that high quality tea leaves are used for producing tea products, our Group primarily engages with tea plantations from the Yunnan Province, where the local climate and environment is most suitable for growing tea. In addition, our Group has obtained the necessary food production and food business licenses from national authorities for producing and selling refined tea products in our production bases and retail locations, as well as relevant food safety management certification and quality management certification from the China Quality Certification Centre (the "CQC"). Furthermore, our Group has obtained raw material certification in the European Union and United States as per Certification of Environmental Standards GmbH, and organic certification for our tea products in the PRC as per CQC through GB/T 19630. Regarding quality control of our tea products, our Group has certified our product management system through ISO9001, ISO22000, and HACCP.

As tea products have strict temperature and humidity requirements during storage, our Group has installed temperature and humidity control equipment in our warehouses to maintain the quality of refined tea, where the equipment is inspected on a regular basis to ensure proper operation. In the case of unforeseen issues with tea products that have already been shipped to retailers, our Group has formulated management policies for after-sales services, which include procedures for recalling shipped and sold products, handling returned products by consumers, and processing complaints from consumers.

During the Track Record Period and as of the Latest Practicable Date, our Group has not received any significant customer complaints that have had negative effects on our Group's business and operations.

Supply Chain Management

As working conditions for tea production workers have been a raising concern in recent years, we have also implemented measures to minimise the chances of child labor or forced or compulsory labor within our supply chain. We primarily source rough tea leaves from tea plantations in Yunnan, and carry out site visits to tea plantations to ensure that there are no incidents of child labor or forced or compulsory labor on the premises before engaging them as suppliers. During these site visits, we dispatch professionally trained workers to provide technical guidance on picking fresh tea leaves and rough tea leaf production. This practice ensures that the quality of tea leaves is of our standards, and also allows for sustainable development of tea plantations.

We source packaging materials from third-party companies. We have also engaged two logistics companies to transport our tea leaf products to retail customers and distributors. To promote environmental consciousness, we prefer packaging materials that are biodegradable, and has signed agreements with logistics companies to transition towards greener and low-carbon transportation.

Anti-Corruption

We regard knowledge and compliance with laws and regulations as the foundation of our business. We require that all employees shall conform to the Law Against Unfair Competition of China, Criminal Law of China and other laws and regulations related to commercial bribery. Our departments with supervising duties continue to implement a monitoring system to ensure zero tolerance of corruption, bribery, extortion, fraud, money laundering and any other unlawful activities. We also regularly review the prevailing laws and regulations and industry norms, so as to update and revise policies and procedures in due course.

We have established hotlines and emails for employees and third parties, including customers and suppliers, to report any misconduct, dereliction of duty or violations. Furthermore, we plan to provide anti-corruption training to our Board and employees to strengthen their awareness of business ethics and integrity, details of which will be disclosed in the ESG Report.

We did not aid, abet, assist or collude with an individual who has committed or conspired to commit any unlawful activities. No non-compliance with relevant laws and regulations that have a significant impact on us relating to corruption, bribery, fraud and money laundering had been identified during the Track Record Period.

OVERVIEW

As of the Latest Practicable Date, Ms. Du and Ms. Wang, who have entered into the acting-in-concert arrangements, were entitled to control the exercise of 47.96% voting rights at the general meetings of our Company, including (i) 18.07% beneficially owned by Ms. Du directly, (ii) 2.66% and 6.12% beneficially owned by Mr. Shi Yue (石躍) (Ms. Du's husband) and Ms. Shi Ailing (石艾靈) (Ms. Du's daughter), respectively, whose voting rights at the general meeting of our Company are controlled by Ms. Du pursuant to the family arrangements, (iii) 13.22% beneficially owned by Ms. Wang directly, and (iv) 7.89% beneficially owned by Guangzhou Tiansu, which is controlled by Ms. Wang. Upon [REDACTED], Ms. Du and Ms. Wang will be entitled to control the exercise of [REDACTED]% voting rights at the general meetings of our Company, including (i) [REDACTED]% beneficially owned by Ms. Du directly, (ii) [REDACTED]% beneficially owned by Mr. Shi Yue and [REDACTED]% beneficially owned by Ms. Shi Ailing, (iii) [REDACTED]% beneficially owned by Ms. Wang directly, and (iv) [REDACTED]% beneficially owned by Guangzhou Tiansu, assuming [REDACTED] is not exercised. Therefore, Ms. Du, Ms. Wang, Mr. Shi Yue, Ms. Shi Ailing and Guangzhou Tiansu constituted as of the Latest Practicable Date and will continue to constitute upon [REDACTED] a group of controlling shareholders of our Company pursuant to the Listing Rules. See "History and Corporate Structure — Acting in Concert" for details of the acting-in-concert arrangements between Ms. Du and Ms. Wang.

NO COMPETITION AND CLEAR DELINEATION OF BUSINESS

Members of our Controlling Shareholder Group have confirmed that as of the Latest Practicable Date, none of them or any of their respective close associates had any interest in a business that competes or is likely to compete, either directly or indirectly, with our business, which is subject to disclosure pursuant to Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDER GROUP

Management Independence

Our business is primarily managed and conducted by our Board and senior management. Upon the completion of [REDACTED], our Board will comprise of six executive Directors and three independent non-executive Directors. Our Company has also established the Supervisory Committee, comprising three Supervisors. See "Directors, Supervisors and Senior Management" for more information.

Our Directors believe that our Board and senior management are able to manage our business and function independently from our Controlling Shareholder Group based on the following reasons:

(1) each of our Directors is aware of his/her fiduciary duties as a Director of our Company which require, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest;

(2) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Directors shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum;

(3) we have three independent non-executive Directors, who have extensive experience in different areas and have been appointed to ensure that the decisions of our Board are made after due consideration of independent and impartial opinions. Certain matters of our Company must always be referred to the independent non-executive Directors for review in accordance with the Listing Rules, the applicable laws and our Articles of Associations and internal policies;

(4) our daily management and operations are carried out by a senior management team. Except Ms. Du, Ms. Wang and Ms. Shi Yijing (石一景) (Ms. Du's daughter), our senior management team members are independent from our Controlling Shareholder Group, all of whom have substantial experience in the industry in which our Company is engaged, and will therefore be able to make business decisions that are in the best interest of our Group;

(5) we have established a Supervisory Committee comprising three Supervisors who are independent from our Controlling Shareholder Group. Our Supervisors shall be responsible for the supervision of performance of our Directors and the senior management team, including monitoring any acts of a Director or senior management member which may be detrimental to the interests of our Company; and

(6) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholder Group which would support our independent management. See "— Corporate Governance."

Operational Independence

We have established our own organizational structure comprised of individual departments, each with specific areas of responsibilities. We have also established various internal controls procedures to facilitate the effective operation of our business. Our Group is not operationally dependent on the members of our Controlling Shareholder Group or their respective close associates. Our Company (through our subsidiaries) holds or enjoys the benefit of all relevant licenses and owns all relevant intellectual property and research and development facilities necessary to carry on our business. We have sufficient capital, facilities, equipment and employees to operate our business independently from the members of our Controlling Shareholder Group and their respective close associates. We also have independent access to our customers and suppliers.

Based on the above, our Directors believe that we are capable of carrying on our business independently of the members of our Controlling Shareholder Group and their close associates.

Financial Independence

Our financial system is independent from that of the members of our Controlling Shareholder Group and their close associates. Our Group's accounting and finance functions are independent of our Controlling Shareholder Group. Our Group makes financial decisions according to our own business needs. Our Group's major finance operations are handled by our financial management department, which operates independently from the members of our Controlling Shareholder Group and their close associates. We do not share any other functions or resources with any of the members of our Controlling Shareholder Group or their close associates.

We primarily finance our business operation through cash generated from our business activities and equity financing activities. During the Track Record Period and up to the Latest Practicable Date, certain bank loans to the Group were guaranteed by our Controlling Shareholder Group. As of June 30, 2023, being the latest practicable date for liquidity disclosure in this document, the outstanding principal amount of such guaranteed loans was RMB46.5 million, of which the guarantees provided by our Controlling Shareholder Group will be released upon [REDACTED] as confirmed by the relevant banks. See note 34 to the Accountant's Report as set out in the Appendix I to this document and "Financial Information—Related party transactions" for details of such loans and guarantees.

Save as disclosed above, none of the members of our Controlling Shareholder Group or their respective close associates financed our operations during the Track Record Period. We do not intend to obtain any further borrowings, guarantees, pledges or mortgages from any of the members of our Controlling Shareholder Group or their respective close associates.

Based on the above, our Directors believe that our Group is able to operate with financial independence from the members of our Controlling Shareholder Group and their close associates.

CORPORATE GOVERNANCE

We have put in place sufficient corporate governance measures to manage the conflict of interest and potential competition from Controlling Shareholder Group and safeguard the interest of our Shareholders, including:

(1) where a Shareholders' meeting is to be held for considering proposed transactions in which the members of our Controlling Shareholder Group or any of their close associates has a material interest, our Controlling Shareholder Group will not vote on the resolutions and shall not be counted in the quorum in the voting;

(2) our Company has established internal control mechanism to identify connected transactions. After [REDACTED], our Company will comply with the requirements in connection with connected transactions under the Listing Rules;

(3) where our Directors reasonably request the advice of independent professionals, such as independent financial advisors, the appointment of such independent professional will be made at our Company's expense;

(4) we have appointed FUTEC Financial Limited as our compliance advisor to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance;

(5) we have established the audit committee, remuneration and appraisal committee and nomination committee with written terms of reference in compliance with the Listing Rules and the Corporate Governance Code;

(6) our Controlling Shareholder Group will confirm the status of their non-competing interest on an annual basis and to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by our Company; and

(7) our Company will disclose decisions (with basis), if any, on matters reviewed by the independent non-executive Directors either in its annual report or by way of announcements.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the members of our Controlling Shareholder Group and their respective close associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

We have entered into certain transactions with persons that will, upon [REDACTED], become our connected persons (as defined under Chapter 14A of the Listing Rules). Accordingly, following [REDACTED], the transactions contemplated thereunder will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

FULLY-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We set out below a summary of the continuing connected transactions of our Group which are fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Rule 14A.97 in Chapter 14A of the Listing Rules.

Purchase of Tea Products and Teahouses Services by our Connected Persons

Our connected persons, from time to time, may purchase tea products and teahouses services from us. For each of the three years ended December 31, 2020, 2021 and 2022, none of such connected persons had individually made an annual purchase of more than RMB0.2 million, and for the six months ended June 30, 2023, none of such connected persons had individually made a total purchase of more than RMB0.2 million. The purchase was and will be for his/her own private use or consumption. Our Directors believe that our direct sales to such connected persons who have personal demands for our products and services will provide convenience to them. Such purchase has been and will be made on terms which are no more favorable than those available to independent third parties.

Listing Rules Implications

On the basis of the foregoing and as the abovementioned connected transactions are on normal commercial terms and in the ordinary and usual course of our business, these transactions will be fully-exempt from the reporting, annual review, announcement, circular and independent shareholders' approval requirements in accordance with Rule14A.97 of the Listing Rules.

DIRECTORS' VIEW

Our Directors (including the independent non-executive Directors) are of the view that the continuing connected transactions described above in this section have been entered into and will be carried out (a) in the ordinary and usual course of business of our Group, (b) on normal commercial terms or better, and (c) are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

SPONSORS' VIEW

After review of the relevant documentation and historical figures provided by us and based on the representations and confirmations from our Group, the Joint Sponsors are of the view that the continuing connected transactions described above have been entered into in the ordinary and usual course of business of our Group; and on normal commercial terms which are fair and reasonable and in the interests of our Shareholders as a whole.

OVERVIEW

Upon [REDACTED], our Board will consist of nine Directors, among which, six will be executive Directors and three will be independent non-executive Directors. Our Board is responsible, and has general authority for, the management and operation of our Company. Our Directors are appointed for a term of three years and are eligible for re-election upon expiry of their term of office.

Our Supervisory Committee consists of three Supervisors, including two shareholder Supervisors and one employee representative Supervisor. Supervisors serve for a term of three years and shall be subject to re-election upon expiry of the term of office.

Our senior management is responsible for the day-to-day operations of our Company.

All of our Directors, Supervisors and senior management have met the qualification requirements under the relevant PRC laws and regulations and the Listing Rules for their respective positions.

BOARD OF DIRECTOR

The following table sets forth general information regarding the members of our Board:

Name	Age	Position	Date of appointment as Director	Date of joining our Group	Roles and responsibilities	Relationship with other Directors, Supervisors and/or Senior management
Executive Directors						
Ms. Du Chunyi (杜春嶧)	73	Chairlady and executive Director	September 11, 2002	September 11, 2002	Responsible for the overall strategic decision of our Group	Mother of Ms. Shi Yijing
Ms. Wang (王娟)	48	Executive Director and general manager	February 8, 2018	September 1, 2007	Responsible for the overall management and business operation of our Group	None
Mr. Zhang Muheng (張慕衡)	47	Executive Director and deputy general manager	February 8, 2018	September 1, 2007	Responsible for the overall financial and distribution management of our Group	None

Name	Age	Position	Date of appointment as Director	Date of joining our Group	Roles and responsibilities	Relationship with other Directors, Supervisors and/or Senior management
Ms. Shi Yijing (石一景)	40	Executive Director	February 8, 2018	August 1, 2012	Responsible for the overall management of the infrastructure project of our Group and providing assistance to our Chairlady	Daughter of Ms. Du
Mr. Fu Gang (付剛)	48	Executive Director and director of production center	February 8, 2018	February 8, 2018	Responsible for the overall production management of our Group	None
Mr. Liu Jiajie (劉佳杰)	36	Executive Director and deputy general manager	March 10, 2020	March 10, 2020	Responsible for investments and capital market activities of our Group	None
Independent Non-executive Directors						
Ms. Cao Wei (曹瑋)	52	Independent non-executive Director	March 10, 2020	March 10, 2020	Responsible for providing independent advice on the operations and management of our Group	None
Dr. Xie Xiaoyao (謝曉堯)	57	Independent non-executive Director	March 10, 2020	March 10, 2020	Responsible for providing independent advice on the operations and management of our Group	None
Mr. Tang Zhangliang (湯章亮)	43	Independent non-executive Director	March 2, 2022	March 2, 2022	Responsible for providing independent advice on the operations and management of our Group	None

Executive Directors

Ms. Du Chunyi (杜春嶧), aged 73, is our founder and has served as our executive Director and Chairlady since our inception in September 2002. Ms. Du is responsible for the overall strategic decision of our Group. She also served as a director at Pu'er Lancang Ancient Tea Renhe Co., Ltd.(普洱瀾滄古茶人合有限責任公司), a subsidiary of us, from April 2014 to December 2021.

Ms. Du has over 55 years of experience in tea industry. Ms. Du, together with other local tea masters, joined Jingmai Mountain Tea Workshop (景邁茶訓班) in 1966 as a key member, which was the starting point of her tea-making business. She later worked at Lancang County Tea Plant until January 1998 when she led a group of former employees of Lancang County Tea Plant to propose the incorporation of our Company.

Ms. Du was awarded the National Bearer of Red Flag March 8 (全國三八紅旗手) by All-China Women's Federation (中華全國婦女聯合會) in March 2019, the Excellent Builder of the Cause of the Socialism with Chinese Characteristics among Individuals from the Non-public Sector of Economy of Yunnan Province(雲南省優秀中國特色社會主義事業建設者) in October 2019, the Outstanding Private Entrepreneur in Yunnan Province (雲南省優秀民營企業傢) in July 2015 and the Outstanding Entrepreneur of Small-and-medium-sized Enterprises and Non-public Sector of Economy in Yunnan Province (雲南省中小企業暨非公有制經濟優秀企業傢) in October 2006 by People's Government of Yunnan Province (雲南省人民政府) as well as the Model of Social Poverty Alleviation (社會扶貧模範) in October 2019 by the Leading Group of Poverty Alleviation and Development of Yunnan Province (雲南省扶貧開發領導小組). Ms. Du was also recognized as the Master of Pu'er Tea Heritage Craft (普洱茶傳承工藝大師) jointly by Department of Agriculture and Rural Affairs of Yunnan Province (雲南省農業農村廳) and Department of Human Resources and Social Security of Yunnan Province (雲南省人力資源和社會保障廳) in August 2018 and the Global Pu'er Tea Top Ten Outstanding Persons (全球十大普洱茶傑出人物) by the 8th Chinese Pu'er Tea Festival and the 2nd Global Pu'er Tea Carnival Organization Committee (第八屆中國普洱茶節及第二屆全球普洱茶嘉年華會組委會) in April 2007.

Ms. Du currently serves as a committee member of the Chinese People's Political Consultative Conference of Pu'er City (中國人民政治協商會議普洱市委員會) and the Chinese People's Political Consultative Conference of Lancang Lahu Ethnic Autonomous County (中國人民政治協商會議瀾滄拉祜族自治縣委員會). She was also appointed as a consultant by the government of Pu'er City in May 2019 to advise on tea industry development.

Ms. Du was recognized as a senior engineer by Yunnan Senior Technician Association (雲南省老科技工作者協會) in December 2022.

Ms. Du is the mother of Ms. Shi Yijing, our executive Director.

Ms. Wang Juan (王娟), aged 48, joined our Group in September 2007 and was appointed as an executive Director and the general manager in February 2018. She is responsible for the overall management and business operation of our Group. Prior to our joint-stock reform, from September 2007 to February 2018, she successively served as the general manager of the marketing center and the general manager of our Company. She also served as a director and the general manager at Pu'er Lancang Ancient Tea Renhe Co., Ltd. (普洱瀾滄古茶人合有限責任公司) from April 2014 to December 2021 and currently serves as a supervisor at Guangzhou Kangruilan Ancient Tea Co., Ltd. (廣州康瑞瀾滄古茶有限公司), both of which are our subsidiaries.

Ms. Wang has over 18 years of experience in tea industry. Ms. Wang founded Guangzhou Chunming Tea Co., Ltd. (廣州市純茗茶業有限公司), a company principally engaged in tea product retails in January 2005 and served as the executive director until March 2018. Prior to that, Ms. Wang successively worked as an officer at Guangzhou Light Industry Group Co., Ltd. (廣州輕工集團有限公司), a company whose businesses mainly cover energy conservation and environmental protection, healthy foods, green daily chemicals and trade of stationery and sporting goods, and an operation director at Guangdong Shenzhou Online Telecom Co., Ltd. (廣東神州在線電信有限公司), a telecommunication service provider, from July 1996 to June 2005. Together with Mr. Zhang Muheng, Ms. Wang founded Guangzhou Tiansu in November 2005 and has served as its supervisor since April 2006.

Ms. Wang was elected as a deputy to the People's Congress of Liwan District, Guangzhou (廣州市荔灣區人民代表大會) in September 2021. In addition, Ms. Wang was appointed as a member of the Expert Consultation Committee for the Development of Pu'er Tea Industry (普洱市茶產業發展專家諮詢委員會) in January 2023 and an external master's tutor by College of Horticulture, South China Agricultural University (華南農業大學園藝學院) in June 2021. She has also served as the executive vice president of Guangdong Tea Culture Promotion Association (廣東省茶文化促進會) since December 2013.

Ms. Wang graduated from Sun Yet-sen University (中山大學) with a bachelor's degree in philosophy in June 1996.

Mr. Zhang Muheng (張慕衡), aged 47, joined our Group in September 2007 and was appointed as our executive Director and deputy general manager in February 2018. He is primarily responsible for the overall financial and distribution management of our Group. Prior to our joint stock reform, from September 2007 to February 2018, he successively served as deputy general manager of the marketing center and deputy general manager of our Company. He also currently serves as the executive director and general manager of Guangzhou Kangrui Lancang Ancient Tea Co., Ltd. (廣州康瑞瀾滄古茶有限公司), which is our subsidiary.

Prior to joining us, in November 2005, Mr. Zhang co-founded Guangzhou Tiansu with Ms. Wang and has served as the executive director since then. Mr. Zhang also has served as a director at Pu'er Tea Small Town Investment Co., Ltd. (普洱茶小鎮投資有限公司), a company focusing on investments in tea culture and tourism industry since December 2017.

Mr. Zhang has served as a committee member of the Chinese People's Political Consultative Conference of Liwan District, Guangzhou (中國人民政治協商會議廣州市荔灣區委員會) and the vice president of Federation of Industry and Commerce of Liwan District, Guangzhou (廣州市荔灣區工商業聯合會) since November 2021 and September 2021, respectively. He also currently serves as a member of the standing committee of the Executive Council Guangzhou Federation of Industry and Commerce (廣州市工商業聯合會執行委員會).

Mr. Zhang graduated from the undergraduate program in the field of electrical technology at Guangdong University of Technology (廣東工業大學) in July 1998. Mr. Zhang was recognized as a senior engineer by China Computer Software Professional and Technical Qualification and Level Examination Center (中國計算機軟件專業技術資格和水平考試中心) and certified professional database administrator and system engineer by Microsoft.

Ms. Shi Yijing (石一景), aged 40, joined our Group in August 2012 and was appointed as our executive Director in February 2018. She is primarily responsible for the overall management of the infrastructure project of our Group and providing assistance to our Chairlady. She has also served as a director of Pu'er Lancang Ancient Tea Renhe Co., Ltd. (普洱瀾滄古茶人合有限責任公司) since April 2014.

Prior to joining us, she served as a police officer at Public Security Bureau of Lancang Lahu Autonomous County (瀾滄拉祜族自治縣公安局) from February 2007 to July 2012. Ms. Shi also has served as a supervisor at Pu'er Tea Small Town Investment Co., Ltd. since July 2017.

Ms. Shi graduated from Yunnan Minzu University (雲南民族大學) with a bachelor's degree in ethnology in July 2005. Ms. Shi has served as a part-time vice president of the Federation of Industry and Commerce of Lancang Lahu Autonomous County (瀾滄拉祜族自治縣工商業聯合會) and a vice president of Pu'er City General Chamber of Commerce (普洱市總商會) since March 2022 and May 2022, respectively.

Ms. Shi is the daughter of Ms. Du.

Mr. Fu Gang (付剛), aged 48, joined us as the director of production center and was appointed as an executive Director in February 2018. He is primarily responsible for the overall production management of our Group.

Mr. Fu has over 26 years of experience in agricultural production and management. Prior to joining us, from September 2017 to February 2018, Mr. Fu served at as a specialist at Technology Training Center, Bureau of Agriculture, Science and Technology of Lancang Lahu Autonomous County (瀾滄拉祜族自治縣農業和科學技術局科技培訓中心). From February 1996 to September 2017, he served as the deputy director at Fish Farm of Lancang Lahu Autonomous County (瀾滄拉祜族自治縣魚種場), a fish farm where he was responsible for the overall management and operation of the farm.

Mr. Fu was recognized as an associate engineer by Yunnan Senior Technician Association (雲南省老科技工作者協會) in November 2020.

Mr. Liu Jiajie (劉佳杰), aged 36, joined us as deputy general manager and was appointed as an executive Director in March 2020. He is primarily responsible for investment and capital market activities of our Group. He also currently serves as the executive director and general manager of Shenzhen Langu Brand Management Industry Co., Ltd. (深圳瀾古品牌管理實業有限公司), which is our subsidiary.

Mr. Liu has extensive experience in capital market and securities transactions. Prior to joining us, from March 2017 to March 2020, he served as an executive president at the investment bank department of Huachuang Securities Co., Ltd. (華創證券有限責任公司), a financial services provider and a subsidiary of Huachuang Yang'an Co., Ltd. (華創陽安股份有限公司) whose shares are listed on the Shanghai Stock Exchange (stock code: 600155). From June 2016 to March 2017, he served as an associate at the investment bank department of Morgan Stanley Securities (China) Co., Ltd. (摩根士丹利證券(中國)有限公司) (formerly named as Morgan Stanley Huaxin Securities Co., Ltd. (摩根士丹利華鑫證券有限公司)), a PRC subsidiary of Morgan Stanley, an international investment bank and financial services provider whose shares are listed on the New York Stock Exchange (ticker: MS). From April 2012 to April 2016, Mr. Liu served as a senior vice president at the investment bank department of Huarong Securities Co., Ltd. (華融證券股份有限公司), a financial services provider and a subsidiary of China Huarong Asset Management Co., Ltd. (中國華融資產管理股份有限公司) whose shares are listed on the Stock Exchange (stock code: 02799). Prior to that, from July 2011 to April 2012, Mr. Liu served as an associate at investment bank department of Huatai United Securities Co., Ltd. (華泰聯合證券有限責任公司), a financial services provider and a subsidiary of Huatai Securities Co., Ltd. (華泰證券股份有限公司) whose shares are concurrently listed on the Stock Exchange (stock code: 6886) and the Shanghai Stock Exchange (stock code: 601688).

Mr. Liu obtained dual bachelor's degrees in trade economics and accounting in July 2009 from Xi'an Jiaotong University (西安交通大學), where he further obtained a master's degree in applied economics in June 2011. Mr. Liu was also accredited as a sponsor representative by Securities Association of China (中國證券業協會) in March 2016.

Independent Non-executive Directors

Ms. Cao Wei (曹瑋), aged 52, was appointed as our independent non-executive Director in March 2020. She is primarily responsible for providing independent advice to our Board on the operations and management of our Group.

Ms. Cao has extensive experience in accounting and financial management. Since August 2018, she has served as a partner of Lixin Zhonglian Certified Public Accountants' Firm (Special General Partnership) (立信中聯會計師事務所(特殊普通合夥)), an accounting firm where she is primarily responsible for the overall management of the Shenzhen Branch's second auditing department. Prior to that, from May 2014 to August 2018, Ms. Cao served as a program manager at Shenzhen branch of Asia Pacific (Group) Certified Public Accountants (special General Partnership) (亞太(集團)會計師事務所(特殊普通合夥)), an accounting firm where she was primarily responsible for execution of audit projects. Prior to that, from January 2006 to May 2014, Ms. Cao served as a project manager at Shenzhen Yinhua Accounting Firm (General Partnership) (深圳銀華會計師事務

所(普通合夥)) (now known as Shenzhen Landi Accounting Firm (General Partnership) (深圳蘭迪會計師事務所(普通合夥)), an accounting firm where she was responsible for the execution of audit and consulting projects.

Ms. Cao also has served as an independent director at Maxvision Technology Corp. (盛視科技股份有限公司) since June 2022, an artificial intelligence products provider whose shares are listed on the Shenzhen Stock Exchange (stock code: 002990), and an independent director at Guangdong Pisen Electronics Co. Ltd (廣東品勝電子股份有限公司) since November 2020, an electronic device manufacturing company whose shares were formerly quoted on National Equities Exchange and Quotations (全國中小企業股份轉讓系統) (stock code: 834028).

Ms. Cao graduated from Huazhong University of Science and Technology (華中科技大學) with a bachelor's degree in accounting through long distance learning in June 2005. She was accredited as a Certified Public Accountant by the Shenzhen Institute of Certified Public Accountants (深圳市註冊會計師協會) in November 2012 and a Certified Tax Agent jointly by the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) and the State Taxation Administration of the PRC (中華人民共和國國家稅務總局) in June 2008. Ms. Cao also obtained a Qualification Certificate of Independent Director (獨立董事資格證書) issued by the Shanghai Stock Exchange in July 2020.

Dr. Xie Xiaoyao (謝曉堯), aged 57, was appointed as our independent non-executive Director in March 2020 and is primarily responsible for providing independent advice to our Board on the operations and management of our Group.

Dr. Xie has over 32 years of experience in legal research and teaching. He successively served as a teaching assistant, lecturer, associate professor and professor at Sun Yat-sen University, School of Law (中山大學法學院) since September 1991 and currently serves as a professor at Civil and Commercial Law Research Institute (民商法研究所) of Sun Yat-sen University, School of Law.

Dr. Xie served and currently serves as independent director in several listed companies. He has served as the independent director at Shenzhen Easttop Supply Chain Management Co., Ltd. (深圳市東方嘉盛供應鏈股份有限公司), an integrated supply chain solutions provider whose shares on listed on the Shenzhen Stock Exchange (stock code: 002889) since October 2021; an independent director at Guangzhou Hengyun Enterprises Holdings Ltd. (廣州恆運企業集團股份有限公司), an electric power and heating company whose shares are listed on the Shenzhen Stock Exchange (stock code: 000531) since August 2019. From May 2017 to June 2023, Dr. Xie served as an independent director at Improve Medical Instruments Co., Ltd. (陽普醫療科技股份有限公司), a clinical laboratory and clinical nursing services provider whose shares are listed on the Shenzhen Stock Exchange (stock code: 300030). From April 2015 to May 2021, Dr. Xie served as an independent director at Guangzhou Jointas Chemical Co., Ltd. (廣州集泰化工股份有限公司), a sealant and coating production company whose shares are listed on the Shenzhen Stock Exchange (stock code: 002909). From December 2013 to December 2019, he also served as an independent director at Guangzhou BaiYun Electric Equipment Co., Ltd. (廣州白雲電器設備股份有限公司), an electrical equipment manufacturing company whose shares are listed on the Shanghai Stock Exchange (stock code: 603861).

Dr. Xie graduated from Sun Yat-sen University with a bachelor's degree in law in July 1988, a master's degree in law in July 1991 and a doctorate degree in corporate management in December 2005. Dr. Xie obtained a Lawyer's Qualification Certificate (律師職業資格證) issued by the Department of Justice of Guangdong Province (廣東省司法廳) in June 1989, and a Qualification Certificate of Independent Director (獨立董事資格證書) issued by the Shanghai Stock Exchange in April 2013.

Mr. Tang Zhangliang (湯章亮), aged 43, was appointed as our independent non-executive Director in March 2022 and is primarily responsible for providing independent advice to our Board on the operations and management of our Group.

Mr. Tang has extensive experience in financial management and investment affairs. Mr. Tang has served as the chief financial officer of Fashion Tech (Hong Kong) Limited, which is primarily engaged in the fast fashion business under the brand name of Urban Revivo, since June 2023. Prior to that, from October 2020 to November 2022, Mr. Tang served as the chief financial officer of Itui International Inc., a company focusing on developing mobile applications for social networking services. From July 2018 to June 2020, Mr. Tang served as the chief financial officer at Cloudminds (Hong Kong) Limited, a company primarily engaged in robot development and manufacturing. Mr. Tang served at Paradigm Advisors Holdings (Hong Kong) Limited, an investment bank from November 2016 to July 2018, with his last position being a managing director. From April 2015 to November 2016, Mr. Tang served as a director at the investment banking department of China Renaissance Securities (Hong Kong) Limited, a subsidiary of China Renaissance Holdings Limited whose shares are listed on the Stock Exchange (stock code: 1911). From April 2011 to April 2015, he served at J.P. Morgan Securities (Asia Pacific) Limited, a financial services provider and a subsidiary of JP Morgan Chase whose shares are listed on the New York Stock Exchange (ticker: JPM), with his last position being an executive director at global investment banking department. From August 2006 to March 2011, Mr. Tang successively served at several investment banks, including as an analyst at ING Bank N.V., an associate at HSBC Markets (Asia) Limited and an associate at Deutsche Bank Aktiengesellschaft, respectively.

Mr. Tang graduated from Fudan University (復旦大學) with a bachelor's degree in international finance in July 2002.

BOARD OF SUPERVISORS

The following table sets forth general information regarding our Supervisors:

Name	Age	Position	Date of joining our Group	Date of appointment as a Supervisor	Roles and responsibilities	Relationship with other Directors, Supervisors and/ or Senior management
Ms. Huang Yingzhi (黃瀅芝)	41	Chairlady of our Supervisory Committee, Supervisor and deputy director of comprehensive management center	March 1, 2006	January 30, 2018	Supervision of financial management of our Group and performance of our Directors and senior management	None
Ms. Zhu Meixuan (朱美宣)	48	Supervisor and deputy director of research and development center	September 11, 2002	February 8, 2018	Supervision of financial management of our Group and performance of our Directors and senior management	None
Mr. Luo Zhonghong (羅忠宏)	54	Supervisor and deputy director of production center	September 11, 2002	February 8, 2018	Supervision of financial management of our Group and performance of our Directors and senior management	None

Ms. Huang Yingzhi (黃瀅芝), aged 41, joined our Group as a deputy general manager of comprehensive management center in March 2006. Ms. Huang was appointed as a Supervisor in January 2018 and the chairlady of our Supervisory Committee and the deputy director of comprehensive management center in February 2018. Ms. Huang is primarily responsible for the overall management of our Supervisory Committee and the supervision of financial management of our Group and performance of our Directors and senior management.

Prior to joining us, from July 2003 to February 2006, Ms. Huang served as a cashier at Lancang Yongfeng Wood Co., Ltd. (瀾滄永豐木業有限責任公司), a wood processing company where she was responsible for cash handling. From December 2001 to May 2003, she served as a worker at Zhongshan Tongsheng Lighting Co., Ltd. (中山市同勝照明有限公司), a lamp manufacturing company where she was responsible for lamp manufacturing.

Ms. Huang graduated from Yunnan Simao Finance College (雲南省思茅財經學校) with a diploma in industrial enterprise management in July 2001. Ms. Huang was recognized as a tea craft specialist by Pu'er Vocational Skills Appraisal Center (普洱市職業技能鑒定中心) in December 2007 and an associate engineer by Yunnan Senior Technician Association in November 2020.

Ms. Zhu Meixuan (朱美宣), aged 48, joined our Group in September 2002 and was appointed as a Supervisor and the deputy director of research and development center in February 2018. Ms. Zhu is primarily responsible for the supervision of financial management of our Group and performance of our Directors and senior management.

Ms. Zhu has more than 33 years of experience in tea industry. From August 1989 to August 1998, she served as a specialist at Lancang County Tea Plant, where she was responsible for tea processing.

Ms. Zhu was awarded the Model Worker of Yunnan Province (雲南省勞動模範) by People's Government of Yunnan Province (雲南省人民政府) in April 2021, the Chief Technician of Ten Thousand Talents Program of Yunnan Province (雲南省"萬人計劃"首席技師) by Yunnan Provincial Talent Work Leading Group Office (雲南省人才工作領導小組辦公室) in March 2019 and the May 1st Labor Medal of Yunnan Province (雲南省五一勞動獎章) by Yunnan Provincial Federation of Trade Unions (雲南省總工會) in April 2018.

Ms. Zhu graduated from Lancang Lahu Autonomous County Vocational High School (瀾滄拉祜族自治縣職業高級中學) with a diploma in secretary through long distance learning in July 2015. Ms. Zhu obtained a Qualification Certificate of Tea Factory Inspection (茶葉出廠檢驗資質證書) issued by Simao Comprehensive Technical Appraisal Center (思茅市綜合技術檢測中心) in May 2006 and the Qualification Certificate of Tea Appraiser (評茶員) issued by the Vocational Skills Appraisal Guidance Center, Ministry of Agriculture (農業部職業技能鑒定指導中心) in February 2007. She also obtained the Certificate of GB-T19001–2008 Quality Management System Internal Inspector Conversion Training Courses (GB-T19001–2008質量管理體系內部審核員轉版培訓課程證書) issued jointly by Yunnan Appraisal Center of China Quality Certification Center (中國質量認證中心雲南評審中心) and China Certification & Inspection (Group) Yunnan Co., Ltd. (中國檢驗認證集團雲南有限公司) in August 2009.

Mr. Luo Zhonghong (羅忠宏), aged 54, joined our Group as the deputy director of production center in September 2002 and was appointed as a Supervisor in February 2018. Mr. Luo is primarily responsible for the supervision of financial management of our Group and performance of our Directors and senior management. Mr. Luo also currently serves as a supervisor at Pu'er Lancang Ancient Tea Renhe Co., Ltd. (普洱瀾滄古茶人合有限責任公司), which is our subsidiary.

Mr. Luo has more than 35 years of experience in tea industry. Prior to joining us, he worked at the production department of Lancang County Tea Plant from January 1987 to May 1998.

Mr. Luo passed the training program for quality and safety directors of food manufacturing enterprises organized by Yunnan Product Quality Supervision and Inspection Institute (雲南省產品質量監督檢驗研究院) in April 2017.

SENIOR MANAGEMENT

Ms. Du Chunyi (杜春嶧), see "— Directors — Executive Directors" for details.

Ms. Wang Juan (王娟), see "— Directors — Executive Directors" for details.

Mr. Zhang Muheng (張慕衡), see "— Directors — Executive Directors" for details.

Ms. Shi Yijing (石一景), see "— Directors — Executive Directors" for details.

Mr. Fu Gang (付剛), see "— Directors — Executive Directors" for details.

Mr. Liu Jiajie (劉佳杰), see "— Directors — Executive Directors" for details.

Ms. Yang Lihua (楊麗華), aged 43, joined our Group as the director of financial department in October 2017 and was appointed as the chief financial officer of our Company in February 2018. She is responsible for the overall financial and accounting affairs of our Group. Ms. Yang also has served as the general manager of Pu'er Lancang Ancient Tea Renhe Co., Ltd. since December 2021.

Ms. Yang has more than 24 years of experience in finance and accounting. Prior to joining us, from July 2011 to August 2017, she served as the accounting director at Lancang Huitong Financial Consulting Services Co., Ltd. (瀾滄慧通財務咨詢服務有限公司), a financial and accounting services provider where she was responsible for auditing for agency bookkeeping business. From May 2006 to June 2011, she served as an auditing assistant at Lancang office of Yunnan Pu'er Silian Accounting Firm Co., Ltd. (雲南普洱思聯會計師事務所有限公司瀾滄分所), an accounting firm where she was responsible for capital verification and auditing. Prior to that, from March 2004 to April 2006, she served as a financial manager at Lancang Grain Purchase and Sale Co., Ltd. (瀾滄縣糧食購銷有限責任公司), a company primarily engaged in purchases and sales of grain where she was responsible for financial management of the company. From August 1998 to March 2002 and from April 2002 to February 2004, she also worked as an accountant at Huimin Branch Lancang County Grain Purchase and Sales Co., Ltd. (瀾滄縣糧食購銷有限責任公司惠民分公司) and Menglian Branch of Lancang Wanxiang Building Materials Co., Ltd. (瀾滄縣萬向建築材料有限公司孟連辦事處), a company primarily engaged in sales of cement, respectively, where she was responsible for accounting matters.

Ms. Yang graduated from Yunnan University of Finance and Economics (雲南財經大學) (formerly known as Yunnan College of Finance and Economics (雲南財貿學院)) with a diploma in accounting through long distance learning in July 2003. She further graduated from Tianjin University of Commerce (天津商業大學) (formerly known as Tianjin College of Commerce (天津商學院)) with an undergraduate diploma in accounting through long distance learning in January 2007. Ms. Yang was also accredited as an accountant (intermediate level) and an accountant (senior level) by the Ministry of Finance and the Department of Finance, Yunnan Province (雲南省財政廳) in May 2005 and October 2021, respectively.

Mr. Guo Yuanjie (郭袁杰), aged 30, joined our Group as the board secretary in February 2022. He is responsible for works related to the investor relations and information disclosure.

Prior to joining us, from March 2018 to February 2022, he served at the investment banking department of Huachuang Securities Co., Ltd., a financial services provider and a subsidiary of Huachuang Yang'an Co., Ltd. (華創陽安股份有限公司) whose shares are listed on the Shanghai Stock Exchange (stock code: 600155), with his last position being a vice president.

Mr. Guo graduated from the University of Melbourne in Australia with a bachelor of commerce degree in August 2015. He graduated from Bayes Business School, City, University of London (formerly known as Cass Business School) in the United Kingdom with a master' s degree in corporate finance in October 2017. Mr. Guo has been an affiliate person of the Hong Kong Chartered Governance Institute since July 2023.

Save as disclosed above, each of our Directors, Supervisors and senior management members confirms with respect to himself or herself that he or she (i) had no other relationship with any Director, Supervisor senior management or substantial or controlling Shareholder of our Company as at the Latest Practicable Date; (ii) did not hold any other directorships in the three years prior to the Latest Practicable Date in any public companies of which the securities are listed on any stock exchange in Hong Kong and/or overseas; and (iii) there are no other matters concerning our Directors' and Supervisors' appointment that need to be brought to the attention of our Shareholders and the Stock Exchange or shall be disclosed pursuant to Rule 13.51(2) (h) to (v) of the Listing Rules.

In addition, our Directors have confirmed that to the best of their knowledge and belief, as of the Latest Practicable Date, none of our Directors is interested in or engaged in any business, which, competes or is likely to compete, directly or indirectly, with our Group's business, which is subject to disclosure pursuant to Rule 8.10 of the Listing Rules.

JOINT COMPANY SECRETARIES

Ms. He Yunhong **(何蘊虹)**, aged 29, joined our Group in May 2020 as the securities affairs commissioner and was appointed as the securities affairs representative in September 2022. Ms. He was appointed as one of our joint company secretaries in February 2022, which will come into effect upon the consummation of [REDACTED].

Prior to joining us, from October 2018 to May 2020, Ms. He served as a financial journalist at Guangdong Times Media Group Co., Ltd. (廣東時代傳媒集團有限公司), a media platform and a subsidiary of Southern Publishing & Media Co., Ltd. (南方傳媒股份有限公司) whose shares are listed on the Shanghai Stock Exchange (stock code: 601900).

From July 2015 to April 2018, Ms. He served as a customer manager at Shenzhen branch of Merlion Public Relation Consulting (Shanghai) Co., Limited (獅華公關顧問(上海)有限公司), an international financial public relation consulting company.

Ms. He graduated from Shenzhen University (深圳大學) with a bachelor's degree in journalism in June 2015. Ms. He was qualified as a board secretary of the Shenzhen Stock Exchange in September 2021.

Ms. Wong Yuen Ki **(黃浣琪)** is a manager of corporate services of Tricor Services Limited and was appointed as one of our joint company secretaries in February 2022, which will come into effect upon the consummation of [REDACTED]. Ms. Wong has been providing corporate secretarial and compliance services to Hong Kong listed companies as well as multinational, private and offshore companies.

Ms. Wong possesses more than 10 years of experience in the company secretarial field. Ms. Wong is currently the company secretary of a few listed companies on the Stock Exchange.

Ms. Wong is a Chartered Secretary, a Chartered Governance Professional and an associate of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in United Kingdom.

Ms. Wong holds a degree of bachelor of business administration in corporate administration and degree of master of corporate governance from Hong Kong Metropolitan University (formerly The Open University of Hong Kong).

BOARD COMMITTEES

Our Company has established four committees under our Board pursuant to the laws and regulations of the PRC and corporate governance practice requirements under the Listing Rules, including the audit committee, the remuneration and appraisal committee, the nomination committee and strategy committee.

Audit Committee

We have established an audit committee in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of our Group, review and approve connected transactions and to advise our Board. The audit committee comprises three independent non-executive Directors, namely Ms. Cao Wei, Dr. Xie Xiaoyao and Mr. Tang Zhang Liang. Ms. Cao, being the chairlady of the committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules.

Remuneration and Appraisal Committee

We have established a remuneration and appraisal committee in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration and appraisal committee are to review and make recommendations to our Board regarding the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management. The remuneration and appraisal committee comprises one executive Director and two independent non-executive Directors, namely Ms. Wang, Dr. Xie and Ms. Cao. Dr. Xie is the chairman of the committee.

Nomination Committee

We have established a nomination committee in compliance with the Code on Corporate Governance set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to our Board regarding the appointment of Directors and Board succession. The nomination committee comprises one executive Director and two independent non-executive Directors, namely Ms. Du, Dr. Xie and Ms. Cao. Ms. Du is the chairlady of the committee.

Strategy Committee

We have established a strategy committee according to relevant PRC laws and regulations. The primary duties of the strategy committee are to research and recommend development strategy and capital operation of our Company. The strategy committee comprises two executive Directors and one independent non-executive Director, namely Ms. Du, Ms. Wang and Ms. Cao. Ms. Du is the chairlady of the committee.

BOARD DIVERSITY POLICY

We [have adopted] a board diversity policy which sets out the approach to achieve diversity of our Board. We recognize and embrace the benefits of having a diverse Board and see increasing diversity at our Board level as an essential element in maintaining our competitive advantage and enhancing our ability to attract, retain and motivate employees from the widest possible pool of available talent. In reviewing and assessing suitable candidates to serve as a Director, the Nomination Committee will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Nomination Committee will discuss periodically and when necessary, agree on the measurable objectives for achieving diversity on our Board and recommend them to our Board for adoption.

Our Board has a balanced mix of knowledge, skills, experience, including but without limitation to tea manufacturing, marketing, accounting, financial management, and law. They obtained degrees or diplomas in various majors including but not limited to business administration, law, accounting, philosophy, electrical technology, ethnology and international finance. We have three independent non-executive Directors who have different industry background, including accounting, law, financial management, corporate management, and investment management. Besides, our Directors are of a wide range of age, from 36 years old to 73 years old. Furthermore, with regards to gender diversity on our Board, we recognize the particular importance of gender diversity. We currently have a gender-diversified Board which consists of four female Directors (including our Chairlady and general manager) and five male Directors, and will continue to work to remain gender diversity of our Board going forward.

Taking into account our business model and specific needs, we consider that the composition of our Board in general satisfies our Board diversity policy.

REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

We offer our executive Directors, Supervisors and senior management members, who are also employees of our Company, emolument in the form of salaries, remuneration, pension, discretionary bonus and other welfares. Our independent non-executive Directors receive emolument based on their responsibilities (including being members or chairperson of Board committees). We adopt a market and incentive-based employee emolument structure and implement a multi-layered evaluation system which focuses on performance and management goals.

The aggregate amount of emolument (including salaries, remuneration, pension, discretionary bonus and other welfares) paid to our Directors and Supervisors for the years ended December 31, 2020, 2021 and 2022 and the six months ended June 30, 2023 were RMB4.9 million, RMB21.9 million, RMB3.9 million and RMB1.7 million (including share-based payment), respectively. Under the arrangements currently in force, we estimate that the aggregate emolument payable to the Directors and Supervisors (excluding discretionary bonus and any share incentive) by our Company for the year ending December 31, 2023 will be approximately RMB7.3 million.

For the years ended December 31, 2020, 2021 and 2022 and the six months ended June 30, 2023, the aggregate amount of emolument paid to the five highest paid individuals of our Group, excluding Directors and chief executives, were RMB1.7 million, RMB3.5 million, RMB1.0 million and RMB0.8 million, respectively.

During the Track Record Period, no remuneration was paid to, or receivable by, our Directors, Supervisors or the five highest paid individuals of our Company as an inducement to join or upon joining our Company or as a compensation for loss of office in the Track Record Period. Further, none of our Directors had waived any emolument during the same period.

Except as disclosed above, no other payments have been paid, or are payable, by our Company or any of our subsidiaries to our Directors, Supervisors or the five highest paid individuals of our Company during the Track Record Period.

COMPLIANCE ADVISOR

We have appointed FUTEC Financial Limited as our compliance advisor pursuant to Rule 3A. 19 and Rule 19A.05 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise us in the following circumstances:

(1) before publication of any regulatory announcement, circular or financial report;

(2) where a transaction, which might constitute a notifiable or connected transaction under the Listing Rules, is contemplated, including share issues and share repurchases;

(3) where we propose to use the [REDACTED] in a manner different from that detailed in this document or where our business activities, developments or results of operation deviate from any forecast, estimate or other information in this document; and

(4) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in [REDACTED] of the Shares or any other matters under Rule 13.10 of the Listing Rules.

Meanwhile, pursuant to Rule 19A.06(3) of the Listing Rules, the compliance advisor shall inform us on a timely basis of any amendment or supplement to the Listing Rules issued by the Stock Exchange from time to time and any new or amended law, regulation or code in Hong Kong applicable to our Company. The compliance advisor shall also provide advice to us on the continuing requirements under the Listing Rules and applicable laws and regulations.

The term of the appointment will commence on [REDACTED] and end on the date on which we distribute the annual report of the first full financial year commencing after [REDACTED] and such appointment may be subject to extension by mutual agreement.

SHARE CAPITAL

This section presents certain information regarding our share capital prior to and following the completion of [REDACTED].

IMMEDIATELY BEFORE [REDACTED]

As of the Latest Practicable Date, our registered and issued share capital was RMB63.0 million, comprising 63,000,000 Domestic Shares with a nominal value of RMB1.00 each.

UPON COMPLETION OF [REDACTED]

Immediately following completion of [REDACTED], assuming that [REDACTED] is not exercised, our registered and issued share capital will be as follows:

Description of Shares	Number of Shares	Approximate percentage of the enlarged issued share capital after [REDACTED]
Domestic Shares	63,000,000	[REDACTED]
H Shares to be issued under [REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]	100.0%

Immediately following completion of [REDACTED], assuming that [REDACTED] is fully exercised, our registered and issued share capital will be as follows:

Description of Shares	Number of Shares	Approximate percentage of the enlarged issued share capital after [REDACTED]
Domestic Shares	63,000,000	[REDACTED]
H Shares to be issued under [REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]	100.0%

CLASSES OF SHARES

Upon completion of [REDACTED], the Shares will consist of Domestic Shares and H Shares. Domestic Shares and H Shares are all ordinary Shares in the share capital of our Company. Apart from certain qualified domestic institutional investors in the PRC, the qualified PRC investors under the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect and other persons who are entitled to hold our H Shares pursuant to relevant PRC laws and regulations or upon approvals of any competent authorities, H Shares generally cannot be subscribed for by or traded between legal or natural PRC persons. Domestic Shares can only be subscribed for by and traded between legal or natural PRC persons, qualified foreign institutional investors and foreign strategic investors. H Shares may only be subscribed for and traded in Hong Kong dollars. Domestic Shares, on the other hand, may only be subscribed for and transferred in Renminbi.

RANKING

Save as described in this Document, Domestic Shares and H Shares shall rank *pari passu* with each other in all other respects and, in particular, will rank equally for dividends or distributions declared, paid or made. All dividends in respect of the H Shares are to be paid by us in Hong Kong dollars whereas all dividends in respect of Domestic Shares are to be paid by us in Renminbi. In addition to cash, dividends may be distributed in the form of Shares. For holders of H Shares, dividends in the form of Shares will be distributed in the form of additional H Shares. For holders of Domestic Shares, dividends in the form of Shares will be distributed in the form of additional Domestic Shares.

CONVERSION OF DOMESTIC SHARES INTO H SHARES

According to stipulations made by the State Council's securities regulatory authority and the Articles of Association, our Domestic Shares may be converted into H Shares, and such converted H Shares may be [REDACTED] or [REDACTED] on an overseas stock exchange, provided that prior to the conversion and [REDACTED] of such converted Shares, the requisite internal approval processes have been duly completed, the filings with the relevant PRC regulatory authorities, including the CSRC, have been completed, and the approvals from the relevant overseas stock exchange have been obtained. In addition, such conversion, [REDACTED] shall in all respects comply with the regulations prescribed by the State Council's securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange.

If any of the Domestic Shares are to be converted, [REDACTED] as H Shares on the Stock Exchange, such conversion, [REDACTED] will need to file with the relevant PRC regulatory authorities, including the CSRC, and obtain approval from the Stock Exchange. We may apply for the [REDACTED] of all or any portion of the Domestic Shares on the Stock Exchange as H Shares to ensure that the conversion process can be completed promptly upon notice to the Stock Exchange and delivery of Shares for entry on the [REDACTED]. As any [REDACTED] of additional Shares after our [REDACTED] on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it does not require prior application for [REDACTED] at the time of our [REDACTED] in Hong Kong. No shareholder voting by class is required for the [REDACTED] of the converted Shares on an overseas stock exchange.

As of the Latest Practicable Date, our Directors were not aware of any intention of any holder of Domestic Shares to convert all or part of their Domestic Shares into H Shares.

TRANSFER OF SHARES ISSUED PRIOR TO [REDACTED]

The PRC Company Law provides that in relation to [REDACTED] of a company, the shares issued prior to [REDACTED] shall not be transferred within a period of one year from the date on which [REDACTED] shares are [REDACTED] on any stock exchange. Accordingly, Shares issued by our Company prior to [REDACTED] shall be subject to this statutory restriction and not be transferred within a period of one year from the [REDACTED].

REGISTRATION OF SHARES NOT [REDACTED] ON AN OVERSEAS STOCK EXCHANGE

According to the Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (《關於境外上市公司非境外上市股份集中登記存管有關事宜的通知》) issued by the CSRC, an overseas [REDACTED] company is required to register its domestic shares with the CSDCC within 15 business days upon [REDACTED] and provide a written report to the CSRC regarding the centralized registration and deposit of the domestic shares as well as [REDACTED] of H shares.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING ARE REQUIRED

For details of circumstances under which our Shareholders' general meeting are required, see "Appendix III—Summary of Articles of Association—Shareholders' General Meeting."

SUBSTANTIAL SHAREHOLDERS

To the best of our Directors' knowledge and information, the following persons will, immediately following the completion of [REDACTED], have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at any general meeting of our Company:

Shareholder	**Nature of interest**	**Number and nature of Shares**	**Approximate percentage of shareholding in the total Domestic Shares before/after [REDACTED]**	**Approximate percentage of shareholding in the total share capital of our Company after [REDACTED][1]**
Ms. Du	Beneficial owner	11,383,660 Domestic Shares	18.07%	[REDACTED]
	Interest held jointly with another person[2]	13,296,599 Domestic Shares	21.11%	[REDACTED]
	Interest of spouse[3]	1,677,760 Domestic Shares	2.66%	[REDACTED]
	Other[4]	3,857,537 Domestic Shares	6.12%	[REDACTED]
Total		**30,215,556 Domestic Shares**	**47.96%**	**[REDACTED]**
Mr. Shi Yue (石躍)	Beneficial owner	1,677,760 Domestic Shares	2.66%	[REDACTED]
	Interest of spouse[3]	28,537,796 Domestic Shares	45.30%	[REDACTED]
Total		**30,215,556 Domestic Shares**	**47.96%**	**[REDACTED]**

SUBSTANTIAL SHAREHOLDERS

Shareholder	Nature of interest	Number and nature of Shares	Approximate percentage of shareholding in the total Domestic Shares before/after [REDACTED]	Approximate percentage of shareholding in the total share capital of our Company after [REDACTED](1)
Ms. Wang	Beneficial owner	8,328,599 Domestic Shares	13.22%	[REDACTED]
	Interest held jointly with another person(2)	16,918,957 Domestic Shares	26.85%	[REDACTED]
	Interests of controlled corporation(5)(6)	7,968,000 Domestic Shares	12.65%	[REDACTED]
Total		**33,215,556 Domestic Shares**	**52.72%**	**[REDACTED]**
Mr. Zhang Muheng (張慕衡)	Interest of controlled corporation(5)(6)	7,968,000 Domestic Shares	12.65%	[REDACTED]
Guangzhou Tiansu	Beneficial owner(5)	4,968,000 Domestic Shares	7.89%	[REDACTED]
Ms. Shi Ailing (石艾靈)	Beneficial Owner(4)	3,857,537 Domestic Shares	6.12%	[REDACTED]

(1) Assuming [REDACTED] is not exercised.

(2) Ms. Du and Ms. Wang are acting in concert. Under the SFO, Ms. Du is deemed to be interested in the entire interest held by Ms. Wang, and Ms. Wang is deemed to be interested in the entire interest held by Ms. Du.

(3) Mr. Shi Yue is the spouse of Ms. Du and is deemed to be interested in Ms. Du's interest in our Company.

(4) As of the Latest Practicable Date, Ms. Shi Ailing, the daughter of Ms. Du, held 3,857,537 Domestic Shares, whose voting rights at the general meeting of our Company were controlled by Ms. Du pursuant to the family arrangements, and thus Ms. Du is deemed to be interested in the entire interest held by Ms. Shi Ailing.

(5) As of the Latest Practicable Date, Guangzhou Tiansu held 4,968,000 Domestic Shares and was owned as to 60.0% and 40.0% by Ms. Wang and Mr. Zhang Muheng, respectively. Under the SFO, each of Ms. Wang and Mr. Zhang Muheng is deemed to be interested in the entire Domestic Shares held by Guangzhou Tiansu.

(6) As of the Latest Practicable Date, Guangzhou Wujin Investment Partnership (Limited Partnership) (廣州烏金投資合夥企業(有限合夥)) held 3,000,000 Domestic Shares and was owned as to one-third by Ms. Wang and as to one-sixth by each of Mr. Zhang Muheng, Mr. Liu Jiajie, Ms. Shi Yijing and Ms. Yang Lihua. Mr. Zhang Muheng acted as the general partner of Guangzhou Wujin. Under the SFO, each of Mr. Zhang Muheng and Ms. Wang is deemed to be interested in the entire Domestic Shares held by Guangzhou Wujin.

Save as disclosed above and in "Appendix IV—Statutory and General Information" of this document, our Directors are not aware of any person who will, immediately following the completion of [REDACTED] (and [REDACTED] of any additional H Shares pursuant to [REDACTED]), have an interest or short position in the Shares or underlying shares of our Company which would be required to be disclosed to our Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other members of our Group.

You should read the following discussion and analysis in conjunction with our consolidated financial statements as of and for the years ended December 31, 2020, 2021 and 2022 and the six months ended June 30, 2022 and 2023, including the notes thereto, as set forth in the Accountant's Report in Appendix I to this document. You should read the entire Accountant's Report in Appendix I to this document and not rely merely on the information contained in this section. The Accountant's Report has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which may differ in material aspects from generally accepted accounting principles in other jurisdictions, including the United States.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future development, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in "Risk Factors" and "Forward-looking Statements" in this document.

For the purpose of this section, unless the context otherwise requires, references to 2020, 2021 and 2022 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We are the third largest Pu'er tea company in China in terms of revenue generated from Pu'er tea products in 2022, according to the F&S Report. With stringent quality requirements running through the entire industrial chain, we are among the very few tea companies in China experienced in raw material management, product development, production, end customer reach and membership services, according to the F&S Report, which we believe set us apart from our competitors. After twenty years of operation, we have established ourselves as one of the most famous Pu'er tea brands in China. We are among the very few tea companies whose products have been included as one of the Top Ten Famous Teas in Yunnan Province for four consecutive years, and our products ranked first in the 2021 list. We are also one of the two tea companies recognized as Yunnan Top 10 Green Food Enterprises by certain provincial government departments including Yunnan Department of Agriculture and Rural Affairs in 2022, and among the few Pu'er tea companies included in the list of Key National Leading Enterprises for Agricultural Industrialization accredited by the Ministry of Agriculture and Rural Affairs of China in 2019.

Over twenty years of operation, we have established *Lan Cang Gu Cha* as our core brand, under which we have developed and structured two product lines, *i.e.*, *1966* and *Tea Mama*, and launched a new product line, *Iland Tea*, in July 2022, to meet the various demands from different groups of consumers, such as Pu'er enthusiasts, sophisticated tea drinkers, broader mass consumers, and new middle-class consumers with stronger purchasing power, who are perceived to be more fashionable and more generous to themselves.

During the Track Record Period, we generated revenue primarily from sales of tea products. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, our revenue was RMB405.5 million, RMB558.7 million, RMB462.9 million, RMB228.3 million and RMB232.0 million, respectively. Our gross profit was RMB285.4 million, RMB368.4 million, RMB305.0 million, RMB139.0 million and RMB139.8 million in the same periods, respectively, representing a gross profit margin of 70.4%, 65.9%, 65.9%, 60.9% and 60.3% for the same periods, respectively. Our net profit was RMB123.0 million, RMB129.0 million, RMB70.5 million, RMB30.4 million and RMB23.6 million in 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, financial condition and results of operations have been, and are expected to continue to be, affected by a number of factors, primarily including the following:

Consumer Demand for Quality Tea Leaf Products

Our results of operations have been, and are expected to continue to be, influenced by Chinese consumers' demand for quality tea leaf products, especially Pu'er tea leaf products. Benefiting from the rising awareness of a healthy lifestyle and the consistently increasing per capita disposable income in China in the past decades, the market size of China's tea leaf market in terms of revenue has been expanding, which increased from RMB240.6 billion in 2017 to RMB331.8 billion in 2022 at a CAGR of 6.6%, and, despite the impact from the global COVID-19 pandemic, is expected to reach RMB441.2 billion in 2027 at a CAGR of 5.9% from 2022 to 2027. In particular, the market size of China's Pu'er tea market in terms of sales revenue has been growing at a faster pace compared to China's tea leaf market in general, and increased from RMB11.5 billion in 2017 to RMB17.4 billion in 2022 at a CAGR of 8.6%, and is expected to reach RMB24.4 billion in 2027 at a CAGR of 7.0% from 2022 to 2027. The potential growth in China's tea market and Pu'er tea market may be affected by many factors, including, among others, continued growth of China's GDP and consumers' disposable income levels, consumers' faith in tea as a healthy beverage, and competition from other substitute beverages. As a leading Pu'er tea company and one of the most famous Pu'er tea brands in China, we believe we are able to capture such growth opportunities in China's tea leaf market and especially the Pu'er tea market.

Product Portfolio and Product Mix

Our growth is in part dependent upon our ability to closely follow the market trend and reach a broader group of consumers with a diverse product portfolio. We have developed and structured two product lines, *i.e.*, *1966* and *Tea Mama*, and launched a new product line, *Iland Tea*, in July 2022, to cater to the diverse demands from different consumers. *1966*, which focuses on the development, manufacturing and sales of classic Pu'er tea leaf products and targets Pu'er tea enthusiasts, has historically experienced stable and sizable growth, serving as the bedrock of our business. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, the revenue generated from *1966* was RMB299.1 million, RMB413.9 million, RMB301.4 million, RMB166.0 million and RMB155.2 million, respectively. *Tea Mama*, initiated in 2014, features a more diverse product portfolio, including Pu'er tea, white tea, black tea and flavored tea, and are presented in plenty of packaging forms, such as petit tea discs, tea bags and disposable tea cups. Revenue generated from *Tea Mama*, a relatively younger product line, increased from RMB94.8 million in 2020 to RMB126.7 million in 2021 and further to RMB144.4 million in 2022, and increased from RMB52.8 million in the six months ended June 30, 2022 to RMB69.9 million in the six months ended June 30, 2023. We strive to develop *Tea Mama* into another source of growth, leveraging its strengths in product innovation and scalability and its appeal to a broader customer base. We launched *Iland Tea*, our new product line, in July 2022, targeting new middle-class consumers with stronger purchasing power, who are more fashionable and more generous to themselves.

We have a track record of successful product development and iteration under *1966*, with a series of highly recognized bedrock products including, among others, *Shining Gold*, *0085*, *001*, *0081* and *007*, most of which have been iterated for almost 20 years. Our results of operation may be affected by the different iteration pace of our bedrock products. For example, we launch a new iteration of *Shining Gold* every four years and *0081* every year. We pride ourselves in our product development ability, underpinned by our experience in research and development and a good stock of rough tea leaves and in-process tea leaves of different years from different mountains, which enables us to quickly adjust our product launching plan in response to the evolving market trend, allowing us to launch new products in a streamlined cycle so as to avoid volatility in our results of operations.

Our ability to introduce new products to the market that meet consumer preferences will have a significant impact on our business. We have historically benefitted from launch of innovative products. For example, we became the first tea company in China, according to the F&S Report, to standardize the manufacturing process of the traditional Chenpi Pu'er tea by launching *Little Green Mandarin* under *Tea Mama* in 2015, which soon became one of our hot-selling products. However, if the new products we launch do not receive the positive feedback as we expect, our profitability may be negatively impacted as we may incur more marketing expenses and/or lower the selling price for such products, which may lower our operating profits.

Moreover, the mix of product launched in a given year may affect our results of operation by affecting our gross profit margin. Typically, the gross profit margin for fermented Pu'er tea products is higher than that of non-fermented Pu'er tea products, according to the F&S Report. The fermentation process for fermented Pu'er teas alters the chemical and physical quality of tea leaves, and in turn create an organoleptic quality that is vastly different from non-fermented Pu'er teas. As mature and stable fermentation techniques require at least years of research and development experience, fermentation adds value to Pu'er tea products and leads to a generally higher gross profit margin for fermented Pu'er tea leaf products.

Our Sales Network

We engage distributors to distribute our products. Our distributors are generally local distributors who are experienced in the distribution of tea leaf products. Typically, our distributors sell our products directly to retail customers. We believe our distribution system is in line with industrial practice in China and benefits us from our distributors' industrial and local experience. In addition, we also sell directly to consumers through our self-operated stores. The following table sets forth a breakdown of revenue contribution from our distributors and direct sale customers for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue
							(Unaudited)			
	(RMB in thousands except for percentages)									
Sales to distributors	320,443	79.0	448,495	80.3	335,064	72.4	178,097	78.0	175,673	75.7
Sales to direct sale customers	84,452	20.8	93,912	16.8	116,276	25.1	47,326	20.7	50,137	21.6
— Offline sales to retail customers	33,159	8.2	51,815	9.3	62,042	13.4	19,719	8.6	26,204	11.3
— Online sales to retail customers	51,293	12.6	42,097	7.5	54,234	11.7	27,607	12.1	23,933	10.3
Sales to key accounts	570	0.2	16,270	2.9	11,529	2.5	2,831	1.3	6,218	2.7
Total	**405,465**	**100.0**	**558,677**	**100.0**	**462,869**	**100.0**	**228,254**	**100.0**	**232,028**	**100.0**

We have a nationwide offline sales network, covering substantially all provincial administrative divisions across China. We sell our products through traditional channels, e-commerce channels and key account channels. Our traditional channels include self-operated stores and distributor-operated stores. As of the Latest Practicable Date, there were 23 self-operated stores and 526 distributor-operated stores. E-commerce channels include our self-operated online stores on major e-commerce platforms in China, including Tmall, WeChat, Douyin, Kuaishou and JD.com. Generally, direct sale enjoys a higher gross margin than distributorship, but distributorship allows us to quickly reach more consumers and increase sales volume. We expect to continue to expand our offline distribution channels by engaging more experienced distributors and build up our online presence to better distribute our products online through direct sale. We have executed certain growth strategies for our e-commerce operations. In particular, we recruited additional talents for our e-commerce team, regularly organized live streaming sessions on major e-commerce platforms, deployed an advanced logistic management system specifically designed for e-commerce operations, and continued to diversify our product matrix and marketed a series of exclusive products targeting Internet consumers. Since 2020, we have also expanded our sales network into key account channels including hypermarket chains and platform-operated online stores.

Our relationship with distributors is a buyer and seller relationship as distributors acquire ownership of the products we deliver to them, and no return, exchange or refund is allowed except for limited circumstances such as quality defects or damage during transportation. In 2020, 2021, 2022 and the six months ended June 30, 2023, the value of returned products, which included both returns from distributors and direct sale customers, represented 0.31%, 0.41%, 0.48% and 1.09% of our total revenue, respectively.

Purchase of Raw Materials

Our raw materials primarily include rough tea leaves. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, our purchase amount of raw materials amounted to RMB104.4 million, RMB209.2 million, RMB176.1 million, RMB152.8 million and RMB103.5 million, respectively, among which 95.7%, 94.1%, 93.8%, 94.7% and 97.3% was attributable to the purchase of rough tea leaves in such periods, respectively. We believe that our good stock of rough tea leaves and in-process tea leaves from different years and mountains is instrumental in our ability to continuously launch high-quality new products and preserve our featured Lancang flavor. During the Track Record Period, we regularly purchased a large amount of rough tea leaves sourced from many mountains in Pu'er, Lincang and Xishuangbanna, the three major production areas of Pu'er tea in Yunnan, but we do not consume all of such rough tea leaves immediately for the production of finished goods in the same period. Instead, we may stock a portion of rough tea leaves as raw materials or process such rough tea leaves into fermented in-process tea leaves, which are stored for the blending of future products. Our good stock of approximately 3,700 tonnes of rough tea leaves and in-process tea leaves sourced in 15 different years from major mountains in the three major production areas of Pu'er tea in Yunnan as of June 30, 2023, is able to effectively stabilize our cost of raw materials year over year and mitigate the impact on our performance from raw material price fluctuation in any particular year. The prices for raw materials are determined primarily by market forces and our bargaining power against our suppliers. With years of local presence, we have built strong and stable relationships with over 100 tea leaf cooperatives in the major production areas of Pu'er tea in Yunnan. Our business benefits from such relationships with local tea leaf cooperatives as we gain stable access to high quality principal raw materials.

BASIS OF PREPARATION

Our historical financial information has been prepared in accordance with the HKFRSs issued by the Hong Kong Institute of Certified Public Accountants. The historical financial information has been prepared on a historical cost basis, except for certain financial asset measured at fair value. Details for the financial asset measured at fair value are as stated in Note 3.3 to the Accountant's Report in Appendix I to this document.

The preparation of historical financial information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires our management to exercise its judgement in the process of applying our Group's accounting policies. The areas involving a higher degree of judgement 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 in Appendix I to this document.

All effective standards, amendments to standards and interpretation, which are mandatory for the financial year beginning on January 1, 2023, are consistently applied to our Group for the Track Record Period.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

We have identified certain accounting policies that we believe are the most significant to the preparation of our consolidated financial statements. Our significant accounting policies and critical estimates and judgements, which are important for understanding our results of operations and financial condition, are set forth in Note 2 and Note 4 to the Accountant's Report in Appendix I to this document. Some of the accounting policies involve subjective assumptions and estimates, as well as complex judgements relating to accounting items. In each case, the determination of these items requires our management's judgement based on information and financial data that may change in future periods. When reviewing our consolidated financial statements, you should consider (1) our selection of significant accounting policies, (2) the judgement and other uncertainties affecting the application of such policies, and (3) the sensitivity of reported results to changes in conditions and assumptions.

Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods or services in the ordinary course of our Group's activities. Revenue is shown net of value-added tax ("VAT"), returns and rebates and after eliminating sales within our Group.

Sales of Goods — Wholesale

Our Group manufactures and sells a range of tea products in the wholesale market. Revenue from the sales of goods is recognized when control of the products has been transferred to the distributors, which usually occurs when the products have been shipped to the specific location and the distributor accepts the goods, and there is no unfulfilled obligation that could affect the distributor's acceptance of the goods.

The products are sold with standard return and exchange terms for faulty products. Revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. Accumulated experience is used to estimate and provide for the returns and exchange. No element of financing is deemed present as the sales are made with a credit term of 15 to 60 days, which is consistent with the market practice.

Sales of Goods — Retail

Our Group operates retail stores and online stores on third-party e-commercial platforms selling our products. Revenue from the sales of goods is recognized when control of the products has been transferred to the customers. Retail sales are usually settled in cash, by credit/debit cards or through online payment platforms.

Customers have the right to return faulty products. Accumulated experience is used to estimate and provide for such returns at the time of sale.

Provision of Services

Our Group provides teahouse services in stores. Revenue from the provision of services are recognized over time in the accounting period when the services have been rendered to customers.

Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realizable value. Cost comprises direct materials, direct labor and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

Plant and buildings	20 to 30 years
Machinery	10 years
Equipment and furniture	3 to 5 years
Fittings	Shorter of the lease terms or 5 years
Vehicles	3 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at 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 2.10 to the Accountant's Report in Appendix I to this document for significant accounting policies for impairment of non-financial assets.

Gains and losses on disposals are determined by comparing net proceeds with the carrying amount and are recognized in profit or loss.

Share-based Payments

Our Group operates employee share scheme for directors and employees, under which the entity receives services from directors and employees as consideration for equity instruments of our Group. Information relating to the employee share scheme is set out in Note 26 to the Accountant's Report in Appendix I to this document.

Under the employee share scheme, shares were issued by our Company to certain directors and employees through the share platform. There is no vesting condition for these shares, therefore the shares vest immediately on grant date. The fair value of the employee services received in exchange for the grant of shares is recognized as an employee benefit expense with corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the shares granted at the grant date and the issue price.

RESULTS OF OPERATIONS

The following table sets forth our results of operations for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
				(Unaudited)	
	(RMB in thousands)				
Revenue	**405,465**	**558,677**	**462,869**	**228,254**	**232,028**
Cost of sales	(120,030)	(190,237)	(157,872)	(89,296)	(92,203)
Gross profit	**285,435**	**368,440**	**304,997**	**138,958**	**139,825**
Selling and marketing expenses	(86,981)	(122,183)	(136,413)	(64,353)	(67,631)
Administrative expenses	(55,644)	(96,468)	(78,240)	(36,579)	(38,523)
Net reversal of impairment losses/ (impairment losses) on financial assets	670	(1,870)	(660)	198	(2,795)
Other income	8,804	6,555	6,506	1,775	2,179
Other (losses)/gains – net	(6,304)	(773)	(738)	(446)	336
Operating profit	**145,980**	**153,701**	**95,452**	**39,553**	**33,391**
Finance costs – net	(5,960)	(8,689)	(12,783)	(5,736)	(7,657)
Share of net (losses)/profits of investments in associates	(1)	1,270	2,780	715	1,298
Profit before income tax	**140,019**	**146,282**	**85,449**	**34,532**	**27,032**
Income tax expense	(16,987)	(17,322)	(14,957)	(4,173)	(3,464)
Profit for the year/period	**123,032**	**128,960**	**70,492**	**30,359**	**23,568**
Profit attributable to:					
Owners of the Company	122,882	131,006	72,205	30,907	24,366
Non-controlling interests	150	(2,046)	(1,713)	(548)	(798)
Profit for the year/period	**123,032**	**128,960**	**70,492**	**30,359**	**23,568**

NON-HKFRS MEASURES

In order to supplement our consolidated financial statements presented in accordance with the HKFRSs, we use adjusted net profit (non-HKFRS measure) as an additional financial measure, which is not required by, or not presented in accordance with HKFRSs. Our adjusted net profit (non-HKFRS measure) represents our profit for the year/period, adjusted to add back share-based payment expenses and [REDACTED] that we recognized in our consolidated statements of comprehensive income during the Track Record Period less related income tax expenses. Share-based payment expenses are adjusted for as they are non-cash in nature, and were not expected to result in future cash payments. We believe that non-HKFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain items. However, adjusted net profit (non-HKFRS measure) presented by us may not be comparable to the similar financial measure presented by other companies. There are limitations to the non-HKFRS measure used as an analytical tool, and you should not consider it in isolation or regard it as a substitute for our results of operation or financial position analysis that is in accordance with HKFRSs.

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
				(Unaudited)	
			(RMB in thousands)		
Profit for the year/period	123,032	128,960	70,492	30,359	23,568
Add:					
Share-based payment expenses	—	18,000	—	—	—
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Less:					
Income tax expenses in relation to above reconciled items	—	(2,700)	(218)	—	(179)
Adjusted net profit (non-HKFRS measure)	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

KEY COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

Our total revenue increased from RMB405.5 million in 2020 to RMB558.7 million in 2021 and decreased to RMB462.9 million in 2022, and increased from RMB228.3 million in the six months ended June 30, 2022 to RMB232.0 million in the six months ended June 30, 2023.

Revenue by Product

During the Track Record Period, we generated the absolute majority of revenue from sales of tea leaf products in two product lines, *i.e.*, *1966* and *Tea Mama*. During the same period, we also generated revenue from other services and products, primarily consisting of tea-pairing food, tea wares and utensils, and teahouse services. The following table sets forth a breakdown of our revenue by product for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue
							(Unaudited)			
	(RMB in thousands except for percentages)									
Lan Cang Gu Cha — 1966	299,139	73.8	413,910	74.1	301,379	65.1	165,950	72.7	155,243	66.9
— Non-fermented Pu'er tea products	93,232	23.0	190,581	34.1	113,681	24.6	88,917	39.0	86,735	37.4
— *007*	5,845	1.4	8,785	1.6	8,879	1.9	7,172	3.1	5,255	2.3
— *001*	34,949	8.6	51,123	9.2	44,735	9.7	33,222	14.6	29,288	12.6
— *Millennium*	—	—	80,101	14.3	1,130	0.2	961	0.4	192	0.1
— Others	52,438	13.0	50,572	9.0	58,937	12.8	47,562	20.9	52,000	22.4
— Fermented Pu'er tea products	205,150	50.6	196,996	35.3	178,453	38.5	74,510	32.6	66,675	28.7
— *0081*	17,038	4.2	27,437	4.9	21,765	4.7	15,932	7.0	15,198	6.6
— *0085*	6,070	1.5	74,677	13.4	31,462	6.8	19,094	8.4	30,287	13.1
— *Shining Gold*	93,081	23.0	16,547	3.0	11,296	2.4	3,337	1.5	2,923	1.3
— *Phoenix*	59,319	14.6	8,913	1.6	1,781	0.4	1,616	0.7	503	0.2
— *Five-star Ban Zhang*	—	—	—	—	31,106	6.7	—	0.0	2,702	1.2
— Others	29,642	7.3	69,422	12.4	81,043	17.5	34,531	15.1	15,062	6.5
— Pu'er tea sets	757	0.2	26,333	4.7	9,245	2.0	2,523	1.1	1,833	0.8
Lan Cang Gu Cha — Tea Mama	94,763	23.4	126,715	22.7	144,429	31.2	52,773	23.1	69,909	30.1
— Chenpi Pu'er tea	62,696	15.5	80,147	14.3	76,360	16.5	31,316	13.7	34,248	14.8
— Others	32,067	7.9	46,568	8.4	68,069	14.7	21,457	9.4	35,661	15.3
Other services and products[1]	11,563	2.8	18,052	3.2	17,061	3.7	9,531	4.2	6,876	3.0
Total revenue	**405,465**	**100.0**	**558,677**	**100.0**	**462,869**	**100.0**	**228,254**	**100.0**	**232,028**	**100.0**

(1) Primarily including sales of tea wares and tea making utensils, teahouse services, and sales of *Iland Tea* products. We launched *Iland Tea* in July 2022 and generated an insignificant amount of revenue from sales of *Iland Tea* products.

Sales of *1966* has been our largest revenue source during the Track Record Period, accounting for 73.8%, 74.1%, 65.1%, 72.7% and 66.9% of our total revenue in 2020, 2021, 2022 and six months ended June 30, 2022 and 2023, respectively. The product mix under *1966* in terms of fermentation status varied across different years during the Track Record Period. This is primarily determined by our product launching pace, which is influenced primarily by the iteration cycle of our bedrock products and adjusted according to the evolving market demand and our stock of raw materials. *Tea Mama*, as a relatively younger product line initiated in 2014, has quickly grown to be another major revenue source, representing 23.4%, 22.7%, 31.2%, 23.1% and 30.1% of our total revenue in 2020, 2021, 2022 and six months ended June 30, 2022 and 2023, respectively. The revenue growth of *Tea Mama* during the Track Record Period was mostly affected by the launch of new products and growing popularity of our Chenpi Pu'er products such as *Little Green Mandarin*.

According to the F&S Report, during the Track Record Period, the selling price for all types of Pu'er tea products in the industry ranged from RMB115 per kilogram to RMB75,000 per kilogram, which could be affected by various factors, including sales channels, source of rough tea leaves, type and age of tea trees, grade of tea leaves, degree of fermentation and production techniques, among others. According to the same source, during the same period, the average selling price per kilogram of our Pu'er tea products was within the price range in the industry, and the sales volume of our Pu'er tea products exceeded that of more than half of all peers in China's Pu'er tea industry. We believe that various factors contributed to our favorable sales volume, which exceeded that of more than half of all industry peers during the Track Record Period. These contributing factors include, among others, the quality of our products, unique production techniques, stringent quality control measures, the diversity of our products, the wide price range of our products and the awareness of our brand, all of which attracted consumers to purchase our products.

The following table sets forth a breakdown of our sales volume and average selling price per kilogram by product line for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	Sales volume	Average selling price per kilogram	Sales volume	Average selling price per kilogram	Sales volume	Average selling price per kilogram	Sales volume	Average selling price per kilogram	Sales volume	Average selling price per kilogram
	(tonne)	*(RMB)*	*(tonne)*	*(RMB)*	*(tonne)*	*(RMB)*	*(tonne)*	*(RMB)*	*(tonne)*	*(RMB)*
Lan Cang Gu Cha — 1966	396	756	551	751	440	685	281	591	248	625
— Non-fermented Pu'er tea products	132	708	173	1,099	156	729	114	780	100	868
— Fermented Pu'er tea products	264	778	361	546	263	678	163	457	145	460
— Pu'er tea sets	0	1,765	17	1,595	21	449	4	706	3	528
Lan Cang Gu Cha — Tea Mama	112	847	141	900	178	813	64	823	84	836
Total	**508**	**799**	**692**	**808**	**618**	**722**	**345**	**634**	**332**	**678**

The average selling prices per kilogram of our products fluctuated during the Track Record Period, mainly because (1) our product iteration cycle led to a product mix with different product positioning, which in turn affected the pricing of our products, and (2) the increase or decrease in the sales volume of our products to direct sale customers could result in a rise or fall in our average selling price per kilogram of such products, as our selling prices to direct sale customers are higher than that to distributors.

Revenue by Sales Channel

We engage distributors to distribute our tea products. We have also adopted a direct sale model, allowing direct sale customers to purchase our tea products directly from us. Moreover, we engage key account customers, primarily including hypermarket chains and platform-operated online stores. The following table sets forth a breakdown of our revenue by sales channel for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue
							(Unaudited)			
	(RMB in thousands except for percentages)									
Sales to distributors	320,443	79.0	448,495	80.3	335,064	72.4	178,097	78.0	175,673	75.7
Sales to direct sale customers	84,452	20.8	93,912	16.8	116,276	25.1	47,326	20.7	50,137	21.6
— Offline sales to retail customers	33,159	8.2	51,815	9.3	62,042	13.4	19,719	8.6	26,204	11.3
— Online sales to retail customers	51,293	12.6	42,097	7.5	54,234	11.7	27,607	12.1	23,933	10.3
Sales to key accounts	570	0.2	16,270	2.9	11,529	2.5	2,831	1.3	6,218	2.7
Total	**405,465**	**100.0**	**558,677**	**100.0**	**462,869**	**100.0**	**228,254**	**100.0**	**232,028**	**100.0**

Our revenue generated from sales to distributors increased from RMB320.4 million in 2020 to RMB448.5 million in 2021 and decreased to RMB335.1 million in 2022, and decreased from RMB178.1 million in the six months ended June 30, 2022 and RMB175.7 million in the six months ended June 30, 2023. Our revenue generated from sales to direct sale customers increased from RMB84.5 million in 2020 to RMB93.9 million in 2021 and further to RMB116.3 million in 2022, and increased from RMB47.3 million in the six months ended June 30, 2022 and RMB50.1 million in the six months ended June 30, 2023. Despite the decrease in the revenue generated from sales to distributors in 2022 due to COVID-19, the revenue generated from offline sales to retail customers continued to increase in the same year, primarily because we continued to enhance our efforts on the development of our self-operated stores and launched more customized products for high-quality customers to fulfill market demands.

Revenue by Geographic Location

Substantially all our revenue during the Track Record Period was generated from the PRC, based on the location of our customers. South China has historically been our most prominent sales location, whose revenue contribution accounted for 38.9%, 40.6%, 40.7%, 39.4% and 40.1% of our total revenue in 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively. This is mostly because we have a long history of significant operations in this region, primarily in Guangzhou, where our marketing center lies. Also, South China has the highest annual consumption volume for tea leaf products and encloses some of the largest distribution centers for tea leaf products in China, according to the F&S Report. In recent years, we have also increased our presence in other regions, such as East China and Southwest China. The following table sets forth a breakdown of our revenue by geographic location for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue
							(Unaudited)			
	(RMB in thousands except for percentages)									
Offline sales	353,602	87.2	515,280	92.2	405,337	87.6	199,054	87.2	204,278	88.0
— South China	157,542	38.9	226,761	40.6	188,305	40.7	89,986	39.4	92,986	40.1
— East China	53,513	13.2	80,569	14.4	57,727	12.5	28,171	12.3	27,883	12.0
— Southwest China	43,745	10.8	66,541	11.9	57,093	12.3	25,749	11.3	31,004	13.4
— North China	38,037	9.4	53,039	9.5	44,392	9.6	23,006	10.1	19,546	8.4
— Northwest China	28,966	7.1	39,073	7.0	25,664	5.5	15,027	6.6	15,649	6.7
— Central China	16,353	4.0	25,614	4.6	18,681	4.0	9,612	4.2	10,352	4.5
— Northeast China	14,870	3.7	23,037	4.1	12,873	2.8	7,207	3.2	6,579	2.8
— Hong Kong, Macao and Taiwan	576	0.1	646	0.1	601	0.1	296	0.1	279	0.1
Online sales	51,863	12.8	43,397	7.8	57,532	12.4	29,200	12.8	27,750	12.0
Total	**405,465**	**100.0**	**558,677**	**100.0**	**462,869**	**100.0**	**228,254**	**100.0**	**232,028**	**100.0**

In 2022, our revenue generated from East China, Northwest China and Northeast China experienced significant decreases, primarily because those regions were adversely affected by multiple COVID-19 recurrences throughout 2022. See "Business—COVID-19 Outbreak and Effects on Our Business." Nonetheless, our management has been optimistic over the growth of our business in these regions since the phase-out of the pandemic prevention measures and the alleviation of COVID-19 to certain extent.

Cost of Sales

In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, our cost of sales was RMB120.0 million, RMB190.2 million, RMB157.9 million, RMB89.3 million and RMB92.2 million, respectively, representing 29.6%, 34.1%, 34.1%, 39.1% and 39.7% of our total revenue for the same periods, respectively.

During the Track Record Period, our cost of sales primarily consisted of cost of raw materials, packaging expenses, employee benefits expenses and consigned processing expenses. Consigned processing expenses represent production service fees for certain production outsourced to third party processing partners. See "Business—Production—Production Outsourced to Third Parties." The following table sets forth a breakdown of our cost of sales by nature for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	RMB	Percentage	RMB	Percentage	RMB	Percentage	RMB	Percentage	RMB	Percentage
							(Unaudited)			
	(RMB in thousands except for percentages)									
Cost of raw materials	66,282	55.2	103,583	54.4	66,275	42.0	46,269	51.8	45,162	49.0
Packaging expenses	14,093	11.7	30,327	15.9	26,289	16.7	12,768	14.3	15,253	16.5
Employee benefits expenses	10,789	9.0	19,789	10.4	28,658	18.2	14,370	16.1	12,468	13.5
Consigned processing expenses	14,203	11.8	16,199	8.5	16,898	10.7	6,292	7.0	9,804	10.6
Transportation expenses	5,217	4.3	6,688	3.5	7,698	4.9	3,407	3.8	3,331	3.6
Other taxes and levies	4,914	4.1	6,672	3.5	4,433	2.8	2,031	2.3	2,728	3.0
Others[(1)]	4,532	3.9	6,979	3.8	7,621	4.7	4,159	4.7	3,457	3.8
Total	**120,030**	**100.0**	**190,237**	**100.0**	**157,872**	**100.0**	**89,296**	**100.0**	**92,203**	**100.0**

(1) Included depreciation of property, plant and equipment, utilities, depreciation of right-of-use assets, and write-down of inventories, which was mainly related to a limited number of flavored tea products with expiry dates.

Our cost of raw materials was primarily related to the cost of rough tea leaves. During the Track Record Period, we sourced rough tea leaves from Pu'er, Lincang and Xishuangbanna, the three major production areas of Pu'er tea in Yunnan, and the majority of rough tea leaves purchased in terms of value were made from tea leaves of ancient tea trees. The purchasing price of rough tea leaves varies significantly depending on the type of rough tea leaves. In general, purchasing prices of rough tea leaves made from tea leaves of ancient tea trees are significantly higher than that of non-ancient tea trees, primarily because the supply of rough tea leaves made from tea leaves of ancient tea trees generally falls short of demand, according to the F&S Report. The following table sets forth a breakdown of our purchasing volume and average purchasing price per kilogram by the type of rough tea leaves for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
Types of rough tea leaves	Purchasing volume	Average purchasing price per kilogram	Purchasing volume	Average purchasing price per kilogram	Purchasing volume	Average purchasing price per kilogram	Purchasing volume	Average purchasing price per kilogram	Purchasing volume	Average purchasing price per kilogram
	(tonne)	*(RMB)*	*(tonne)*	*(RMB)*	*(tonne)*	*(RMB)*	*(tonne)*	*(RMB)*	*(tonne)*	*(RMB)*
Tea leaves of ancient tea trees	436	170	606	271	622	215	421	278	208	369
Tea leaves of non-ancient tea trees	655	39	725	45	686	46	547	50	344	69
Total	**1,091**	**92**	**1,331**	**148**	**1,308**	**126**	**968**	**149**	**552**	**182**

In 2020, the emergence of COVID-19 reduced the market demand for rough tea leaves. In particular, the demand of consumers for tea leaf products decreased as their pessimism in light of the pandemic suppressed demand for products other than necessities, resulting in a simultaneous decrease in the demand of tea product manufacturers for rough tea leaves, which led to the generally lower market average purchasing price for rough tea leaves. In addition, due to pandemic control measures to contain the spread of COVID-19, tea product manufacturers had less access to rough tea leaf suppliers, which also contributed to the generally lower market average purchasing price for rough tea leaves in 2020. Our average purchasing price of rough tea leaves increased from RMB92 per kilogram in 2020 to RMB148 per kilogram in 2021, primarily because the negative impacts of COVID-19 had been alleviated to certain extents in 2021 as the impact of COVID-19 alleviated and the market bounced back. Our average purchasing price of rough tea leaves decreased from RMB148 per kilogram in 2021 to RMB126 per kilogram in 2022, primarily because of COVID-19 recurrences across the country in 2022. Our average purchasing price of rough tea leaves increased from RMB149 per kilogram in the six months ended June 30, 2022 to RMB182 per kilogram in the six months ended June 30, 2023, primarily due to the growing market demand for rough tea leaves as a result of the alleviation of the pandemic and the adjustment of the pandemic prevention measures. According to the F&S Report, the fluctuation trend of our average purchasing price of rough tea leaves was in line with the fluctuation trend of the market average purchasing price of the same in Pu'er City, from where we sourced majority of rough tea leaves made from tea leaves of ancient tea trees, during the Track Record Period.

According to the F&S Report, in 2020, 2021, 2022 and the six months ended June 30, 2023, the market average purchasing price of rough tea leaves made from tea leaves of ancient tea trees in Pu'er City, from where we sourced majority of rough tea leaves made from tea leaves of ancient tea trees during the Track Record Period, ranged from RMB210 per kilogram to RMB360 per kilogram, RMB300 per kilogram to RMB420 per kilogram, RMB240 per kilogram to RMB400 per kilogram and RMB280 per kilogram to RMB450 per kilogram, respectively. According to the same source, our average purchasing prices of rough tea leaves made from tea leaves of ancient tea trees in each period during the Track Record Period were generally lower than but close to the market average for similar rough tea leaves in the same periods, respectively, largely attributable to our large purchase volume for such rough tea leaves, which strengthened our bargaining power. According to the F&S Report, in 2020, 2021, 2022 and the six months ended June 30, 2023, the market average purchasing price of rough tea leaves made from tea leaves of non-ancient tea trees was RMB42 per kilogram, RMB40 per kilogram, RMB43 per kilogram and RMB56 per kilogram, respectively. According to the same source, our average purchasing prices of rough tea leaves made from tea leaves of non-ancient tea trees in 2020, 2021, 2022 and the six months ended June 30, 2023 were in line with the market average for similar rough tea leaves in the same periods.

The following table sets forth a breakdown of our cost of sales by product line for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	RMB	Percentage	RMB	Percentage	RMB	Percentage	RMB	Percentage	RMB	Percentage
							(Unaudited)			
	(RMB in thousands except for percentages)									
Lan Cang Gu Cha — 1966	69,733	58.1	116,892	61.4	76,441	48.4	55,695	62.4	53,512	58.0
— Non-fermented Pu'er tea products	32,038	26.7	59,049	31.0	40,747	25.8	34,647	38.8	34,131	37.0
— Fermented Pu'er tea products	37,528	31.3	50,350	26.5	31,393	19.9	19,992	22.4	18,753	20.3
— Pu'er tea sets	167	0.1	7,493	3.9	4,301	2.7	1,056	1.2	628	0.7
Lan Cang Gu Cha — Tea Mama	41,751	34.8	60,716	31.9	69,387	44.0	27,323	30.6	34,234	37.1
Other services and products	8,546	7.1	12,629	6.7	12,044	7.6	6,278	7.0	4,457	4.9
Total	**120,030**	**100.0**	**190,237**	**100.0**	**157,872**	**100.0**	**89,296**	**100.0**	**92,203**	**100.0**

Gross Profit and Gross Profit Margin

In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, our gross profit was RMB285.4 million, RMB368.4 million, RMB305.0 million, RMB139.0 million and RMB139.8 million, respectively. During the same periods, our gross profit margin was 70.4%, 65.9%, 65.9%, 60.9% and 60.3%, respectively. The following table sets forth a breakdown of our gross profit and gross profit margin by product line for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	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
							(Unaudited)			
	(RMB in thousands except for percentages)									
Lan Cang Gu Cha — 1966	229,406	76.7%	297,018	71.8%	224,938	74.6%	110,255	66.4%	101,731	65.5%
— Non-fermented Pu'er tea products	61,194	65.6%	131,532	69.0%	72,934	64.2%	54,270	61.0%	52,604	60.7%
— Fermented Pu'er tea products	167,622	81.7%	146,646	74.4%	147,060	82.4%	54,518	73.2%	47,922	71.9%
— Pu'er tea sets	590	77.9%	18,840	71.5%	4,944	53.5%	1,467	58.1%	1,205	65.7%
Lan Cang Gu Cha — Tea Mama	53,012	55.9%	65,999	52.1%	75,042	52.0%	25,450	48.2%	35,675	51.0%
Other services and products	3,017	26.1%	5,423	30.0%	5,017	29.4%	3,253	34.1%	2,419	35.2%
Total	**285,435**	**70.4%**	**368,440**	**65.9%**	**304,997**	**65.9%**	**138,958**	**60.9%**	**139,825**	**60.3%**

Our total gross profit margin was 70.4%, 65.9%, 65.9%, 60.9% and 60.3% in 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023. Factors affecting our gross profit margin mainly include (1) the positioning of specific products and (2) the differences in the product mix launched in each given year. In particular, our product positioning would affect the pricing of our products, primarily taking into account the complexity of product blending. We are inclined to give products with complex blending a higher pricing and a premium product positioning. See "Business—Pricing." In addition, we generally enjoy a higher gross profit margin in a given year in the event that we launch more fermented Pu'er tea products in that year. Typically, the gross profit margin for fermented Pu'er tea products is higher than that of non-fermented Pu'er tea products, according to the F&S Report. The fermentation process for fermented Pu'er teas alters the chemical and physical quality of tea leaves, and in turn create an organoleptic quality that is distinct from non-fermented Pu'er teas. As mature and stable fermentation techniques require at least years of research and development experience, fermentation adds value to Pu'er tea products and leads to a generally higher gross profit margin for fermented Pu'er tea leaf products. Therefore, our overall gross profit margin would be higher in a given year when we launch more fermented Pu'er tea leaf products. For example, in 2020, the revenue generated from fermented Pu'er tea products and non-fermented Pu'er tea products under *1966* accounted for 50.6% and 23.0% of our total revenue in the same year, respectively; the gross profit margin of fermented Pu'er tea products and non-fermented Pu'er tea products under *1966* was 81.7% and 65.6% in the same year, respectively. The higher gross profit margin of fermented Pu'er products under *1966* which contributed over 50% of our total revenue in 2020 effectively drove up our overall gross profit margin to 70.4% in the same year. As compared to the higher overall gross profit margin of 70.4% in 2020, our overall gross profit margin was 65.9% in 2021, primarily because fermented Pu'er tea products and non-fermented Pu'er tea products under *1966* contributed to our total revenue in 2021 to similar extent, accounting for 35.3% and 34.1% of our total revenue in the same year, respectively.

For reasons described above, the product mix in terms of fermentation status launched in a given year may affect our total gross profit margin in that year. During the Track Record Period, we had a rather stable product launching pace, which is primarily influenced by the iteration cycle of our bedrock products. For example, our flagship product, *Shining Gold (烏金)*, has an iteration cycle of four years, while other two flagship products, *0085* and *001*, have an iteration cycle of two years and one year, respectively. For more information on our product iteration cycle, see "Business—Our Products—Overview—Lan Cang Gu Cha—1966." We determine the product iteration cycle primarily based on (1) the time required for accumulation of adequate raw materials, primarily rough tea leaves suitable for the production of such products and (2) the time required for the fermentation process. In general, the more types of rough tea leaves required, the longer the accumulation time, and the higher the complexity of the fermentation process, because different types of rough tea leaves need to be fermented in batches based on different fermenting formulae, which in turn leads to a longer fermentation time. Moreover, we may adjust product launching pace according to the evolving market demand and our stock of raw materials. For example, we launched *Millennium (千秋龍團)* in 2021 after we had accumulated enough raw materials from specific plantations in Jingmai Mountain in five different years. For comparisons of gross profit margins of each product line during the Track Record Period, see "—Year to Year Comparison of Results of Operations."

The following table sets forth a breakdown of our gross profit and gross profit margin by sales channel for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	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
							(Unaudited)			
	(RMB in thousands except for percentages)									
Distributors	215,269	67.2%	283,937	63.3%	205,818	61.4%	101,494	57.0%	98,398	56.0%
Direct sale customers	69,753	82.6%	75,498	80.4%	91,947	79.1%	35,782	75.6%	37,073	73.9%
— Offline retail customers	27,332	82.4%	42,771	82.5%	50,955	82.1%	15,408	78.1%	19,947	76.1%
— Online retail customers	42,421	82.7%	32,727	77.7%	40,992	75.6%	20,374	73.8%	17,126	71.6%
Key accounts	413	72.4%	9,005	55.3%	7,232	62.7%	1,682	59.4%	4,354	70.0%
Total	**285,435**	**70.4%**	**368,440**	**65.9%**	**304,997**	**65.9%**	**138,958**	**60.9%**	**139,825**	**60.3%**

Our gross profit generated from distributorship increased from RMB215.3 million in 2020 to RMB283.9 million in 2021, mostly in line with the increase in our revenue due to our business growth. Our gross profit generated from distributorship decreased from

RMB283.9 million in 2021 to RMB205.8 million in 2022, primarily as a result of the resurgence of COVID-19 across the country in 2022, which caused negative impact on the sales performance of our distributors. Despite the negative impact caused by the resurgence of COVID-19 in 2022, our gross profit generated from direct sales to retail customers further increased from RMB75.5 million in 2021 to RMB91.9 million in 2022, primarily because (1) we continued to enhance our efforts on the development of our self-operated stores and launched more customized products for high-quality customers to fulfill market demands; and (2) we further enhanced our online strategies and increased sales from our online channels. Our gross profit generated key accounts increased significantly from RMB0.4 million in 2020 to RMB9.0 million in 2021, as we engaged a hypermarket chain as our key account customer in 2021.

Our gross profit margin for distributorship and direct sales remained stable from 2020 to 2022, ranged from 61.4% to 67.2% and 79.1% to 82.6% during such years, respectively. Direct sales enjoy a higher gross profit margin than distributorship and key account channels, primarily because our selling prices to distributors and key accounts were significantly lower than that to retail customers, effectively driving down the gross profit margin for distributorship and key account channels. Our gross profit margin for key account channels decreased from 72.4% in 2020 to 55.3% in 2021, as we engaged a hypermarket chain as our key account customer in 2021, which effectively increased our sales volume through key account channels but at a lower gross profit margin compared to our then existing online key account customer.

Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of advertising and promotion expenses and employee benefits expenses. We incurred selling and marketing expenses of RMB87.0 million, RMB122.2 million, RMB136.4 million, RMB64.4 million and RMB67.6 million in 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively, representing 21.5%, 21.9%, 29.5%, 28.2% and 29.1% 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.

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	RMB	Percentage	RMB	Percentage	RMB	Percentage	RMB	Percentage	RMB	Percentage
							(Unaudited)			
	(RMB in thousands except for percentages)									
Advertising and promotion expenses	33,771	38.8	39,301	32.2	39,948	29.3	15,891	24.7	16,580	24.5
Employee benefits expenses	22,962	26.4	30,711	25.1	35,094	25.7	15,858	24.6	18,262	27.0
Depreciation of right-of-use assets	6,973	8.0	12,597	10.3	14,818	10.9	7,356	11.4	11,732	17.3
Consumables expenses	6,528	7.5	10,883	8.9	11,277	8.3	5,960	9.3	2,093	3.1
Sample expenses	7,324	8.4	10,790	8.8	11,377	8.3	5,120	8.0	4,211	6.2
Depreciation of property, plant and equipment	2,673	3.1	4,699	3.8	8,693	6.4	4,314	6.7	5,911	8.7
Others(1)	6,750	7.8	13,202	10.9	15,206	11.1	9,854	15.3	8,842	13.1
Total	**86,981**	**100.0**	**122,183**	**100.0**	**136,413**	**100.0**	**64,353**	**100.0**	**67,631**	**100.0**

(1) Included professional service expenses, travelling expenses, rental expenses related to short term leases for our self-operated stores, online platform charges, impairment losses of right-of-use assets and amortization of intangible assets.

Administrative Expenses

Our administrative expenses primarily consist of employee benefits expenses and depreciation of right-of-use assets. We incurred administrative expenses of RMB55.6 million, RMB96.5 million, RMB78.2 million, RMB36.6 million and RMB38.5 million in 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively, representing 13.7%, 17.3%, 16.9%, 16.0% and 16.6% of our total revenue for the same periods, respectively. The following table sets forth a breakdown of our administrative expenses for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	RMB	Percentage	RMB	Percentage	RMB	Percentage	RMB	Percentage	RMB	Percentage
							(Unaudited)			
	(RMB in thousands except for percentages)									
Employee benefits expenses	29,973	53.9	59,451	61.6	39,352	50.3	19,585	53.5	18,389	47.4
Depreciation of right-of-use assets	6,156	11.1	9,284	9.6	13,684	17.5	5,434	14.9	6,497	16.9
Depreciation of property, plant and equipment	2,734	4.9	3,544	3.7	5,469	7.0	2,511	6.9	3,309	8.6
Travelling expenses	1,627	2.9	2,905	3.0	1,226	1.6	560	1.5	456	1.2
Professional service expenses(1)	4,241	7.6	2,741	2.8	894	1.1	509	1.4	335	0.9
Rental expenses related to short-term leases	798	1.4	1,679	1.7	3,352	4.3	1,277	3.5	1,090	2.8
Others(2)	10,115	18.2	16,864	17.6	14,263	18.2	6,703	18.3	8,447	21.9
Total	**55,644**	**100.0**	**96,468**	**100.0**	**78,240**	**100.0**	**36,579**	**100.0**	**38,523**	**100.0**

(1) Professional service expenses in 2021 and 2022 primarily related to fees paid to outside counsel and consultants for our general operations. Professional service expenses in 2020 primarily related to fees paid to professional parties engaged in our A share listing application.

(2) Included design expenses, consumables expenses, [REDACTED] and property management expenses.

Net Impairment Losses and Reversal of Impairment Losses on Financial Assets

Our net impairment losses and reversal of impairment losses on financial assets primarily consist of impairment losses and reversal of impairment losses in connection with trade receivables and other receivables.

Other Income

Our other income consists of government grants and dividend income from a financial asset at FVOCI. We recorded other income of RMB8.8 million, RMB6.6 million, RMB6.5 million, RMB1.8 million and RMB2.2 million in 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively. The following table sets forth a breakdown of our other income for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	RMB	Percentage	RMB	Percentage	RMB	Percentage	RMB	Percentage	RMB	Percentage
							(Unaudited)			
	(RMB in thousands except for percentages)									
Government grants	8,336	94.7	6,555	100.0	6,506	100.0	1,775	100.0	1,614	74.1
Dividend income from a financial asset at FVOCI	468	5.3	—	—	—	—	—	—	565	25.9
Total	**8,804**	**100.0**	**6,555**	**100.0**	**6,506**	**100.0**	**1,775**	**100.0**	**2,179**	**100.0**

During the Track Record Period, government grants primarily included (1) subsidies relating to our A share listing application as government incentive to encourage companies to access capital markets by becoming public companies, (2) tea industry related subsidies, (3) grants from local governments for the operation and purchase of assets with no unfulfilled condition, and (4) other grants and operating subsidies. In 2022 and the six months ended June 30, 2023, we did not receive any subsidies relating to our A share listing application. Our management is of the view that there are no significant unfulfilled conditions or other contingencies attached to these operating subsidies.

During the Track Record Period, our dividend income from a financial asset at FVOCI was primarily related to cash dividend distribution from a rural commercial bank in Lancang, in which we held 3.9% of equity interest as of June 30, 2023. In 2021 and 2022, no cash dividend was declared by the rural commercial bank.

Other Losses/Gains – Net

In 2020, 2021, 2022 and the six months ended June 30, 2022, we incurred other losses – net of RMB6.3 million, RMB0.8 million, RMB0.7 million and RMB0.4 million, respectively. In the six months ended June 30, 2023, we recorded other gains – net of RMB0.3 million. Our components of other losses/gains – net primarily consist of (1) charity donation, (2) penalty income, (3) net losses/gains on disposals of property, plant and equipment, (4) net gains/losses on disposals of right-of-use assets, (5) losses from disposal of an associate and (6) gains on right-of-use assets transfer to finance lease receivables. The following table sets forth a breakdown of our other losses/gains – net for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
				(Unaudited)	
			(RMB in thousands)		
Charity donation	6,305	1,255	945	700	30
Net losses/(gains) on disposals of property, plant and equipment	453	447	33	18	(13)
Remeasurement gains resulting from associates transferred to subsidiaries	—	(139)	—	—	—
Penalty income	(250)	(601)	(303)	(189)	(209)
Net (gains)/losses on disposals of right-of-use assets	(234)	(153)	128	(8)	(90)
Losses from disposal of an associate	—	—	—	—	210
Gains on right-of-use assets transfer to finance lease receivables	—	—	—	—	(194)
Others	30	(36)	(65)	(75)	(70)
Total	**6,304**	**773**	**738**	**446**	**(336)**

During the Track Record Period, charity donation mainly represents (1) our COVID-19 related donations to charities, (2) scholarship to talents in the tea industry, (3) donations to poverty alleviation projects and (4) donations to a sports foundation. Penalty income represents fines certain distributors paid to us as a result of their violation of distribution agreements with us, which were deducted in part or in full from cash deposit for performance bond they paid to us as required by distribution agreements. See "Our Sales Network and Customers—Our Distributors—Major Terms of Distribution Agreements." During the Track Record Period, we imposed fines on these distributors primarily because of their retail price disruption activities.

Finance Costs – Net

Finance costs – net consist of our interest expenses on bank borrowings and lease liabilities. We incurred net finance costs of RMB6.0 million, RMB8.7 million, RMB12.8 million, RMB5.7 million and RMB7.7 million in 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively.

Income Tax Expense

We incurred income tax expense of RMB17.0 million, RMB17.3 million, RMB15.0 million, RMB4.2 million and RMB3.5 million in 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively. The effective tax rate for the same periods was 12.1%, 11.8%, 17.5%, 12.1% and 12.8%, respectively.

Pursuant to the EIT Law and related regulations, enterprises which operate in China are subject to enterprise income tax at a rate of 25% on the taxable profit. For eligible enterprises which meet the criteria of small low-profit enterprises, the annual taxable income that is not more than RMB1.0 million shall be recognized at 25% of income and be subject to a EIT rate of 20%; the annual taxable income that is more than RMB1.0 million but less than RMB3.0 million shall be recognized at 50% of income and be subject to a EIT rate of 20%. In 2020, our subsidiary, Chengdu Hekang Langu Tea Company Limited, was eligible for small low-profit enterprises and subject to stated preferential income tax rates. In addition, pursuant to the EIT Law and related regulations, our Company and its subsidiary, Pu'er Renhe, located in western cities in China are qualified to enjoy the preferential income tax rate of 15% during the Track Record Period, and are expected to enjoy such preferential income tax treatment until December 31, 2030.

No provision for Hong Kong profit tax has been made as we had no assessable profits derived from or earned in Hong Kong during the Track Record Period.

During the Track Record Period and up to the Latest Practicable Date, we have paid all relevant taxes when due and there are no matters in dispute or unresolved with the relevant tax authorities.

Profit for the Period

Our profit for the period increased from RMB123.0 million in 2020 to RMB129.0 million in 2021 and decreased to RMB70.5 million in 2022, and decreased from RMB30.4 million in the six months ended June 30, 2022 to RMB23.6 million in the six months ended June 30, 2023. In 2021, 2022 and the six months ended June 30, 2023, we had adjusted net profit (non-HKFRS measure) of RMB144.3 million, RMB71.7 million and RMB24.6 million, respectively. See "—Non-HKFRS Measures" for more information regarding reconciliation.

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 1.7% from RMB228.3 million in the six months ended June 30, 2022 to RMB232.0 million in the six months ended June 30, 2023, primarily due to the increase in the revenue generated from *Tea Mama* in the six months ended June 30, 2023, partially offset by the decrease in revenue generated from *1966* in the same period. More specifically:

- *Lan Cang Gu Cha — 1966*. Our revenue generated from *Lan Cang Gu Cha 1966* decreased by 6.5% from RMB166.0 million in the six months ended June 30, 2022 to RMB155.2 million in the six months ended June 30, 2023, primarily because we proactively adjusted our product launching plan based on the market condition as the market was making recovery from the pandemic and we planned to launch more products in the second half of 2023.

- *Lan Cang Gu Cha — Tea Mama*. Our revenue generated from *Lan Cang Gu Cha Tea Mama* increased by 32.5% from RMB52.8 million in the six months ended June 30, 2022 to RMB69.9 million in the six months ended June 30, 2023, primarily due to the increase in sales of non-Pu'er tea products such as Chenpi, which became increasingly popular among consumers after the pandemic.

- *Other services and products*. Our revenue generated from other services and products decreased by 27.9% from RMB9.5 million in the six months ended June 30, 2022 to RMB6.9 million in the six months ended June 30, 2023, primarily due to the decrease in sales of tea wares and tea making utensils.

Cost of Sales

Our cost of sales increased by 3.3% from RMB89.3 million in the six months ended June 30, 2022 to RMB92.2 million in the six months ended June 30, 2023. Such increase in our cost of sales was primarily due to the increase in revenue generated from *Tea Mama* products, resulting in increases in consigned processing expenses and packaging expenses for such products.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit slightly increased from RMB139.0 million in the six months ended June 30, 2022 to RMB139.8 million in the six months ended June 30, 2023. Our gross profit margin remained stable at 60.9% and 60.3% in the six months ended June 30, 2022 and 2023, respectively. More specifically:

- *Lan Cang Gu Cha — 1966*. The gross profit margin of *1966* remained stable at 66.4% and 65.5% in the six months ended June 30, 2022 and 2023, respectively.

- *Lan Cang Gu Cha — Tea Mama*. The gross profit margin of *Tea Mama* increased from 48.2% in the six months ended June 30, 2022 to 51.0% in the six months ended June 30, 2023, primarily due to the increased revenue contribution from Chenpi, for which we were able to implement price increases due to its popularity among consumers.

- *Other services and products*. The gross profit margin of other services and products remained stable at 34.1% and 35.2% in the six months ended June 30, 2022 and 2023, respectively.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 5.1% from RMB64.4 million in the six months ended June 30, 2022 to RMB67.6 million in the six months ended June 30, 2023, primarily due to the increase in the depreciation of right-of-use assets as a result of the addition of warehousing and office space in the fourth quarter of 2022.

Administrative Expenses

Our administrative expenses increased by 5.3% from RMB36.6 million in the six months ended June 30, 2022 to RMB38.5 million in the six months ended June 30, 2023, primarily due to (1) the increase in depreciation of right-of-use assets as a result of the addition of warehousing and office space in the fourth quarter of 2022, and (2) the increase in the [REDACTED].

Other Income

Our other income increased by 22.8% from RMB1.8 million in the six months ended June 30, 2022 to RMB2.2 million in the six months ended June 30, 2023, primarily due to the cash dividend distribution of RMB0.6 million from a rural commercial bank in Lancang, in which we held 3.9% of equity interest as of June 30, 2023.

Finance Costs — Net

Our finance costs — net increased by 33.5% from RMB5.7 million in the six months ended June 30, 2022 to RMB7.7 million in the six months ended June 30, 2023, primarily due to the increases in interest expenses on bank borrowings and lease liabilities as a result of the increase in our bank borrowings and addition of leased properties in the fourth quarter of 2022.

Income Tax Expense

Our income tax expense decreased from RMB4.2 million in the six months ended June 30, 2022 to RMB3.5 million in the six months ended June 30, 2023, primarily due to the decrease in our profit before income tax.

Profit for the Period

As a result of the above factors, we recorded net profit of RMB30.4 million and RMB23.6 million in the six months ended June 30, 2022 and 2023, respectively. Our net profit margin was 13.3% and 10.2% in the same periods, respectively.

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

Revenue

Our revenue decreased by 17.1% from RMB558.7 million in 2021 to RMB462.9 million in 2022, primarily as a result of COVID-19 recurrences across the country in 2022, which caused disruptions to the operation of our stores in the affected regions. See "Business—COVID-19 Outbreak and Effects on Our Business." More specifically:

- *Lan Cang Gu Cha — 1966*. Our revenue generated from *Lan Cang Gu Cha 1966* decreased by 27.2% from RMB413.9 million in 2021 to RMB301.4 million in 2022, primarily due to (1) recurrent COVID-19 throughout 2022 that resulted in temporary store closures and reduced operating hours, as well as (2) the decreased demand of consumers for tea leaf products due to their pessimism in light of the pandemic.

- *Lan Cang Gu Cha — Tea Mama*. Our revenue generated from *Lan Cang Gu Cha Tea Mama* increased by 14.0% from RMB126.7 million in 2021 to RMB144.4 million in 2022, primarily due to (1) our continued efforts to optimize online sales channels to direct sale customers, which were less affected by the pandemic, and (2) our expansion into non-Pu'er tea products.

- *Other services and products*. Our revenue generated from other services and products decreased by 5.5% from RMB18.1 million in 2021 to RMB17.1 million in 2022, primarily due to the decrease of revenue generated from sales of tea-pairing food caused by COVID-19.

Cost of Sales

Our cost of sales decreased by 17.0% from RMB190.2 million in 2021 to RMB157.9 million in 2022. Such decrease in our cost of sales was primarily due to the general decrease in our revenue caused by the negative impacts of COVID-19 in 2022, and more specifically, the decrease in cost of raw materials as a result of our decreased sales volume in the same year, partially offset by the increase in employee benefits expenses in 2022, due to an increase in the employee numbers as we hired more tea production employees.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased by 17.2% from RMB368.4 million in 2021 to RMB305.0 million in 2022. Our gross profit margin remained stable at 65.9% in 2021 and 2022. More specifically:

- *Lan Cang Gu Cha — 1966*. The gross profit margin of *1966* increased from 71.8% in 2021 to 74.6% in 2022, primarily because we launched certain high-quality fermented Pu'er tea products to fulfill market demands against the backdrop of COVID-19 recurrences throughout 2022, which have higher gross profit margin, slightly driving up the gross profit margin of *1966*.

- *Lan Cang Gu Cha — Tea Mama*. The gross profit margin of *Tea Mama* remained stable at 52.1% in 2021 and 52.0% in 2022.

- *Other services and products*. The gross profit margin of other services and products remained stable at 30.0% in 2021 and 29.4% in 2022.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 11.6% from RMB122.2 million in 2021 to RMB136.4 million in 2022, primarily due to our increased marketing efforts to promote our tea leaf products, resulting in an increase in our employee benefits expenses, depreciation of property, plant and equipment, and depreciation of right-of-use assets related to our self-operated stores. In 2022, the increase in our employee benefits expenses was primarily due to the addition of our sales personnel. In the same year, depreciation of property, plant and equipment and depreciation of right-of-use assets also experienced increases, primarily because certain self-operated stores commenced operation in the second half of 2021.

Administrative Expenses

Our administrative expenses decreased by 18.9% from RMB96.5 million in 2021 to RMB78.2 million in 2022, primarily due to a decrease in staff expenses as we recorded share-based payment expenses of RMB18.0 million in 2021, which did not recur in 2022.

Finance Costs — Net

Our finance costs — net increased by 47.1% from RMB8.7 million in 2021 to RMB12.8 million in 2022, primarily due to (1) an increase in the interest expenses on lease liabilities as we expanded leased properties for our warehouses and offline stores, and (2) an increase in interest expense on bank borrowings as our loan principal increased.

Income Tax Expense

Our income tax expense decreased from RMB17.3 million in 2021 to RMB15.0 million in 2022, primarily due to the general decrease in our revenue caused by the negative impacts of COVID-19 in 2022, partially offset by a decrease in deferred income tax credits as a result of the decreased unrealized profit on our intra-group transactions.

Profit for the Year

As a result of the above factors, we recorded net profit of RMB129.0 million and RMB70.5 million in 2021 and 2022, respectively. Our net profit margin was 23.1% and 15.2% in the same years, respectively.

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

Revenue

Our revenue increased by 37.8% from RMB405.5 million in 2020 to RMB558.7 million in 2021, primarily as a result of our continued efforts to grow our business, optimize sales channels and launch products that cater to the evolving consumer demand. More specifically:

- *Lan Cang Gu Cha — 1966*. Our revenue generated from *Lan Cang Gu Cha 1966* increased by 38.4% from RMB299.1 million in 2020 to RMB413.9 million in 2021, primarily due to (1) the general growth of our business as a result of optimized sales channels and (2) the significant sales growth of non-fermented Pu'er tea from RMB93.2 million in 2020 to RMB190.6 million in 2021 as influenced by our product iteration cycle. Such significant sales growth of non-fermented Pu'er tea was primarily attributable to (1) the launching of certain non-fermented Pu'er tea products, including, among others, the latest generation of our premium product *Millennium* in 2021, which contributed RMB80.1 million to our revenue in the same year, and (2) the sales growth of our flagship product *001* from RMB34.9 million in 2020 to RMB49.8 million in 2021. As we need to accumulate raw materials from specific plantations in Jingmai Mountain in different years for every generation of *Millennium*, we believe consumers had much anticipation for the long-awaited latest generation during the course of such accumulation, which led to significant revenue contribution from *Millennium* in 2021.

- *Lan Cang Gu Cha — Tea Mama*. Our revenue generated from *Lan Cang Gu Cha Tea Mama* increased by 33.7% from RMB94.8 million in 2020 to RMB126.7 million in 2021, primarily due to (1) continued sales growth of *Little Green Mandarin* (小青柑), (2) expansion into other non-Pu'er tea products such as white teas, and (3) expansion of our sales channels to include key account channels.

- *Other services and products*. Our revenue generated from other services and products increased by 56.1% from RMB11.6 million in 2020 to RMB18.1 million in 2021, primarily due to (1) increase in the sales revenue of tea wares and tea making utensils, and (2) increase of revenue generated from provision of teahouse services as the number of Urban Lounges increased from 2020 to 2021.

Cost of Sales

Our cost of sales increased by 58.5% from RMB120.0 million in 2020 to RMB190.2 million in 2021. Such increase in our cost of sales was primarily due to (1) general growth of our business resulting in the revenue increase; (2) the increase in cost of raw materials mainly attributable to the launch of *Millennium* in 2021, a flagship non-fermented Pu'er tea product made from quality tea leaves sourced from Jingmai Mountain; (3) the increase in packaging expenses caused by the launch of *Millennium* and the increased sale of tea set products, which required more sophisticated packaging materials; and (4) the increase in employee benefits expenses as we hired more tea production employees in 2021.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 29.1% from RMB285.4 million in 2020 to RMB368.4 million in 2021. Our gross profit margin decreased from 70.4% in 2020 to 65.9% in 2021. More specifically:

- *Lan Cang Gu Cha — 1966*. The gross profit margin of *1966* decreased from 76.7% in 2020 to 71.8% in 2021, primarily due to more non-fermented Pu'er tea leaf products launched in 2021, which generally has a lower margin than fermented Pu'er tea leaf products.

- *Lan Cang Gu Cha — Tea Mama*. The gross profit margin of *Tea Mama* decreased from 55.9% in 2020 to 52.1% in 2021, primarily due to (1) increase processing costs for Chenpi Pu'er products that lowered their margin and (2) increase sales volume of products with lower margin, such as Chenpi, black tea and white tea.

- *Other services and products*. The gross profit margin of other services and products increased from 26.1% in 2020 to 30.0% in 2021.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 40.5% from RMB87.0 million in 2020 to RMB122.2 million in 2021, primarily due to our increased investment in marketing efforts to promote our tea leaf products, which was primarily reflected by an increase in our advertising and promotion expenses, staff expenses and depreciation of right-of-use assets related to our self-operated stores. During the Track Record Period, rental expenses primarily consisted of rentals paid for leasing our self-operated stores. Our selling and marketing expenses as a percentage of our total revenue remained stable at 21.5% and 21.9% in 2020 and 2021, respectively.

Administrative Expenses

Our administrative expenses increased by 73.4% from RMB55.6 million in 2020 to RMB96.5 million in 2021, primarily due to an increase in staff expenses as the number and average compensation of our administrative staff increase and a one-time share-based compensation of RMB18.0 million recorded in 2021 granted to certain employees as reward and incentive for such employees.

Other Income

Our other income decreased by 25.5% from RMB8.8 million in 2020 to RMB6.6 million in 2021, primarily due to a decrease in government grants as the subsidies in relation to A share listing, which was payable to us upon our application submission, decreased from RMB6.0 million in 2020 to RMB2.0 million in 2021. Such subsidies were granted to us in installments. We are under no obligation to complete the A share listing under the terms of such subsidies.

Finance Costs – Net

Our finance costs – net increased by 45.8% from RMB6.0 million in 2020 to RMB8.7 million in 2021, primarily due to an increase in the interest expenses on lease liabilities as we continued to grow our business and leased properties for our offline stores.

Income Tax Expense

We recorded income tax expense of RMB17.0 million in 2020 and RMB17.3 million in 2021, largely in line with the growth of our profit before income tax.

Profit for the Year

As a result of the above factors, we recorded net profit of RMB123.0 million and RMB129.0 million in 2020 and 2021, respectively. Our net profit margin was 30.3% and 23.1% in 2020 and 2021, respectively.

Adjusted Net Profit for the Year (Non-HKFRS Measure)

We used adjusted net profit (non-HKFRS measure) to supplement our consolidated financial statements. We recognized adjusted net profit (non-HKFRS measure) of RMB123.0 million and RMB144.3 million for 2020 and 2021, respectively. See "—Non-HKFRS Measures" for a reconciliation of our profit for the year to our adjusted net profit (non-HKFRS measure).

DISCUSSION OF CERTAIN ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth details of our consolidated statements of financial position as of the dates indicated.

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(RMB in thousands)			
Non-current assets				
Property, plant and equipment	111,412	138,905	145,997	139,816
Right-of-use assets	83,155	150,610	220,264	202,733
Intangible assets	85	854	3,318	2,855
Investments in associates	299	10,967	21,616	20,033
Financial asset at fair value through other comprehensive income	12,930	12,529	11,767	10,776
Prepayments	4,065	6,015	7,095	5,249
Deferred income tax assets	29,574	47,575	53,071	55,940
Total non-current assets	**241,520**	**367,455**	**463,128**	**437,402**
Current assets				
Inventories	470,340	635,670	783,655	834,559
Trade and other receivables	5,805	26,155	35,842	40,704
Prepayments	11,687	23,659	38,249	43,684
Income tax recoverable	1,564	—	—	—
Cash and cash equivalents	173,911	141,546	90,027	65,649
Total current assets	**663,307**	**827,030**	**947,773**	**984,596**
Current liabilities				
Borrowings	6,000	6,650	134,900	112,100
Trade and other payables	96,368	119,639	202,785	208,007
Contract liabilities	22,148	14,864	4,944	12,778
Lease liabilities	12,627	22,328	30,457	34,225
Current income tax liabilities	9,742	8,768	13,445	5,261
Total current liabilities	**146,885**	**172,249**	**386,531**	**372,371**
Net current assets	**516,422**	**654,781**	**561,242**	**612,225**
Total assets less current liabilities	**757,942**	**1,022,236**	**1,024,370**	**1,049,627**

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(RMB in thousands)			
Non-current liabilities				
Deferred income	9,972	9,387	9,136	10,714
Borrowings	107,750	148,200	76,300	99,900
Lease liabilities	50,836	106,259	138,754	123,156
Deferred income tax liabilities	1,085	1,024	910	761
Total non-current liabilities	**169,643**	**264,870**	**225,100**	**234,531**
Net assets	**588,299**	**757,366**	**799,270**	**815,096**
Equity				
Share capital	60,000	63,000	63,000	63,000
Other reserves	312,869	374,764	372,680	371,736
Retained earnings	213,320	310,291	358,556	376,622
Equity attributable to owners of the Company	**586,189**	**748,055**	**794,236**	**811,358**
Non-controlling interests	**2,110**	**9,311**	**5,034**	**3,738**
Total equity	**588,299**	**757,366**	**799,270**	**815,096**

Property, Plant and Equipment

Our property, plant and equipment consist of plant and buildings, machinery, equipment and furniture, fittings, vehicles, and construction-in-progress.

We had property, plant and equipment of RMB111.4 million, RMB138.9 million, RMB146.0 million and RMB139.8 million as of December 31, 2020, 2021 and 2022 and June 30, 2023, respectively. The increase in our property, plant and equipment in 2021 was primarily due to the decoration and furniture expenditure relating to our new and upgraded offline stores. The increase in our property, plant and equipment in 2022 was primarily due to the renovation and decoration of our new logistics and e-commerce center in Foshan, partially offset by depreciation of property, plant and equipment during normal business operations. Our property, plant and equipment decreased from RMB146.0 million as of December 31, 2022 to RMB139.8 million as of June 30, 2023, primarily due to the depreciation of property, plant and equipment during normal business operations.

As of December 31, 2020, 2021 and 2022 and June 30, 2023, our property, plant and equipment of RMB67.6 million, RMB85.6 million, RMB81.5 million and RMB79.4 million were pledged as collateral for our Group's bank borrowings. For details, see Note 16 to the Accountant's Report in Appendix I to this document.

Right-of-Use Assets

Our right-of-use assets consists of land use rights and properties for operating our business. Lease contracts are entered into for fixed terms of 3 years to 50 years of land use rights and for fixed terms of over two years to 20 years for properties. Lease terms are negotiated on an individual basis and contain different payment terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, we apply the definition of a contract and determine the period for which the contract is enforceable.

We had right-of-use assets of RMB83.2 million, RMB150.6 million, RMB220.3 million and RMB202.7 million as of December 31, 2020, 2021 and 2022 and June 30, 2023, respectively. The increase in our right-of-use assets from 2020 to 2021 was primarily due to our business expansion, for which we leased additional offices, self-operated stores and warehouses. The number of our self-operated stores increased from 17 in 2020 to 26 in 2021. Our right-of-use assets decreased from RMB220.3 million as of December 31, 2022 to RMB202.7 million as of June 30, 2023, primarily due to depreciation of such assets over their lease terms.

As of December 31, 2020, 2021 and 2022 and June 30, 2023, our land use rights of RMB5.4 million, RMB5.3 million, RMB28.1 million and RMB27.8 million were pledged to banks to secure bank borrowings, respectively. For details, see Note 17 to the Accountant's Report in Appendix I to this document.

Intangible Assets

Our intangible assets primarily consist of computer software. We had intangible assets of RMB0.1 million, RMB0.9 million, RMB3.3 million and RMB2.9 million as of December 31, 2020, 2021 and 2022 and June 30, 2023. The increase in our intangible assets in 2022 was primarily due to the purchase of Youxin Cloud, a cloud-based distributor and store management system that was developed by an independent third-party SaaS service provider, and other office software for our daily operations.

Investments in associates

We had investments in associates of RMB0.3 million, RMB11.0 million, RMB21.6 million and RMB20.0 million as of December 31, 2020, 2021 and 2022 and June 30, 2023, respectively. Our investments in associates primarily related to our equity interests in a number of associate companies engaged in sales of tea products and tea ware products, all of which are distributor-operated exclusive stores, as well as development of a tea cultural tourist town, which did not have substantial operations as of the Latest Practicable Date, as we believe such investments would be synergistic with our business expansion. For details of distributor-operated exclusive stores that we have minority interests in, see "Business—Our Sales Network and Customers—Our Sales Network." In 2021, we acquired additional equity interests in two associates from third party shareholders of such associates at a total consideration of RMB0.6 million. Upon the completion of such acquisitions, the associates became our subsidiaries with remeasurement gains on the investments in associates amounting to RMB0.1 million and transferred to investments in our subsidiaries with the amount of RMB2.2 million. In 2022, we invested in an associate company engaged in the provision of tea leaves purchase service. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, we had downstream sales of goods to certain associates with the share of profits amounting to approximately nil, RMB5.6 million, RMB7.3 million, RMB1.9 million and RMB1.8 million, respectively. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, we had upstream purchase of service from an associate with the share of profits amounting to approximately nil, nil, RMB0.8 million, RMB0.9 million and RMB0.3 million, respectively.

The recoverable amount of our investment in associates is determined by value-in-use calculations using discounted cash flow projections based on our management's forecast. Our investment in Pu'er Tea Small Town Investment Co., Ltd. was fully impaired before the Track Record Period due to the delay in construction, and thus there was no shared loss from our investment therein during the Track Record Period. Nonetheless, we shared loss for certain of our loss-making associates during the Track Record, for which we have performed assessment on whether there is any indication that our investment in such associates shall be impaired. Based on such assessment, we determined that no impairment for these loss-making associates was required, on the basis that (1) the majority of our investment in associates was consummated in the second half of 2021 with a short history of operations, and (2) we have compared the recoverable amount calculated through discounted cash flow projections with the carrying amount of the investment in associates and no impairment was noted. As such, we did not record any impairment on the investment in associates during the Track Record Period.

There are no contingent liabilities or commitments relating to our investments in the significant influence associates.

Financial Asset at Fair Value through Other Comprehensive Income

We had a financial asset at FVOCI of RMB12.9 million, RMB12.5 million, RMB11.8 million and RMB10.8 million as of December 31, 2020, 2021 and 2022 and June 30, 2023, respectively. Our financial asset at FVOCI represents our equity interest in a rural commercial bank in Lancang. See Note 3.3 to the Accountant's Report in Appendix I to this document. In December 2013, we invested in such bank to enhance our business cooperation and as a financial investment to better utilize our cash on hand. As of June 30, 2023, the investment represented approximately 3.9% of the total equity interest of such bank. We record the fair value of such investment according to independent valuers' valuation, which declined slightly during the Track Record Period. In 2020 and the six months ended June 30, 2023, we received dividend income of RMB0.5 million and RMB0.6 million from such bank, respectively. In 2021 and 2022, no cash dividend was declared by such bank.

In relation to the valuation of our financial asset at FVOCI, our Directors have, among others, (1) reviewed the terms of relevant investment documents, (2) obtained necessary financial and non-financial information from the investee and assessed its reasonableness, and (3) considered the valuation report prepared in accordance with the International Valuation Standards on the fair value of such investment. Therefore, our Directors are satisfied with the valuation of our financial asset at FVOCI.

Details of the fair value measurement of financial assets, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value are disclosed in Note 3.3 to the Accountant's Report set out in Appendix I to this document which was reported on by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. 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 page I-1 of Appendix I to this document.

In relation to the valuation of our financial asset at FVOCI, the Joint Sponsors have, among others, (i) reviewed the written reply from the Group's current executive Director and deputy general manager in relation to the financial asset at FVOCI, to understand, among others, (a) the financial asset at FVOCI refers to the Group's equity investment in one rural commercial bank in Lancang of Yunnan Province; and (b) the Directors had exercised due and reasonable care, skill and diligence in discharge of their duties when making the investment decision in connection with the financial asset at FVOCI; (ii) reviewed relevant notes to the Accountant's Report in Appendix I to this document; (iii) reviewed the terms of the engagement letter (including but not limited to its scope of work and qualifications) of the valuer engaged by the Company for the valuation of the financial asset at FVOCI; (iv) reviewed the valuation report in respect of the fair value of the Group's equity investment in the financial asset at FVOCI, which was prepared by the valuer in accordance with the international valuation standards issued by the International Valuation Standards Council; and (v) reviewed the relevant documents and public information available of such rural commercial bank.

Prepayments

Our prepayments primarily include prepayments for purchase of raw materials and packaging materials, input VAT available for future deduction, prepayments for advertising and promotion expenses, and prepayments for purchase of property, plant and equipment. Prepayments for purchase of raw materials and packaging materials are primarily for purchasing rough tea leaves and packaging materials. Input VAT available for future deduction primarily represents input VAT in excess of output VAT, which can be deductible or recoverable in the future. Prepayments for advertising and promotion expenses are primarily for various online and offline campaigns to promote our tea leaf products.

Prepayments for purchase of property, plant and equipment are primarily related to our purchase of a property to be used as our offline retail store. The table below sets forth the components of our prepayments as of the dates indicated.

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(RMB in thousands)			
Prepayments				
Prepayments for [REDACTED] expenses	—	10,160	31,874	35,024
Prepayments for purchase of property, plant and equipment	4,065	6,015	7,095	5,249
Prepayments for advertising and promotion expenses	6,901	6,131	1,492	3,543
Input VAT available for future deduction	2,410	5,197	983	877
Prepayments for purchase of raw materials and packaging materials	916	204	1,539	1,190
Others	1,460	1,967	2,361	3,050
Total	15,752	29,674	45,344	48,933
Less: non-current portion				
Prepayments for purchase of property, plant and equipment	(4,065)	(6,015)	(7,095)	(5,249)
Current portion	**11,687**	**23,659**	**38,249**	**43,684**

We had prepayments of RMB15.8 million, RMB29.7 million, RMB45.3 million and RMB48.9 million as of December 31, 2020, 2021 and 2022 and June 30, 2023. The increase in our prepayments during the Track Record Period was primarily due to increases in our prepayments for [REDACTED] expenses, which was non-operating in nature.

Inventories

Our inventories include raw materials, work in progress and finished goods, with work in progress and finished goods both being major components. As of December 31, 2020, 2021 and 2022 and June 30, 2023, the percentage of work in progress to inventories was 44.2%, 38.3%, 34.8% and 33.6%, respectively. As of the same dates, the percentage of finished goods to inventories was 40.7%, 40.4%, 45.2% and 45.9%, respectively. The table below sets forth a breakdown of our inventory balances as of the dates indicated.

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(RMB in thousands)			
Raw materials	71,026	136,673	158,357	173,224
Work in progress	207,957	243,375	272,986	280,153
Finished goods	191,357	256,789	353,894	382,881
Inventories — gross	470,340	636,837	785,237	836,258
Less: provision for impairment[(1)]	—	(1,167)	(1,582)	(1,699)
Inventories — net	**470,340**	**635,670**	**783,655**	**834,559**

(1) Mainly related to the impairment of a limited number of flavored tea products with floral ingredients, which have expiry dates.

Our inventories of raw materials primarily included rough tea leaves. Our inventories of work in progress primarily included tea leaves that is going through the refinement process. Our inventories of finished goods primarily included our tea leaf products that can immediately be sold to our distributors and/or direct sale customers as well as packaging materials.

We would normally stock considerable amount of inventories to ensure that we can quickly respond to market changes and meet consumer needs, while gradually launching high-quality tea leaf products that have been moderately aged to satisfy consumers' specific needs. According to the F&S Report, rough tea leaves and in-process tea leaves could be preserved for decades if properly stored. Our inventory level continued to rise during the Track Record Period as our business operations continued to grow and the management was optimistic about our future growth. Our inventories increased from RMB470.3 million as of December 31, 2020 to RMB635.7 million as of December 31, 2021, primarily due to (1) increase purchase volume of rough tea leaves (i) in preparation for the production of flagship products for our business expansion and (ii) as the management believed the rough tea leaves grown in 2021 was extraordinary in quality; and (2) the increase in our finished goods because (i) the product portfolio under Tea Mama continued to expand, adding up to an increase in finished goods, (ii) we stocked up on Chenpi to avoid its anticipated rise in price in the future, and (iii) we stocked up on our flagship products, which were reserved for distributor-operated stores to be opened in the future. For newly opened distributor-operated stores, we strive to provide them with a great variety of products, in particular those moderately aged flagship products, to help them make a good start. Our inventories increased from RMB635.7 million as of December 31, 2021 to RMB783.7 million as of December 31, 2022, primarily because (1) we experienced slower sales in 2022 as a result of disruptions of our operation and consumer pessimism caused by COVID-19 pandemic, and (2) we continued to execute our procurement and production plan, which was largely according to our management's holistic assessment of the market condition and our business objectives in the beginning of 2022 and adjusted based on our observation of market trends during 2022. Our inventories increased from RMB783.7 million as of December 31, 2022 to RMB834.6 million as of June 30, 2023, primarily as a result of (1) the increase in raw materials as our purchase of rough tea leaves was primarily conducted in the first half of a year; (2) the increase in work in progress and finished goods attributed to our production for maintaining essential inventory levels to fulfill the demand for products in various years and series across our sales network.

As of December 31, 2020, 2021 and 2022 and June 30, 2023, inventories of RMB26.6 million, RMB16.1 million, RMB27.3 million and RMB28.0 million were pledged as collateral for bank borrowings. For details, see Note 20 to the Accountant's Report in Appendix I to this document.

The following table sets forth an aging analysis of our raw materials as of the dates indicated.

	As of December 31,			As of June 30,
	2020	**2021**	**2022**	**2023**
		(RMB in thousands)		
Up to one year	43,696	120,078	79,338	53,644
One to two years	17,765	12,562	70,263	56,633
Two to three years	6,313	1,239	6,555	56,367
Over three years	3,252	2,794	2,201	6,580
Total	**71,026**	**136,673**	**158,357**	**173,224**

The following table sets forth an aging analysis of our work in progress as of the dates indicated:

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(RMB in thousands)			
Up to one year	68,508	132,488	117,320	110,369
One to two years	80,231	32,371	86,667	60,142
Two to three years	29,705	42,376	16,238	55,428
Over three years	29,513	36,140	52,761	54,214
Total	**207,957**	**243,375**	**272,986**	**280,153**

The following table sets forth an aging analysis of our finished goods as of the dates indicated.

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(RMB in thousands)			
Up to one year	57,596	111,553	136,634	67,628
One to two years	33,813	33,329	92,666	108,380
Two to three years	26,096	28,259	20,922	89,034
Over three years	73,852	83,648	103,672	117,839
Total	**191,357**	**256,789**	**353,894**	**382,881**

The table below sets forth our inventory turnover days for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2020	2021	2022	2023
Inventory turnover days[(1)]	1,345	1,061	1,641	1,588

(1) Inventory turnover days for each period equals the average of the beginning and ending balances of inventory for that period divided by cost of sales for that period and multiplied by the number of days in that period.

In 2020, 2021, 2022 and the six months ended June 30, 2023, our inventory turnover days were 1,345 days, 1,061 days, 1,641 days and 1,588 days, respectively. According to the F&S Report, Pu'er tea products usually do not have an expiry date, and the longer Pu'er tea is preserved, the better it tastes and the higher value it possesses. National Standards of

China for Pu'er tea products (GB/T 22111–2008) also indicate that Pu'er tea products are suitable for long-term storage in a clean and dry environment with adequate ventilation. Due to such nature of Pu'er tea, it is common in the industry for Pu'er tea companies including us to maintain certain level of inventory in order to offer a wide variety of products to satisfy different needs of customers, which led to relatively long inventory turnover days for such companies, according to the F&S Report. In addition, we tend to keep certain amount of finished products in inventory, which is reserved for future store open-ups in anticipation of our business expansion. According to the F&S Report, our inventory turnover days during the Track Record Period were in line with the industry average.

Our inventory turnover days decreased from 1,345 days in 2020 to 1,061 days in 2021, primarily due to the increase in cost of sales. Our inventory turnover days increased from 1,061 days in 2021 to 1,641 days in 2022, primarily due to the combined effect of the increase in our inventories and the decrease in our cost of sales. See "—Period to Period Comparison of Results of Operations.". Our inventory turnover days remained stable at 1,641 days in 2022 and 1,588 days in the six months ended June 30, 2023.

As of July 31, 2023, approximately RMB6.9 million, or 0.8%, of our total inventories as of June 30, 2023 were utilized or sold. As of the Latest Practicable Date, we were not aware of any material recoverability issue for inventories, and sufficient provision for impairment of inventories had been made in view of its recoverability, on the basis that (1) Pu'er tea usually does not have an expiry date, and the longer Pu'er tea is preserved, the better it tastes and the higher value it possesses, according to the F&S Report; (2) we believe that our good stock of inventories, particularly rough tea leaves and in-process tea leaves, is instrumental in our ability to continuously launch high-quality new products and respond to ever-changing market demand in time; and (3) we tend to keep certain amount of finished products in inventory, which is reserved for future store open-ups in anticipation of our business expansion.

The table below sets forth our turnover days for raw materials, work in progress and finished goods during the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2020	**2021**	**2022**	**2023**
Raw materials[(1)]	179	199	341	325
Work in progress[(1)]	624	433	597	543
Finished goods[(1)]	541	430	706	723

(1) Calculated based on the average of the beginning and ending balances of inventory of the relevant category for that period divided by cost of sales for the corresponding period and multiplied by the number of days in that period.

During the Track Record Period, our turnover days for raw materials and work in progress were longer than the theoretical production time for our Pu'er tea products, primarily because we do not consume all of raw materials for the production of finished goods immediately after the procurement. Instead, we stock a portion of rough tea leaves as raw materials or process such rough tea leaves into work in progress, *e.g.*, fermented in-process tea leaves, which are stored for the blending of future products. We believe that our good stock of rough tea leaves and in-process tea leaves is instrumental in our ability to continuously launch high-quality new products and respond to ever-changing market demand in time. In addition, the more types of rough tea leaves required for certain products, the longer the accumulation time, and the higher the complexity of the fermentation process, because different types of rough tea leaves need to be fermented in batches based on different fermenting formulae, which in turn leads to longer turnover days for raw materials and work in progress. Our turnover days for raw materials, work in progress and finished goods experienced fluctuation during the Track Record Period, which was generally in line with that of our inventory turnover days during the same period.

Trade and Other Receivables

During the Track Record Period, our trade receivables mainly arose from sale of tea leaf products. We generally require payment before delivery, particularly for our flagship products. Any sales on credit to distributors shall not exceed the amount of cash deposit for performance bond such distributor has put with us. For key account customers, our sales collection generally follows payment cycles pre-negotiated with such customers, which were typically 60 days during the Track Record Period. The following table sets forth the details of our trade and other receivables as of the dates indicated.

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(RMB in thousands)			
Trade and notes receivables[(1)]	1,480	14,834	23,529	26,848
— Third parties	1,566	15,525	23,009	27,365
— Related parties	—	855	2,274	4,178
Notes receivable				
— Third party[(2)]	—	—	200	—
Less: allowance for impairment	(86)	(1,546)	(1,954)	(4,695)
Other receivables and finance lease receivables	4,325	11,321	12,313	13,856
— Deposits	4,090	8,193	11,249	10,977
— Others	237	3,228	1,166	2,015
Finance lease receivables	—	—	—	1,020
Less: allowance for impairment	(2)	(100)	(102)	(156)
Total	**5,805**	**26,155**	**35,842**	**40,704**

(1) As of December 31, 2021, 2022 and June 30, 2023, our trade receivables included trade receivables from related parties of RMB0.9 million, RMB2.3 million and RMB4.2 million, respectively. See Note 22 to the Accountant's Report in Appendix I to this document.

(2) See Note 22 to the Accountant's Report in Appendix I to this document.

Our trade and other receivables increased from RMB5.8 million as of December 31, 2020 to RMB26.2 million as of December 31, 2021, primarily due to (1) an increase in trade receivables from RMB1.5 million as of December 31, 2020 to RMB14.8 million as of December 31, 2021 primarily as a result of our engagement with certain key account customer, who generally have longer payment cycles for suppliers and the trade receivables attributable to whom as of December 31, 2021 accounted for 57.8% of our total trade receivables before allowance for impairment as of the same date, (2) an increase in cash deposits for our leases from RMB4.1 million as of December 31, 2020 to RMB8.2 million as of December 31, 2021, which was largely in line with our business expansion pace, and (3) an increase in other receivables RMB0.2 million as of December 31, 2020 to RMB3.2 million as of December 31, 2021, primarily due to a receivable of RMB1.8 million due from a third party relating to an associate, which subsequently recovered as of the Latest Practicable Date, and funds kept in our account with certain e-commerce platform. Our trade and other receivables increased from RMB26.2 million as of December 31, 2021 to RMB35.8 million as of December 31, 2022, primarily due to an increase in trade and notes receivables from RMB14.8 million as of December 31, 2021 to RMB23.5 million as of December 31, 2022 as certain distributors delayed in payments due to COVID-19. Our trade and other receivables increased from RMB35.8 million as of December 31, 2022 to RMB40.7 million as of June 30, 2023, primarily because we adjusted our approach in trade receivable collection to bolster our distributors' post-pandemic recovery.

Our management regularly reviews the recoverability of our overdue balances and when appropriate, provides for impairment on these trade receivables. Impairment in trade receivables is recorded using an allowance account unless we are satisfied that the possibility of recovery of the amount is remote, in which case the impairment is written off against trade receivables directly. We believe that our exposure to the risks of being unable to collect payments is small.

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

	As of December 31,			As of June 30,
	2020	**2021**	**2022**	**2023**
	(RMB in thousands)			
0–30 days	794	4,897	13,638	11,492
31–60 days	100	9,622	5,504	6,450
61–90 days	388	162	2,847	3,672
91–180 days	255	199	2,708	7,118
Over 181 days	29	1,500	786	2,811
Total	**1,566**	**16,380**	**25,483**	**31,543**

The following table sets forth a breakdown of our trade and notes receivables by type of customers as of the dates indicated.

	As of December 31,						As of June 30,	
	2020		2021		2022		2023	
	RMB	Percentage of total trade and notes receivables	RMB	Percentage of total trade and notes receivables	RMB	Percentage of total trade and notes receivables	RMB	Percentage of total trade and notes receivables
	(RMB in thousands except for percentages)							
Distributors	1,020	65.1	5,102	31.1	19,270	75.6	27,869	88.3
Key accounts	392	25.0	10,289	62.8	4,280	16.8	2,367	7.5
Direct sale customers	154	9.9	989	6.1	1,933	7.6	1,307	4.2
— Offline direct sale customers	92	5.9	372	2.3	971	3.8	1,032	3.3
— Online direct sale customers	62	4.0	617	3.8	962	3.8	275	0.9
Total trade and notes receivables	**1,566**	**100.0**	**16,380**	**100.0**	**25,483**	**100.0**	**31,543**	**100.0**

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

	Year ended December 31,			Six months ended June 30,
	2020	**2021**	**2022**	**2023**
Trade receivables turnover days[(1)]	5	5	15	20

(1) Trade receivables turnover days for each period equals the average of the beginning and ending balances of trade receivables for that period divided by revenue for that period and multiplied by the number of days in that period.

Our trade receivables turnover days remained stable at 5 days in 2020 and 2021. Although the amount of trade receivable as of December 31, 2021 increased significantly as compared to that amount as of December 31, 2020, the impact of such increase on the trade receivable turnover was mostly offset by the growth in our revenue in 2021. Our trade receivables turnover days increased from 5 days in 2021 to 15 days in 2022, primarily because (1) certain distributors delayed in payments due to COVID-19 and (2) we temporarily adjusted the credit limit and/or granted temporary extensions on the credit period (usually for 30 to 60 days) for certain distributors on a case by case basis, taking into account, among others, (i) their business demand given the severity of COVID-19 in particular regions, (ii) our business relationships with those distributors and (iii) their credit and purchase history with us. Our trade receivable turnover days increased from 15 days in 2022 to 20 days in the six months ended June 30, 2023, primarily due to a higher ending balance as of June 30, 2023 as we adjusted our approach in trade receivable collection to bolster our distributors' post-pandemic recovery.

As of July 31, 2023, approximately RMB4.5 million, or 14.3%, of our trade receivables as of June 30, 2023 had been settled. In particular, as of the same date, (1) approximately RMB3.7 million, or 13.2%, of our trade receivables attributable to distributors as of June 30, 2023 had been settled; (2) approximately RMB0.5 million, or 53.8%, of our trade receivables attributable to offline retail customers as of June 30, 2023 had been settled; (3) approximately RMB0.3 million, or 98.8%, of our trade receivables attributable to online retail customers as of June 30, 2023 had been settled; and (4) none of our trade receivables attributable to key accounts as of June 30, 2023 had been settled. As of the Latest Practicable Date, we were not aware of any material recoverability issue for trade receivables, and sufficient provision for impairment of trade receivables had been made in view of its recoverability.

Cash and Cash Equivalents

Our cash and cash equivalents primarily consisted of cash on hand and cash at banks. We had cash and cash equivalents of RMB173.9 million, RMB141.5 million, RMB90.0 million and RMB65.6 million as of December 31, 2020, 2021 and 2022 and June 30, 2023, respectively.

Bank Borrowings

Our bank borrowings primarily consist of bank loans that are either secured or unsecured. The following table sets forth the details of our bank borrowings as of the dates indicated.

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(RMB in thousands)			
Non-current				
Bank borrowings	110,750	154,850	178,200	179,000
Less: current portion of non-current borrowings	(3,000)	(6,650)	(101,900)	(79,100)
	107,750	148,200	76,300	99,900
Current				
Bank borrowings	3,000	—	33,000	33,000
Current portion of non-current borrowings	3,000	6,650	101,900	79,100
	6,000	6,650	134,900	112,100
Total borrowings	**113,750**	**154,850**	**211,200**	**212,000**

As of December 31, 2020, 2021 and 2022 and June 30, 2023, our bank borrowings of RMB110.8 million, RMB154.9 million, RMB208.2 million and RMB209.0 million were at variable interests rate, respectively, and as of the same dates, our bank borrowings of RMB3.0 million, nil, RMB3.0 million and RMB3.0 million were at fixed interests rate, respectively. In 2020, 2021, 2022 and the six months ended June 30, 2023, the annual weighted average effective interest rate for our bank borrowings was approximately 4.6%, 4.0%, 3.9% and 3.7%, respectively. For details, see Note 28(c) to the Accountant's Report in Appendix I to this document.

As of December 31, 2020, 2021 and 2022 and June 30, 2023, our bank borrowings of RMB110.8 million, RMB154.9 million, RMB178.2 million and RMB209.0 million were secured by our buildings, inventories and right of use assets, and guaranteed by certain related parties of our Group. As of June 30, 2023, being the latest practicable date for liquidity disclosure in this document, the outstanding principal amount of such guaranteed loans was RMB46.5 million, of which the guarantees provided by related parties will be released upon the [REDACTED] as confirmed by the relevant banks. See Note 34(e) to the Accountant's Report in Appendix I to this document for information on related parties who guaranteed our bank borrowings.

Trade and Other Payables

Our trade and other payables primarily comprise payables for raw materials and packaging materials, production equipment, logistics services, advertising and promotion fees, processing fees, and deposits from distributors. Deposits from distributors represent cash deposit for performance bond from our distributors. Distributors are required to pay a certain amount of cash deposit for performance bond, which is usually 10% of their estimated annual purchase amount with us, to ensure the proper performance of distribution agreements.

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

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(RMB in thousands)			
Trade payables				
— Third parties	33,553	40,327	94,304	93,807
— Related parties(1)	59	—	26,606	37,504
Other payables				
— Deposits from distributors	44,459	42,801	40,575	38,716
— [REDACTED] expenses payables	—	5,026	9,156	9,297
— Payables for purchase of property, plant and equipment	1,633	3,854	4,375	2,205
— Dividend payables	—	—	—	6,300
— Others	2,824	4,405	6,502	9,744
Employee benefit payables	11,330	15,407	8,796	5,086
Other tax payables	2,510	7,819	12,471	5,348
Total	**96,368**	**119,639**	**202,785**	**208,007**

(1) Amounts due to related parties as of December 31, 2020 represent trade payables for tea wares and utensils; amounts due to related parties as of December 31, 2022 and June 30, 2023 represent trade payables for rough tea leaves.

Our trade and other payables increased by 24.1% from RMB96.4 million as of December 31, 2020 to RMB119.6 million as of December 31, 2021, primarily due to our business expansion, which was reflected by an increase in our trade payables for raw materials and employee benefit payables, resulting from an increase in our sales volume and the number of our employees. Our trade and other payables increased by 69.5% from RMB119.6 million as of December 31, 2021 to RMB202.8 million as of December 31, 2022, primarily because (1) we slowed down the settlement for the purchase of rough tea leaves in light of the uncertainties relating to COVID-19, and due to (2) the increase in consigned processing fees payable to our processing partners, partially offset by the decrease in employee benefit payables as the annual performance bonuses for our employees decreased. Our trade and other payables increased by 2.6% from RMB202.8 million as of December 31, 2022 to RMB208.0 million as of June 30, 2023, primarily due to (1) the increase in trade payables to related parties mostly relating to our procurement with related parties in the first half of 2023, (2) a declared dividend totaling RMB6.3 million, which was settled in July 2023, and (3) increase in monetary rewards for tea sommeliers to be settled, partially offset by the decrease in (i) employee benefit payables due to reduction in bonus in the first half of 2023 and (ii) other tax payables as we paid off value-added tax.

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

	As of December 31,			As of June 30,
	2020	**2021**	**2022**	**2023**
	(RMB in thousands)			
Up to three months	7,712	18,633	36,205	94,270
Three to six months	15,332	4,136	56,319	3,264
Six months to one year	10,568	17,537	28,386	26,905
One year to two years	—	21	—	6,872
Total	**33,612**	**40,327**	**120,910**	**131,311**

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

	Year ended December 31,			Six months ended June 30,
	2020	**2021**	**2022**	**2023**
Trade payables turnover days(1)	107	71	186	248

(1) Trade payables turnover days was calculated based on the average of opening and closing balance of trade payables for the relevant period, divided by the cost of sales for the same period, and multiplied by the number of days in that period.

Our trade payables turnover days decreased from 107 days in 2020 to 71 days in 2021, primarily due to the growth of our business scale that led to an increase in cost of sales. For comparisons of cost of sales during the Track Record Period, see "—Period to Period Comparison of Results of Operations." Our trade payables turnover days increased from 71 days in 2021 to 186 days in 2022, primarily because we slowed down the settlement for the purchase of rough tea leaves in light of the uncertainties relating to COVID-19. Our trade payables turnover days increased from 186 days in 2022 to 248 days in the six months ended June 30, 2023, primarily due to the increase in our trade payables up to three months, primarily representing our purchases of rough tea leaves in the first half of 2023, which had not become due as of June 30, 2023.

As of July 31, 2023, approximately RMB11.7 million, or 8.9%, of our trade payables as of June 30, 2023 had been settled. As of the Latest Practicable Date, we were not aware of any dispute on the outstanding balances of our trade payables.

Contract Liabilities

Our contract liabilities mainly represent advance payments received from our customers. We engage distributors to distribute our products and require prepayment before the delivery of certain products. As of December 31, 2020, 2021, 2022 and June 30, 2023, the revenue generated from our distributors accounted for 79.0%, 80.3%, 72.4% and 75.7% of our total revenue, respectively.

As of December 31, 2020, 2021 and 2022 and June 30, 2023, our contract liabilities was RMB22.1 million, RMB14.9 million, RMB4.9 million and RMB12.8 million, respectively. Our contract liabilities decreased by 32.9% from RMB22.1 million as of December 31, 2020 to RMB14.9 million as of December 31, 2021, primarily because flagship product in 2021, *0085*, was launched in November 2021 and we recognized sales revenue upon delivery before year end. Our contract liabilities further decreased by 66.7% from RMB14.9 million as of December 31, 2021 to RMB4.9 million as of December 31, 2022, primarily due to the decrease in advance payments received from our distributors. Our contract liabilities increased significantly from RMB4.9 million as of December 31, 2022 to RMB12.8 million as of June 30, 2023, primarily due to the increase in advance payments received from our distributors.

As of July 31, 2023, 20.0% of our contract liabilities as of June 30, 2023, or RMB2.6 million, were recognized as revenue.

Lease Liabilities

During the Track Record Period, we leased various properties mainly used as our stores, offices, production facilities and warehousing centers for our business operations. Such lease contracts were entered into for fixed terms of over two years to 20 years. We negotiate lease terms, which include different payment terms and conditions, on an individual basis. In determining the lease term and assessing the length of the non-cancellable period, we apply the definition of a contract and determines the period for which the contract is enforceable. The following table sets forth our lease liabilities as of the dates indicated.

	As of December 31,			As of June 30,
	2020	**2021**	**2022**	**2023**
	(RMB in thousands)			
Lease liabilities				
Current	12,627	22,328	30,457	34,225
Non-current	50,836	106,259	138,754	123,156
	63,463	**128,587**	**169,211**	**157,381**

Our lease liabilities increased from RMB63.5 million as of December 31, 2020 to RMB128.6 million as of December 31, 2021, as we continued to grow our business and leased more properties for our stores, warehouses as well as other business operations. Our lease liabilities further increased to RMB169.2 million as of December 31, 2022, primarily due to the relocation and addition of warehouse sites. Our lease liabilities decreased from RMB169.2 million as of December 31, 2022 to RMB157.4 million as of June 30, 2023 as we paid off rents under these leases.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity and Working Capital

Our primary uses of cash are to fund our working capital requirements, production of tea leaf products and other recurring expenses. During the Track Record Period, we financed our capital expenditures and working capital requirements principally with cash generated from our operating activities and financing activities. Going forward, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, bank borrowings, [REDACTED] from [REDACTED] and other funds raised from the capital markets from time to time. As of December 31, 2020, 2021 and 2022 and June 30, 2023, we had cash and cash equivalents of RMB173.9 million, RMB141.5 million, RMB90.0 million and RMB65.6 million, respectively.

Cash Flows

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

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
				(Unaudited)	
	(RMB in thousands)				
Operating cash flows before movements in working capital[(1)]	168,275	217,443	152,250	63,628	68,460
Adjusted for:					
Changes in working capital[(2)]	(42,480)	(180,927)	(83,339)	(14,454)	(47,923)
Interest and income tax paid	(32,332)	(45,500)	(29,276)	(13,299)	(22,336)
Net cash generated from/(used in) operating activities	93,463	(8,984)	39,635	35,875	(1,799)
Net cash used in investing activities	(20,946)	(56,193)	(76,816)	(52,949)	(4,149)
Net cash (used in)/generated from financing activities	(59,380)	32,812	(14,338)	(20,709)	(18,430)
Net increase/(decrease) in cash and cash equivalents	13,137	(32,365)	(51,519)	(37,783)	(24,378)
Cash and cash equivalents at beginning of the year	160,774	173,911	141,546	141,546	90,027
Cash and cash equivalents at end of the year	173,911	141,546	90,027	103,763	65,649

(1) Our operating cash flows before movements in working capital are the total sum of our Group's profit before income tax, with adjustments made, including depreciation of property, plant and equipment, depreciation of right-of-use assets, amortization of intangible assets, net (reversal of impairment losses)/impairment losses on financial assets, write-down of inventories, remeasurement gains resulting from associates transferred to subsidiaries, impairment losses of right-of-use assets, net losses on disposals of property, plant and equipment, amortization of deferred income, dividend income from financial asset at FVOCI, net gains from disposals of right-of-use assets, fair value change of FVPL, share-based payment expenses, finance costs — net, share of net losses of investments in associates, and interest received.

(2) Our changes in working capital are the total sum of the movements in our Group's trade and other receivables, prepayments, contract liabilities, inventories, deferred income, and trade and other payables.

Operating Activities

Net cash used in operating activities was RMB1.8 million in the six months ended June 30, 2023, primarily reflected our profit before income tax of RMB27.0 million, income tax paid of RMB14.5 million and net interest paid of RMB7.8 million, as adjusted by certain non-cash and non-operating items, primarily including (1) depreciation of right-of-use assets of RMB18.7 million, (2) depreciation of property, plant and equipment of RMB11.1 million, (3) finance costs of RMB7.7 million, and (4) negative changes in working capital. Adjustments for changes in working capital primarily included (1) an increase in inventories of RMB51.6 million and (2) an increase in trade and other receivables of RMB5.9 million, partially offset by an increase in contract liabilities of RMB7.8 million.

Net cash generated from operating activities was RMB39.6 million in 2022, which primarily reflected our profit before income tax of RMB85.4 million, income tax paid of RMB15.8 million and net interest paid of RMB12.8 million, as adjusted by certain non-cash and non-operating items, primarily including (1) depreciation of right-of-use assets of RMB29.8 million, (2) depreciation of property, plant and equipment of RMB18.4 million, (3) finance costs of RMB12.8 million, and (4) negative changes in working capital. Adjustments for changes in working capital primarily included (1) an increase in inventories of RMB148.7 million and (2) an increase in trade and other receivables of RMB10.3 million, partially offset by an increase in trade and other payables of RMB82.6 million. See "—Discussion of Certain Items from the Consolidated Statements of Financial Position—Inventories."

Net cash used in operating activities was RMB9.0 million in 2021, which primarily reflected our profit before income tax of RMB146.3 million, income tax paid of RMB34.7 million and net interest paid of RMB8.7 million, as adjusted by certain non-cash and non-operating items, primarily including (1) depreciation of right-of-use assets of RMB22.6 million, (2) share-based payment expenses of RMB18.0 million, (3) depreciation of property, plant and equipment of RMB12.2 million, (3) finance costs of RMB8.7 million, and (4) negative changes in working capital. Adjustments for changes in working capital primarily included (1) an increase in inventories of RMB166.2 million and (2) an increase in trade and other receivables of RMB22.2 million, partially offset by an increase in trade and other payables of RMB21.0 million. See "—Discussion of Certain Items from the Consolidated Statements of Financial Position—Inventories."

Net cash generated from operating activities was RMB93.5 million in 2020, which primarily reflected our profit before income tax of RMB140.0 million, income tax paid of RMB25.1 million and net interest paid of RMB6.0 million, as adjusted by certain non-cash and non-operating items, primarily including (1) depreciation of right-of-use assets of RMB13.9 million, (2) depreciation of property, plant and equipment of RMB8.7 million, (3) finance costs of RMB6.0 million, and negative changes in working capital. Adjustments for changes in working capital primarily included (1) an increase in inventories of RMB56.1 million and (2) an increase in prepayments of RMB8.8 million, partially offset by (1) an increase in contract liabilities of RMB16.1 million and (2) a decrease in trade and other receivables of RMB7.3 million.

Investing Activities

Net cash used in investing activities was RMB4.1 million in the six months ended June 30, 2023, primarily attributable to payments for purchase of property, plant and equipment of RMB5.3 million.

Net cash used in investing activities was RMB76.8 million in 2022, primarily attributable to (1) purchase of financial assets at fair value through profit or loss of RMB48.0 million, (2) payments for purchase of right-of-use assets of RMB33.8 million, (3) payments for purchase of property, plant and equipment of RMB26.2 million and (4) increase in investments in associates of RMB14.4 million, partially offset by proceeds from disposals of financial assets at fair value through profit or loss of RMB48.1 million.

Net cash used in investing activities was RMB56.2 million in 2021, primarily attributable to (1) payments for purchase of property, plant and equipment of RMB40.7 million and (2) increase in investments in associates of RMB17.1 million, partially offset by proceeds from disposals of property, plant and equipment of RMB1.4 million.

Net cash used in investing activities was RMB20.9 million in 2020, primarily attributable to payments for purchase of property, plant and equipment of RMB22.2 million, partially offset by receipt of government grants in relation to assets of RMB1.0 million.

Financing Activities

Net cash used in financing activities was RMB18.4 million in the six months ended June 30, 2023, primarily attributable to (1) repayments of borrowings of RMB102.2 million and (2) principal elements of lease payments of RMB14.4 million, partially offset by proceeds from borrowings of RMB103.0 million.

Net cash used in financing activities was RMB14.3 million in 2022, primarily attributable to (1) principal elements of lease payments of RMB25.2 million, (2) dividends paid of RMB23.9 million and (3) [REDACTED] expenses paid of RMB17.6 million, partially offset by proceeds from borrowings of RMB63.0 million.

Net cash generated from financing activities was RMB33.0 million in 2021, primarily attributable to (1) proceeds from borrowings of RMB50.3 million and (2) proceeds from issuance of shares for the employee share scheme of RMB30.0 million, partially offset by dividends paid of RMB16.8 million.

Net cash used in financing activities was RMB59.4 million in 2020, primarily attributable to (1) repayments of borrowings of RMB123.2 million, (2) principal elements of lease payments of RMB29.2 million and (3) dividends paid of RMB16.8 million, partially offset by proceeds from borrowings of RMB106.0 million.

Current Assets and Current Liabilities

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

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(RMB in thousands)			
Current assets				
Inventories	470,340	635,670	783,655	834,559
Trade and other receivables	5,805	26,155	35,842	40,704
Prepayments	11,687	23,659	38,249	43,684
Income tax recoverable	1,564	—	—	—
Cash and cash equivalents	173,911	141,546	90,027	65,649
Total current assets	**663,307**	**827,030**	**947,773**	**984,596**
Current liabilities				
Borrowings	6,000	6,650	134,900	112,100
Trade and other payables	96,368	119,639	202,785	208,007
Contract liabilities	22,148	14,864	4,944	12,778
Lease liabilities	12,627	22,328	30,457	34,225
Current income tax liabilities	9,742	8,768	13,445	5,261
Total current liabilities	**146,885**	**172,249**	**386,531**	**372,371**
Net current assets	**516,422**	**654,781**	**561,242**	**612,225**

The increase in our net current assets from RMB516.4 million as of December 31, 2020 to RMB654.8 million as of December 31, 2021 was in line with our business growth. Our net current assets decreased from RMB654.8 million as of December 31, 2021 to RMB561.2 million as of December 31, 2022, primarily due to (1) the increase in our trade and other payables as we slowed down the settlement for the purchase of rough tea leaves in light of the uncertainties relating to COVID-19, as well as (2) the increase in the current portion of our non-current bank borrowings, which was partially offset by the increase in our inventories. Our net current assets increased from RMB561.2 million as of December 31, 2022 to RMB612.2 million as of June 30, 2023, primarily due to (1) the increase in our inventories from RMB783.7 million as of December 31, 2022 to RMB834.6 million as of June 30, 2023, and (2) the decrease in borrowings from RMB134.9 million as of December 31, 2022 to RMB112.1 million as of June 30, 2023.

We intend to continue to finance our working capital with cash generated from our operations, bank borrowings, [REDACTED] from [REDACTED] and other funds raised from the capital markets from time to time. We will closely monitor the level of our working capital, and diligently review future cash flow requirements and adjust our operation and expansion plans, if necessary, to ensure that we maintain sufficient working capital to support our business operations.

Taking into consideration of financial resources presently available to us, our Directors are of the view that the working capital available to our Group, including our available cash and cash equivalents, anticipated cash flow from operations, bank borrowings and [REDACTED] from [REDACTED], will be sufficient to meet our present and anticipated cash requirements and for at least the next 12 months from the date of this document.

Investment Management Policy

We have adopted an internal investment management policy and established a set of internal control measures to allow us to achieve reasonable returns on our investment while mitigating our exposure to high investment risks. Such investment management policy regulates our internal investment decision making procedures and record keeping practices. Under our investment management policy, our senior management is responsible for the overall supervision and management of our investment activities. Depending on, among others, the investment amount, our shareholders, the board of directors and/or the chairman of the board serve as decision-making bodies for our investment activities. No other corporate department or individual employee has authorities to make decisions on our investment activities. Our finance department is responsible for the analysis and research of potential investment opportunities, as well as maintaining financial records pertaining to our investment activities. In the event that we make investments in joint venture companies, we shall participate in and supervise the operation of such investee companies. Any decision to engage in securities investment, entrusted investment or investment in any derivative products must be reviewed by our management and subject to board or shareholder approval, if applicable. Any dealing in securities must be operated by at least two employees, and purchased securities must be recorded under our corporate account the day such purchase is closed. In addition, we have also implemented the following investment management policies:

- Our investment decisions shall be made on a case-by-case basis and after due and careful consideration of several factors, including, but not limited to, the market conditions, the anticipated investment conditions, the investment cost, the duration of the investment, and the expected benefit and potential loss of the investment;

- In the event that the cumulative investment amount of a given year is lower than 5% of our Group's net assets as of the latest audited balance sheet date, the chairman of the board has the sole discretion to make investment decisions. The chairman shall report particulars of such investments to the board of directors afterward;

- In the event that the cumulative investment amount of a given year is lower than 30% of our Group's net assets as of the latest audited balance sheet date, the board of directors has the sole discretion to make investment decisions;

- In the event that the cumulative investment amount of a given year equals to or exceeds 30% of our Group's net assets as of the latest audited balance sheet date, the board of directors shall submit relevant investment plans to the Shareholders' general meeting for consideration and approval;

- Our finance department may engage qualified third-party agencies to facilitate its analysis and research of potential investment opportunities. Our finance department shall report its due diligence and analysis results to appropriate decision-making bodies for their consideration;

- In the event that investment is made with tangible or intangible assets, the asset value shall be evaluated by an asset evaluation agency with relevant qualifications. Such evaluation results shall be reviewed and approved by appropriate decision-making bodies;

- Our senior management shall review the performance of the investment targets and adjust our investment strategies accordingly; and

- Our board of supervisors and the audit department have the right to inspect investment activities.

Our senior management, together with the finance managers of respective subsidiaries of ours, bring a wealth of management expertise and skills from their previous working experience in the financial services sector. In particular, our executive directors, independent non-executive directors and board secretary have investment experience and relevant knowledge that have empowered our past investment activities. For the professional qualifications and experiences of our directors and senior managements, see "Directors, Supervisors and Senior Management."

We believe that our internal policies regarding investment and the related risk management mechanism are adequate. During the Track Record Period, we purchased short-term low-risk wealth management products issued by reputable financial institutions in China with terms typically ranging from one day to 75 days and annualized interest rates ranging from 2.5% to 3.6%. We may continue to invest in similar wealth management products or assets using our surplus cash where we believe it is prudent to do so after the completion of [REDACTED], subject to the compliance requirement under Chapter 14 of the Listing Rules. We expect to comply with such applicable requirements, including the relevant size test requirements.

CAPITAL EXPENDITURES AND COMMITMENTS

Capital Expenditures

Our capital expenditures during the Track Record Period consisted primarily of payments for purchase of right-of-use assets, purchase of property, plant and equipment and purchase of intangible assets, and amounted to RMB22.2 million, RMB41.5 million, RMB63.0 million and RMB5.3 million in 2020, 2021, 2022 and the six months ended June 30, 2023, respectively. We funded our capital expenditure requirements during the Track Record Period mainly from cash generated from our operating activities and financing activities. We plan to fund our planned capital expenditure by using the cash flow generated from our operations, bank borrowings and the [REDACTED] received from [REDACTED].

Operating Leases Commitments

Our operating leases commitments primarily related to our non-cancellable short-term operating leases of our self-operated stores, office spaces and production facilities for our business operations. The future aggregate minimum lease payments of our Group under non-cancellable short-term operating leases are as follows.

	As of December 31,			As of June 30,
	2020	**2021**	**2022**	**2023**
		(RMB in thousands)		
No later than one year	420	1,873	334	514

For details, see Note 33(a) to the Accountant's Report in Appendix I to this document.

Capital Commitments

Our capital commitments primarily related to the construction of plants which had been contracted but not yet paid for and purchase of properties. The following table sets forth a summary of our capital commitments as of the dates indicated.

	As of December 31,			As of June 30,
	2020	**2021**	**2022**	**2023**
		(RMB in thousands)		
Property, plant and equipment	8,416	9,733	10,766	14,196

For details, see Note 33(b) to the Accountant's Report in Appendix I to this document.

INDEBTEDNESS

Our indebtedness during the Track Record Period consisted primarily of bank borrowings and lease liabilities. The following table sets forth a breakdown of our indebtedness as of the dates indicated.

	As of December 31,			As of June 30,
	2020	**2021**	**2022**	**2023**
	(RMB in thousands)			
Current indebtedness				
Bank borrowings	6,000	6,650	134,900	112,100
Lease liabilities	12,627	22,328	30,457	34,225
Subtotal	18,627	28,978	165,357	146,325
Non-current indebtedness				
Bank borrowings	107,750	148,200	76,300	99,900
Lease liabilities	50,836	106,259	138,754	123,156
Subtotal	158,586	254,459	215,054	223,056
Total	**177,213**	**283,437**	**380,411**	**369,381**

In 2020, 2021, 2022 and the six months ended June 30, 2023, the annual weighted average effective interest rate for our bank borrowings was approximately 4.6%, 4.0%, 3.9% and 3.7%, respectively. For details, see Note 28(c) to the Accountant's Report in Appendix I to this document.

As of June 30, 2023, we had RMB1.0 million of unutilized and unrestricted bank borrowings.

Save as disclosed above, we had no bank loans or other borrowings, or any other loan capital issued and outstanding or agreed to be issued, bank overdrafts, borrowings or similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases, guarantees or other material contingent liabilities. Our Directors confirm that there has not been any material change in our indebtedness since June 30, 2023. The bank borrowings contain customary covenants, and we were in compliance with such covenants in all material respects during the Track Record Period and up to the Latest Practicable Date.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of our Group.

[REDACTED]

We expect to incur a total of RMB[REDACTED] million of [REDACTED] (assuming an [REDACTED] of HK$[REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED] range between HK$[REDACTED] and HK$[REDACTED], and assuming that [REDACTED] is not exercised) until the completion of the [REDACTED]. We recognized [REDACTED] of RMB[REDACTED] million and RMB[REDACTED] million in our consolidated statement of comprehensive income for the year ended December 31, 2022 and the six months ended June 30, 2023, respectively. We estimate that RMB[REDACTED] million of [REDACTED] will be charged to our consolidated statement of comprehensive income after the Track Record Period. The remaining RMB[REDACTED] million is directly attributable to the [REDACTED] of our [REDACTED] to the public and is expected to be deducted from equity.

[REDACTED] include RMB[REDACTED] million of fees for legal advisors and the Reporting Accountant, RMB[REDACTED] million of other fees unrelated to the [REDACTED], and RMB[REDACTED] million of [REDACTED] payable to the [REDACTED] and transaction fees (including SFC transaction levy, AFRC transaction levy, and Stock Exchange trading fee) in connection with the [REDACTED] of [REDACTED] under the [REDACTED]. The [REDACTED] above represent approximately [REDACTED]% of our [REDACTED] from the [REDACTED] and are the best estimate as of the Latest Practicable Date and for reference only. The actual amount may differ from this estimate.

KEY FINANCIAL RATIOS

	As of/for the year ended December 31,			As of/for the six months ended June 30,	
	2020	2021	2022	2022	2023
				(Unaudited)	
Profitability ratios					
Gross profit margin(1)	70.4%	65.9%	65.9%	60.9%	60.3%
Net profit margin(2)	30.3%	23.1%	15.2%	13.3%	10.2%
Return on equity(3)	23.0%	19.2%	9.1%	N.M.(7)	N.M.(7)
Return on total assets(4)	14.7%	12.3%	5.4%	N.M.(7)	N.M.(7)
Liquidity ratios					
Current ratio(5)	4.5x	4.8x	2.5x	N/A	2.6x
Gearing ratio(6)	16.2%	17.0%	20.9%	N/A	20.6%

(1) The calculation of gross profit margin is based on gross profit for the period divided by revenue for the respective period and multiplied by 100%.

(2) The calculation of net profit margin is based on profit for the period divided by revenue for the respective period and multiplied by 100%.

(3) The calculation of return on equity is based on profit or loss for the period divided by average total equity attributable to equity holders of our Company as of the beginning and end of the period and multiplied by 100%.

(4) The calculation of return on total assets is based on profit for the period divided by the average of opening and closing balance of total assets of the same period and multiplied by 100%.

(5) The calculation of current ratio is based on current assets divided by current liabilities as of period end.

(6) The calculation of gearing ratio is based on total borrowings divided by total equity plus total borrowings as of period end and multiplied by 100%.

(7) Return on equity and return on total assets ratios for the six months ended June 30, 2022 and 2023 are not meaningful as they are not comparable to annual ratios.

Analysis of Key Financial Ratios

Gross Profit Margin and Net Profit Margin

See "—Period to Period Comparison of Results of Operations" for a discussion of the factors affecting our gross profit margin and net profit margin during the Track Record Period.

Return on Equity and Return on Total Assets

Our return on equity ratio was 23.0%, 19.2% and 9.1% as of December 31, 2020, 2021 and 2022, respectively. Our return on equity ratio decreased from 23.0% as of December 31, 2020 to 19.2% as of December 31, 2021, primarily due to the growth rate of our total equity which outpaced the growth of our net profit. The increase in our total equity was primarily due to an increase in retained earnings, which were in line with our increased net profit, and an increase in other reserves attributable to increased share-based payment. Our return on equity ratio decreased from 19.2% as of December 31, 2021 to 9.1% as of December 31, 2022, primarily due to the decrease in our net profit in 2022.

Our return on total assets was 14.7%, 12.3% and 5.4% as of December 31, 2020, 2021 and 2022, respectively. Our return on total assets decreased from 14.7% as of December 31, 2020 to 12.3% as of December 31, 2021, primarily due to an increase in our inventories and right of use assets, partially offset by our increased net profit. Our return of total assets decreased from 12.3% as of December 31, 2021 to 5.4% as of December 31, 2022, primarily due to the decrease in our net profit in 2022 and the increase in our total assets primarily attributable to the increase in our inventories.

Current Ratio and Gearing Ratio

Our current ratio was 4.5x, 4.8x, 2.5x and 2.6x as of December 31, 2020, 2021 and 2022 and June 30, 2023. Our current ratio increased from 4.5x as of December 31, 2020 to 4.8x as of December 31, 2021, primarily due to the growth of our current assets which outpaced the growth of current liabilities, largely due to an increase in inventories. Our current ratio decreased from 4.8x as of December 31, 2021 to 2.5x as of December 31, 2022, primarily because the growth of our current liabilities outpaced the growth of our current assets, largely due to the significant increases in the current portion of bank borrowings and trade and other payables. Our current ratio increased from 2.5x as of December 31, 2022 to 2.6x as of June 30, 2023, primarily because the growth of our current assets outpaced the growth of our current liabilities, primarily due to an increase in inventories.

Our gearing ratio was 16.2%, 17.0%, 20.9% and 20.6% as of December 31, 2020, 2021 and 2022 and June 30, 2023. Our gearing ratio increased from 16.2% as of December 31, 2020 to 17.0% as of December 31, 2021, and further to 20.9% as of December 31, 2022, primarily because the growth of our bank borrowings outpaced the growth of our total equity. Our gearing ratio decreased from 20.9% as of December 31, 2022 to 20.6% as of June 30, 2023, primarily due to an increase in our total equity.

RELATED PARTY TRANSACTIONS

For details of our related party transactions, see Note 34 to the Accountant's Report in Appendix I to this document. Our Directors believe that each of the related party transactions was conducted in the ordinary course of business on an arm's length basis. Our Directors are of the view that related party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance. See "Business—Raw Materials, Packaging Materials and Suppliers—Our Suppliers—Major Suppliers."

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

DISTRIBUTABLE RESERVES

As of June 30, 2023, our Company had no distributable reserves.

DIVIDENDS

According to the Articles of Association and applicable laws and regulations, our profit distribution proposal is formulated by our Board, and upon approval by the Board and the Board of Supervisors, it is submitted to a Shareholders' general meeting for consideration where it must be passed by Shareholders representing more than half of the voting rights of the Shareholders who attend the general meeting. Our Board will declare dividends, if any, in RMB with respect to the H Shares on a per Share basis and will pay such dividends in Hong Kong dollars. All of our Shareholders have equal rights to distributable profits, and our profits will be distributed on a pro-rata basis.

Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the discretion of our Board. Both current and new Shareholders are entitled to our accumulated retained earnings prior to the [REDACTED], subject to compliance with our Articles of Association and relevant regulatory requirements.

During the Track Record Period, we declared dividends to our Shareholders of RMB16.8 million, RMB16.8 million, RMB23.9 million and RMB6.3 million in 2020, 2021, 2022 and the six months ended June 30, 2023, respectively, in light of our cumulative business growth. All of such dividends declared during the Track Record Period had been fully settled by bank transfer to our Shareholders as of the Latest Practicable Date. See also Note 13 to the Accountant's Report in Appendix I to this document.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there were no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or [REDACTED] position since June 30, 2023 (being the date on which the latest audited consolidated financial information of our Group was prepared) and there is no event since June 30, 2023 which would materially affect the information shown in our consolidated financial statements included in the Accountant's Report in Appendix I to this document.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a variety of financial risks, including market risk, credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Risk management is carried out by our management.

Credit Risk

We are primarily exposed to credit risk in relation to our trade and other receivables. Our trade receivables are mainly from sales of tea leaf products and the other receivables are mainly from rental deposits. For trade receivables, our management makes periodic assessments on the recoverability based on historical settlement records and past experience and adjusts for forward looking information. The increase in expected credit loss rate for our trade and notes receivables aged between 91 to 180 days past due from 2020 to 2021 was primarily due to the fact that a larger portion of our trade and notes receivables within this band as of December 31, 2021 were with higher credit risk. Nonetheless, our management has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, our Group reviews the expected credit losses of these receivables at the end of each reporting period to ensure that adequate impairment losses are made. In this regard, our Directors consider that our Group's credit risk is significantly reduced. For further details, please refer to Note 3.1 to the Accountant's Report in Appendix I to this document.

Liquidity Risk

To manage the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our Group's operations and mitigate the effects of fluctuations in cash flows. The table below analyses our financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position dates to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. For details, see Note 3.1 to the Accountant's Report in Appendix I to this document.

	Within one year	Between one and two years	Between two and five years	Over five years	Total
	(RMB in thousands)				
As of December 31, 2020					
Borrowings and interests	10,545	10,387	102,878	—	123,810
Lease liabilities	15,438	12,106	32,258	13,647	73,449
Trade and other payables[1]	82,528	—	—	—	82,528
	108,511	**22,493**	**135,136**	**13,647**	**279,787**
As of December 31, 2021					
Borrowings and interests	12,474	105,040	46,882	—	164,396
Lease liabilities	27,914	27,382	61,105	36,631	153,032
Trade and other payables[1]	96,413	—	—	—	96,413
	136,801	**132,422**	**107,987**	**36,631**	**413,841**
As of December 31, 2022					
Borrowings and interests	140,059	77,374	—	—	217,433
Lease liabilities	38,399	39,292	82,713	36,264	196,668
Trade and other payables[1]	181,518	—	—	—	181,518
	359,976	**116,666**	**82,713**	**36,264**	**595,619**
As of June 30, 2023					
Borrowings and interests	118,731	6,764	99,538	—	225,033
Lease liabilities	39,933	41,355	73,452	22,313	177,053
Trade and other payables[1]	197,573	—	—	—	197,573
	356,237	**48,119**	**172,990**	**22,313**	**599,659**

(1) Excluded employee benefit payable and other tax payables.

UNAUDITED [REDACTED] ADJUSTED NET TANGIBLE ASSETS

The following unaudited [REDACTED] adjusted net tangible assets of the Group has been 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 audited 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 June 30, 2023, assuming the [REDACTED] is not exercised.

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

	Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at June 30, 2023[1]	Estimated [REDACTED] from the [REDACTED][2]	Unaudited [REDACTED] adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at June 30, 2023	Unaudited [REDACTED] adjusted net tangible assets per Share[3]	
		(RMB in thousands)		*(RMB)*	*(HK$)[4]*
Based on an [REDACTED] of HK$[REDACTED] per Share	808,503	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK$[REDACTED] per Share	808,503	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

(1) The audited consolidated net tangible assets of the Group attributable to the owners of the Company as of June 30, 2023 is extracted from the Accountant's Report set out in Appendix I to this document, 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 approximately RMB811.4 million with adjustment for intangible assets of approximately RMB2.9 million.

(2) The estimated [REDACTED] from the [REDACTED] are based on [REDACTED] and the indicative [REDACTED] of HK$[REDACTED] per Share and HK$[REDACTED] per Share, being low and high end of the indicative [REDACTED] range, after deduction of the [REDACTED] fees and other related expenses (excluding [REDACTED] of approximately [REDACTED] which have been recognized in the consolidated statements of comprehensive income up to the six months ended June 30, 2023) and takes no account of any Shares which may be issued upon the exercise of the [REDACTED] or any Shares which may be issued or repurchased by the Company.

(3) The unaudited [REDACTED] net tangible assets of the Group 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] has been completed on June 30, 2023 but takes no account of any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] or any Shares which may be issued or repurchased by the Company.

(4) For the purpose of this unaudited [REDACTED] adjusted net tangible assets per Share, the balances stated in Renminbi are converted into Hong Kong dollars at a rate of RMB0.91550 to HK$1.00, as set out in "Information about this Document and the [REDACTED]" to this document. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(5) No adjustment has been made to the unaudited [REDACTED] adjusted net tangible assets per Share to reflect any [REDACTED] result or other transaction of the Group entered into subsequent to June 30, 2023.

FUTURE PLANS

See "Business—Business Strategies" for a detailed description of our future plans.

[REDACTED]

We estimate that the [REDACTED] of the [REDACTED], after deducting the estimated [REDACTED] and other fees and expenses payable by us in connection with the [REDACTED], will be approximately HK$[REDACTED] million, assuming an [REDACTED] of HK$[REDACTED] per Share (being the mid-point of the indicative range of the [REDACTED] of HK$[REDACTED] to HK$[REDACTED] per Share), and that the [REDACTED] is not exercised.

We currently intend to use the [REDACTED] from the [REDACTED] for the purposes and in the amounts as set out below, subject to changes in light of our business needs and changing market conditions, and any shortfall will be funded from cash generated from our operating activities and financing activities.

	For the year ending December 31,		
	2023	2024	2025
	(HK$ in millions)		
Building modernized logistics and warehousing centers and new production facilities and upgrading current production facilities	[REDACTED]	[REDACTED]	[REDACTED]
Sales channel building	[REDACTED]	[REDACTED]	[REDACTED]
Brand building and product marketing	[REDACTED]	[REDACTED]	[REDACTED]
Strategic investments in and acquisitions of business opportunities in the tea industry	[REDACTED]	[REDACTED]	[REDACTED]
Upgrading information technology infrastructure and strengthening research and development capabilities	[REDACTED]	[REDACTED]	[REDACTED]
Working capital and other general corporate purposes	[REDACTED]	[REDACTED]	[REDACTED]
Total	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

The basis and details of our estimated use of the [REDACTED] are set out as below:

- approximately [REDACTED]% of the [REDACTED], or [REDACTED], will be used for building modernized logistics and warehousing centers, building new production facilities and upgrading our current production facilities to increase our production capacity. More specifically:

  (i) approximately [REDACTED]% of the [REDACTED], or approximately [REDACTED], to be used for building modernized logistics and warehousing centers by (1) building a logistics and warehousing center on an acquired parcel with an aggregate area of approximately 20,000 square meters in Pu'er within the next three years, and (2) leasing another logistics and e-commerce center with an aggregate area of approximately 24,000 square meters in Foshan, Guangdong within the next three years.

Our planned logistics and e-commerce center in Foshan is intended to replace certain old logistics and warehousing centers in Foshan and Guangzhou, all of which are in the vicinity of such planned center. As of December 31, 2020, 2021 and 2022 and June 30, 2023, the utilization rate of our existing logistics and warehousing centers was approximately 75.5%, 78.5%, 72.7% and 77.8%, respectively, calculated by dividing the weight of total inventory as of a given date by the maximum weight of the inventory that could be stored in our existing logistics and warehousing centers as of that date. During the Track Record Period, the utilization rate of our existing logistics and warehousing centers remained stable at approximately 75%, primarily because we reserved large spaces in certain logistics and warehousing centers that mainly stored finished products under *Tea Mama*, the size of which is generally larger than that of others, to facilitate fast warehousing inbound and outbound flow of such finished products, which includes frequent receiving, putaway, storage, picking, packing and shipping processes, ensuring the overall efficiency in these warehousing centers. In addition, most of our logistics and warehousing centers had been highly utilized during the Track Record Period, reaching a utilization rate of approximately 90%.

In addition to the warehousing function, such center also serves as a base for our e-commerce operations. More specifically, we designated approximately 19.0% of the aggregate area of such center as an e-commerce base to support our e-commerce operations, for which we recruited additional talents in 2022. As of the Latest Practicable Date, all members of our e-commerce team had been assigned to work at our ecommerce base, ensuring efficiency in daily e-commerce operations, covering product development, sales operations, and packaging and shipping. With such e-commerce base, we have been able to strategically and efficiently manage and operate our self-operated online stores in all material aspects. Leveraging our e-commerce team's insights into the e-commerce live streaming industry, we have been able to efficiently organize live streaming sessions on major e-commerce platforms to market and sell our products, attracting considerable consumer traffic to our self-operated online stores. In addition, designating such e-commerce base within the logistics and e-commerce center in Foshan enables us to better respond to the higher logistics speed demand from our customers, so as to adapt promptly to changing e-commerce live streaming industry. We believe that this strategy makes it possible for us to comprehensively and efficiently manage and promote the development of our ecommerce operations.

As of the Latest Practicable Date, our planned logistics and warehousing center in Pu'er was in the phase of designing and we plan to start the preliminary construction process in 2024. As of the same date, we had primarily incurred land acquisition cost of RMB7.5 million for such center in Pu'er. For our planned logistics and e-commerce center in Foshan, we entered into a leasing agreement, pursuant to which, the lease term has commenced since October 2022. As of the Latest Practicable Date, we had paid a lease deposit of RMB2.9 million, renovation fee of RMB13.9 million and rent of RMB8.3 million for such center in Foshan.

In addition, we intend to equip our two planned logistics and warehousing centers with digitalized systems and equipment, such as transportation management system and warehouse management system, in order to enhance the delivery and storage capacities of such centers.

The following table sets forth a breakdown of our implementation plan to build modernized logistics and warehousing centers from 2023 to 2025, based on our current estimation, which is subject to changes based on our actual needs and market conditions at the relevant time.

	For the year ending December 31,		
	2023	2024	2025
	(HK$ in millions)		
Planned logistics and warehousing center in Pu'er	[REDACTED]	[REDACTED]	[REDACTED]
Primary construction	*[REDACTED]*	*[REDACTED]*	*[REDACTED]*
Equipment procurement	*[REDACTED]*	*[REDACTED]*	*[REDACTED]*
Testing costs	*[REDACTED]*	*[REDACTED]*	*[REDACTED]*
Planned logistics and e-commerce center in Foshan	[REDACTED]	[REDACTED]	[REDACTED]
Leasing fee	*[REDACTED]*	*[REDACTED]*	*[REDACTED]*
Digitalized systems and equipment	[REDACTED]	[REDACTED]	[REDACTED]
Total	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

The following table sets forth details of equipment to be procured for our planned logistics and warehousing center in Pu'er.

Type of equipment	Number of units
Temperature and humidity monitoring equipment	4
Air conditioner	8
Three-dimensional shelf	8
Warehouse stacker	4
Conveying equipment	4
Automatic guided vehicle	8
Warehouse robot with six degrees of freedom	4
QR code laser machine	4
Temperature and humidity measuring equipment	10
Forklift	4
Centrifugal fan	8
UV sterilization equipment	8
Self-checking scale	4
Replacement parts	1
Elevator	4
Electric power distribution system	1
Environmental protection equipment	1
Security and fire protection system	1
Water supply and drainage system	1
Occupational safety facility	1

After the completion of the construction for our planned logistics and warehousing center in Pu'er, we expect that our overall warehousing capacity would increase by 57.1% from 5,776 tonnes as of June 30, 2023 to 9,076 tonnes as of December 31, 2025. Our planned logistics and e-commerce center in Foshan would not contribute to our overall warehousing capacity as it is intended to replace certain old logistics and warehousing centers for improving our warehousing efficiency;

(ii) approximately [REDACTED]% of the [REDACTED], or approximately HK$[REDACTED] million, to be used for building a new production base with an aggregate area of at least 10,000 square meters in Guangdong for the later production stage of Chenpi Pu'er tea products, which we currently outsource to a third party processing partner, as we expect to continue to expand the production volume of *Little Green Mandarin* and, thus, require a stable supply of greater production capacity for such product. We plan to establish such production base in Guangdong, primarily because we source mandarins used for producing our *Little Green Mandarin* from Xinhui, Guangdong. The establishment of such production base ensures the freshness of Xinhui mandarins and improves the supply chain management efficiency as we could benefit from the well-established supply chain industry in Guangdong. As of the Latest Practicable Date, we had not identified any potential site for building a new production base and had not incurred any cost for such planned production base.

The following table sets forth a breakdown of our implementation plan to build a new production base from 2024 to 2025, based on our current estimation, which is subject to changes based on our actual needs and market conditions at the relevant time.

	For the year ending December 31,	
	2024	2025
	(HK$ in millions)	
Land acquisition cost	[REDACTED]	[REDACTED]
Primary construction	[REDACTED]	[REDACTED]
Equipment procurement and installation	[REDACTED]	[REDACTED]
Miscellaneous cost	[REDACTED]	[REDACTED]
Total	**[REDACTED]**	**[REDACTED]**

The following table sets forth details of equipment to be procured for our planned production base.

Type of equipment	Number of units
Environmentally friendly dehydration dryer	5
Dryer for mandarins	5
Fruit cleaner and selector	5
Automatic tea filler	5
Sieving machine	5
Automatic fruit digger	5

After the completion of the construction of the new production base, we expect that our production capacity for such products would increase by 66.7% from approximately 90.0 tonnes to 150.0 tonnes. We estimate that such production base would reach breakeven in the first year of running and its investment payback period would be around four years, assuming that such production base will be running at an utilization rate of 90.0%.

(iii) approximately [REDACTED]% of the [REDACTED], or approximately [REDACTED], to be used for the upgrading and expansion of our existing production facilities and equipment in Yunnan. In particular, we plan to (1) procure additional white tea and black tea production lines for improving our production capacity of such products, and (2) replace certain obsolete equipment with automatic production equipment for improving our overall production efficiency.

The following table sets forth a breakdown of our implementation plan to upgrade and expand our existing production facilities and equipment in Yunnan from 2024 to 2025, based on our current estimation, which is subject to changes based on our actual needs and market conditions at the relevant time.

	For the year ending December 31,	
	2024	2025
	(HK$ in millions)	
Additional white tea and black tea production lines	[REDACTED]	[REDACTED]
Replacement for obsolete equipment	[REDACTED]	[REDACTED]
Total	**[REDACTED]**	**[REDACTED]**

The following table sets forth details of equipment to be procured for replacing certain obsolete equipment.

Type of equipment	Number of units
Fermented tea leaf sorting equipment	2
Energy-saving compressing machine	1
Dust collection equipment	3
Heat pump dryer	3
Fire protection equipment	1
Intelligent tea color sorter	4
Smart packaging line	4
Rough tea leaves sieving machine	4

According to the F&S Report, the market size of white tea in China had experienced significant increase from 2017 to 2022. In particular, the market size of China's white tea market in terms of revenue increased from RMB3.7 billion in 2017 to RMB14.0 billion in 2022 at a CAGR of 30.6%, and is expected to reach RMB30.9 billion in 2027 at a CAGR of 17.1% from 2022 to 2027. According to the same source, Pu'er tea in China has experienced general growth, indicating a healthy growth potential. The market size of China's Pu'er tea market in terms of revenue increased from RMB11.5 billion in 2017 to RMB17.4 billion in 2022 at a CAGR of 8.6%, and is expected to reach RMB24.4 billion in 2027 at a CAGR of 7.0% from 2022 to 2027. Based on the expected growth in China's white tea and Pu'er tea markets in the next five years, our Directors are of the view that there will be sufficient market demand for our tea leaf products. In addition, according to the F&S Report, China's Pu'er tea market is highly fragmented. We believe that we can capture the growing industry trend towards consolidation in this highly competitive yet fragmented market by focusing on sales channel building, brand building and product marketing, as well as strategic investments in and acquisitions of business opportunities in the tea industry that have synergy with our business.

- approximately [REDACTED]% of the [REDACTED], or [REDACTED], will be used for sales channel building in an effort to optimize our national sales network and enhance customer experience as well as our offline stores' sales capabilities. More specifically:

  (i) approximately [REDACTED]% of the [REDACTED], or approximately [REDACTED], to be used for optimizing our national sales network by adopting differentiated online and offline strategies for different product lines.

  - For *1966*, we plan to optimize our offline sales network by opening more offline self-operated stores and further broaden our online sales channel matrix for *1966* to empower our offline stores through leverage of online traffics. We plan to utilize the [REDACTED] from the [REDACTED] to open additional 15 to 20 offline self-operated stores for *1966*.

  - For *Tea Mama*, we plan to open product-line-specific offline self-operated stores that exclusively sell products under *Tea Mama* for its offline expansion. We plan to utilize the [REDACTED] from the [REDACTED] to open 50 to 60 stores of such kind. At the same time, we will continue the online expansion for *Tea Mama* by establishing one to three self-operated online stores on major e-commerce platforms and engaging more platform-operated online stores as our key account customers.

  - For *Iland Tea*, which we launched in July 2022, we plan to lay a solid foundation for this new product line mainly through online marketing and sales. In particular, we plan to utilize the [REDACTED] from the [REDACTED] to open three to five product-line-specific online self-operated stores that exclusively sell products under *Iland Tea*.

  The following table sets forth a breakdown of our implementation plan to optimize our national sales network from 2023 to 2025, based on our current estimation, which is subject to changes based on our actual needs and market conditions at the relevant time.

	For the year ending December 31,	
	2024	**2025**
	(HK$ in millions)	
Offline self-operated stores for *1966*	[REDACTED]	[REDACTED]
Product-line-specific online and offline self-operated stores for *Tea Mama*	[REDACTED]	[REDACTED]
Product-line-specific online self-operated stores for *Iland Tea*	[REDACTED]	[REDACTED]
Total	**[REDACTED]**	**[REDACTED]**

(ii) approximately [REDACTED]% of the [REDACTED], or approximately [REDACTED], to be used for continued investment in tea culture popularization and improvement of the training and development system for tea sommeliers and store managers working in our offline stores, striving to improve the sales and servicing capabilities of our offline stores. In particular, we plan to strengthen our tea sommeliers' knowledge and skills in tea culture by increasing training hours for online and offline training sessions and providing outstanding tea sommeliers' with incentive bonuses. In addition, we plan to provide store managers with online and offline management trainings and rewards for their contribution to our business growth.

The following table sets forth a breakdown of our implementation plan for the enhancement of customer experience as well as our offline stores' sales capabilities from 2023 to 2025, based on our current estimation, which is subject to changes based on our actual needs and market conditions at the relevant time.

	For the year ending December 31,	
	2024	**2025**
	(HK$ in millions)	
Online and offline training sessions for tea sommeliers	[REDACTED]	[REDACTED]
Incentive bonuses for outstanding tea sommeliers	[REDACTED]	[REDACTED]
Online and offline management trainings and rewards for store managers	[REDACTED]	[REDACTED]
Total	**[REDACTED]**	**[REDACTED]**

- approximately [REDACTED]% of the [REDACTED], or HK$[REDACTED] million, will be used for brand building and product marketing. We will increase our efforts on brand building to raise our brand awareness and market visibility. We will also increase our efforts on product marketing through continued creation of high quality marketing content. More specifically:

  (i) approximately [REDACTED]% of the [REDACTED], or approximately [REDACTED], to be used for continued brand building and marketing for mature product line (*i.e.*, *1966*), including offline cultural events, traditional advertising campaigns, product placement in movies or TV series, sport event sponsorship, crossover collaboration and gift customization; and

(ii) approximately [REDACTED]% of the [REDACTED], or approximately [REDACTED], to be used for brand building and marketing for emerging product lines (*i.e.*, *Tea Mama* and *Iland Tea*), through a series of integrated branding and marketing activities, such as social media marketing, celebrity endorsement and offline marketing campaigns and events. In particular, we plan to operate official accounts on major social media platforms to increase our online interactions with customers and cooperate with influencers to create high quality marketing content. We also plan to increase and concentrate our offline marketing spending on organizing campaigns and events in places where our targeting consumers spend more time.

The following table sets forth a breakdown of our implementation plan for brand building and product marketing from 2023 to 2025, based on our current estimation, which is subject to changes based on our actual needs and market conditions at the relevant time.

	For the year ending December 31,	
	2024	**2025**
	(HK$ in millions)	
Brand building and marketing for *1966*	[REDACTED]	[REDACTED]
Brand building and marketing for *Tea Mama* and *Iland Tea*	[REDACTED]	[REDACTED]
Total	**[REDACTED]**	**[REDACTED]**

- approximately [REDACTED]% of the [REDACTED], or [REDACTED], will be used for strategic investments in and acquisitions of business opportunities in the tea industry that have synergy with our business, including and not limited to companies that manufacture products we currently do not produce but intent to produce in the future, such as tea-pairing food. When assessing the investment or acquisition opportunities, we will primarily take into consideration (1) product portfolio of the target, (2) market shares of such products, (3) business scale, (4) growth potential, (5) synergy with our business, (6) financial condition and valuation, and (7) any potential tax or financial impact such investment or acquisition may have on us. We do not consider tea leaf cooperatives as potential acquisition targets, although we intend to maintain and further strengthen our long-term relationships with tea leaf cooperatives. As of the Latest Practicable Date, we have not identified any investment or acquisition target or enter into any definitive investment or acquisition agreement;

- approximately [REDACTED]% of the [REDACTED], or [REDACTED], will be used for upgrading our information technology infrastructure and further strengthening our research and development capabilities. More specifically:

  (i) approximately [REDACTED]% of the [REDACTED], or approximately [REDACTED], to be used for upgrading our information platform. More specifically, we plan to:

  - continue to integrate the best practice of our sales management into our information management system to improve our responsiveness to the evolving market trends and operational efficiency by purchasing hybrid cloud services;

  - leverage our database and big data platform to help us complete sales analysis, performance evaluation and incentivization of sales personnel and closely monitor sales channels by upgrading the underlying architecture of our enterprise resource planning system (the "ERP system"); and

  - recruit additional two IT specialists who will be responsible for the day-to-day maintenance of our information technology infrastructure, ensuring the proper operation of such infrastructure. Ideal candidates for such positions shall have at least one-year relevant experience or a bachelor's degree or above. We expect to provide such candidates with an annual salary of approximately RMB0.2 million.

  The following table sets forth a breakdown of our implementation plan for upgrading our information technology infrastructure from 2024 to 2025, based on our current estimation, which is subject to changes based on our actual needs and market conditions at the relevant time.

	For the year ending December 31,	
	2024	**2025**
	(HK$ in millions)	
Purchase of hybrid cloud services	[REDACTED]	[REDACTED]
Upgrading of the underlying architecture of the ERP system	[REDACTED]	[REDACTED]
IT specialist recruitment	[REDACTED]	[REDACTED]
Total	**[REDACTED]**	**[REDACTED]**

(ii) approximately [REDACTED]% of the [REDACTED], or approximately [REDACTED], to be used for purchase of materials such as selected or premium rough tea leaves and equipment such as atomic absorption spectrometers, Soxhlet extractors and microwave digestion system for research and development purpose, strengthening our product development and iteration capabilities, and recruiting and training more talents for research and development. In particular, we plan to expand our research and development team by recruiting additional five R&D personnel. Ideal candidates for such positions shall have at least one-year relevant industry experience or a bachelor's degree or above. We expect to provide such candidates with an annual salary of approximately RMB0.3 million. In addition, we plan to strengthen our cooperation with elite universities to promote industry-university-research initiatives by providing donations to such universities. We believe that through the implementation of these measures, we could enhance our research and development capabilities, and therefore, allowing us to shorten the research and development cycle for next-generation products.

The following table sets forth a breakdown of our implementation plan for strengthening our research and development capabilities from 2024 to 2025, based on our current estimation, which is subject to changes based on our actual needs and market conditions at the relevant time.

	For the year ending December 31,	
	2024	**2025**
	(HK$ in millions)	
Research and development equipment procurement	[REDACTED]	[REDACTED]
Talent recruitment	[REDACTED]	[REDACTED]
Cooperation with elite universities	[REDACTED]	[REDACTED]
Material procurement for research and development	[REDACTED]	[REDACTED]
Total	**[REDACTED]**	**[REDACTED]**

(iii) approximately [REDACTED]% of the [REDACTED], or approximately [REDACTED], to be used for upgrading the management system underlying our membership program to enable us to gain insights into consumer preferences and enable distributors to provide individualized services in a manner compliance with data privacy regulations; and

- approximately [REDACTED]% of the [REDACTED], or [REDACTED], to be used for working capital and other general corporate purposes.

FUTURE PLANS AND [REDACTED]

The above allocation of the [REDACTED] will be adjusted on a pro rata basis in the event that the [REDACTED] is fixed below or above the mid-point of the indicative price range. Any additional [REDACTED] received from the exercise of the [REDACTED] will also be allocated to the above purposes on a pro rata basis. In the event that the [REDACTED] is exercised in full, we will receive [REDACTED] of [REDACTED] (after deducting the estimated [REDACTED] and other fees and expenses payable by us in connection with the [REDACTED] and assuming an [REDACTED] of [REDACTED] per Share, being the mid-point of our indicative [REDACTED] range).

To the extent that the [REDACTED] of the [REDACTED] are not immediately required for the above purposes or if we are unable to put into effect any part of our plan as intended, we will hold such funds in short-term interest-bearing accounts at licensed commercial banks and/or other authorized financial institutions as defined under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) or any other applicable laws and regulations. We will issue announcements, where required, if there is any material change in the [REDACTED] mentioned above.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

The following is the text of a report set out on pages [I-1] to [I-3], received from the Company's reporting accountant, [PricewaterhouseCoopers], Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

[Letterhead of PricewaterhouseCoopers] [DRAFT]

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF PU'ER LANCANG ANCIENT TEA CO., LTD. AND CHINA SECURITIES (INTERNATIONAL) CORPORATE FINANCE COMPANY LIMITED AND CHINA MERCHANTS SECURITIES (HK) CO., LIMITED

Introduction

We report on the historical financial information of Pu'er Lancang Ancient Tea Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages [I-4] to [I-88], which comprises the consolidated balance sheets as at December 31, 2020, 2021, 2022 and June 30, 2023, the company balance sheets as at December 31, 2020, 2021, 2022 and June 30, 2023, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended December 31, 2020, 2021, 2022 and the six months ended June 30, 2023 (the "Track Record Period") and material accounting policy information and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages [I-4] to [I-88] forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated *[document date]* (the "Document") in connection with the [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation sets out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation sets out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at December 31, 2020, 2021, 2022 and June 30, 2023 and the consolidated financial position of the Group as at December 31, 2020, 2021, 2022 and June 30, 2023 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation sets out in Note 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended June 30, 2022 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation sets out in Note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial

Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of preparation sets out in Note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 13 to the Historical Financial Information which contains information about the dividends paid by Pu'er Lancang Ancient Tea Co., Ltd. in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

[PricewaterhouseCoopers]
Certified Public Accountants
Hong Kong
[Date]

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by [PricewaterhouseCoopers] in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended December 31,			Six months ended June 30,	
		2020	**2021**	**2022**	**2022**	**2023**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Revenue	5	405,465	558,677	462,869	228,254	232,028
Cost of sales	6	(120,030)	(190,237)	(157,872)	(89,296)	(92,203)
Gross profit		285,435	368,440	304,997	138,958	139,825
Selling and marketing expenses	6	(86,981)	(122,183)	(136,413)	(64,353)	(67,631)
Administrative expenses	6	(55,644)	(96,468)	(78,240)	(36,579)	(38,523)
Net reversal of impairment losses/(impairment losses) on financial assets		670	(1,870)	(660)	198	(2,795)
Other income	8	8,804	6,555	6,506	1,775	2,179
Other (losses)/gains — net	9	(6,304)	(773)	(738)	(446)	336
Operating profit		145,980	153,701	95,452	39,553	33,391
Finance costs — net	10	(5,960)	(8,689)	(12,783)	(5,736)	(7,657)
Share of net (losses)/profits of investments in associates	14	(1)	1,270	2,780	715	1,298
Profit before income tax		140,019	146,282	85,449	34,532	27,032
Income tax expense	11	(16,987)	(17,322)	(14,957)	(4,173)	(3,464)
Profit for the year/period		123,032	128,960	70,492	30,359	23,568
Profit attributable to:						
— Owners of the Company		122,882	131,006	72,205	30,907	24,366
— Non-controlling interests		150	(2,046)	(1,713)	(548)	(798)
		123,032	128,960	70,492	30,359	23,568

		Year ended December 31,			Six months ended June 30,	
		2020	2021	2022	2022	2023
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Other comprehensive (loss)/income						
Items that will not be reclassified to profit and loss:						
Changes in the fair value of an equity instrument at fair value through other comprehensive income, net of tax		(1,911)	(340)	(648)	291	(842)
Other comprehensive (loss)/ income for the year/period, net of tax		(1,911)	(340)	(648)	291	(842)
Total comprehensive income for the year/period		121,121	128,620	69,844	30,650	22,726
Total comprehensive income attributable to:						
— Owners of the Company		120,971	130,666	71,557	31,198	23,524
— Non-controlling interests		150	(2,046)	(1,713)	(548)	(798)
		121,121	128,620	69,844	30,650	22,726
Earnings per share for profit attributable to owners of the Company during the year/period						
Basic and diluted (expressed in RMB per share)	12	2.05	2.16	1.15	0.49	0.39

CONSOLIDATED BALANCE SHEETS

		As at December 31,			As at June 30,
		2020	2021	2022	2023
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment	16	111,412	138,905	145,997	139,816
Right-of-use assets	17	83,155	150,610	220,264	202,733
Intangible assets	18	85	854	3,318	2,855
Investments in associates	14	299	10,967	21,616	20,033
Financial asset at fair value through other comprehensive income	19	12,930	12,529	11,767	10,776
Prepayments	23	4,065	6,015	7,095	5,249
Deferred income tax assets	30	29,574	47,575	53,071	55,940
		241,520	367,455	463,128	437,402
Current assets					
Inventories	20	470,340	635,670	783,655	834,559
Trade and other receivables	22	5,805	26,155	35,842	40,704
Prepayments	23	11,687	23,659	38,249	43,684
Income tax recoverable		1,564	—	—	—
Cash and cash equivalents	24	173,911	141,546	90,027	65,649
		663,307	827,030	947,773	984,596
Total assets		904,827	1,194,485	1,410,901	1,421,998
EQUITY					
Equity attributable to owners of the Company					
Share capital	25	60,000	63,000	63,000	63,000
Other reserves	26	312,869	374,764	372,680	371,736
Retained earnings		213,320	310,291	358,556	376,622
		586,189	748,055	794,236	811,358
Non-controlling interests		2,110	9,311	5,034	3,738
Total equity		588,299	757,366	799,270	815,096

		As at December 31,			As at June 30,
		2020	2021	2022	2023
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
LIABILITIES					
Non-current liabilities					
Deferred income	27	9,972	9,387	9,136	10,714
Borrowings	28	107,750	148,200	76,300	99,900
Lease liabilities	17	50,836	106,259	138,754	123,156
Deferred income tax liabilities	30	1,085	1,024	910	761
		169,643	264,870	225,100	234,531
Current liabilities					
Borrowings	28	6,000	6,650	134,900	112,100
Trade and other payables	29	96,368	119,639	202,785	208,007
Contract liabilities	5(b)	22,148	14,864	4,944	12,778
Lease liabilities	17	12,627	22,328	30,457	34,225
Current income tax liabilities		9,742	8,768	13,445	5,261
		146,885	172,249	386,531	372,371
Total liabilities		316,528	437,119	611,631	606,902
Total equity and liabilities		904,827	1,194,485	1,410,901	1,421,998

BALANCE SHEETS OF THE COMPANY

		As at December 31,			As at June 30,
		2020	2021	2022	2023
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Investments in subsidiaries	15	61,608	61,608	61,608	61,608
Property, plant and equipment	16	50,817	64,893	66,023	65,218
Right-of-use assets	17	22,527	40,944	71,938	70,424
Intangible assets		21	4	126	84
Investments in associates	14	—	—	9,921	9,914
Financial asset at fair value through other comprehensive income	19	12,930	12,529	11,767	10,776
Prepayments	23	—	1,005	1,347	948
Deferred income tax assets		1,128	3,727	3,816	2,766
		149,031	184,710	226,546	221,738
Current assets					
Inventories	20	344,353	453,612	557,809	612,332
Trade and other receivables	22	194,709	350,639	389,114	388,702
Prepayments	23	2,010	10,314	31,999	35,177
Cash and cash equivalents	24	102,597	87,174	45,422	38,176
		643,669	901,739	1,024,344	1,074,387
Total assets		792,700	1,086,449	1,250,890	1,296,125
EQUITY					
Equity attributable to owners of the Company					
Share capital	25	60,000	63,000	63,000	63,000
Other reserves	26	311,960	373,855	373,207	372,365
Retained earnings		231,907	372,546	440,682	468,297
Total equity		603,867	809,401	876,889	903,662

		As at December 31,			As at June 30,
		2020	**2021**	**2022**	**2023**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
LIABILITIES					
Non-current liabilities					
Deferred income	27	7,357	6,881	6,739	8,371
Borrowings	28	102,100	148,200	76,300	99,900
Lease liabilities	17	2,797	15,838	14,109	15,192
Deferred income tax liabilities		1,085	1,024	910	761
		113,339	171,943	98,058	124,224
Current liabilities					
Borrowings	28	600	1,000	101,900	79,100
Trade and other payables	29	64,870	93,999	161,238	183,854
Contract liabilities		67	67	—	—
Lease liabilities	17	1,381	2,177	1,589	1,058
Current income tax liabilities		8,576	7,862	11,216	4,227
		75,494	105,105	275,943	268,239
Total liabilities		188,833	277,048	374,001	392,463
Total equity and liabilities		792,700	1,086,449	1,250,890	1,296,125

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company					
	Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 25)	*(Note 26)*				
Balance at January 1, 2020	60,000	300,303	121,715	482,018	—	482,018
Comprehensive income						
— Profit for the year	—	—	122,882	122,882	150	123,032
Other Comprehensive income						
— Changes in the fair value of an equity instrument at fair value through other comprehensive income, net of tax	—	(1,911)	—	(1,911)	—	(1,911)
Total comprehensive income for the year, net of tax	—	(1,911)	122,882	120,971	150	121,121
Transactions with owners						
— Capital contributions from non-controlling interests	—	—	—	—	1,960	1,960
— Appropriation to statutory reserves	—	14,477	(14,477)	—	—	—
— Dividends *(Note 13)*	—	—	(16,800)	(16,800)	—	(16,800)
Total transactions with owners	—	14,477	(31,277)	(16,800)	1,960	(14,840)
Balance at December 31, 2020	60,000	312,869	213,320	586,189	2,110	588,299
Balance at January 1, 2021	60,000	312,869	213,320	586,189	2,110	588,299
Comprehensive income						
— Profit for the year	—	—	131,006	131,006	(2,046)	128,960
Other Comprehensive income						
— Changes in the fair value of an equity instrument at fair value through other comprehensive income, net of tax	—	(340)	—	(340)	—	(340)
Total comprehensive income for the year, net of tax	—	(340)	131,006	130,666	(2,046)	128,620
Transactions with owners						
— Capital contributions from non-controlling interests	—	—	—	—	9,143	9,143
— Acquisition of subsidiaries *(Note 32)*	—	—	—	—	257	257
— Changes in ownership interests in subsidiaries without change of control	—	—	—	—	(153)	(153)
— Employee share scheme *(Note 26 (a))*	3,000	45,000	—	48,000	—	48,000
— Appropriation to statutory reserves	—	17,235	(17,235)	—	—	—
— Dividends *(Note 13)*	—	—	(16,800)	(16,800)	—	(16,800)
Total transactions with owners	3,000	62,235	(34,035)	31,200	9,247	40,447
Balance at December 31, 2021	63,000	374,764	310,291	748,055	9,311	757,366

	Attributable to owners of the Company					
	Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 25)	*(Note 26)*				
Balance at January 1, 2022	63,000	374,764	310,291	748,055	9,311	757,366
Comprehensive income						
— Profit for the year	—	—	72,205	72,205	(1,713)	70,492
Other Comprehensive income						
— Changes in the fair value of an equity instrument at fair value through other comprehensive income, net of tax	—	(648)	—	(648)	—	(648)
Total comprehensive income for the year, net of tax	—	(648)	72,205	71,557	(1,713)	69,844
Transactions with owners						
— Changes in ownership interests in subsidiaries without change of control (Note 26 (c))	—	(1,436)	—	(1,436)	(2,564)	(4,000)
— Dividends *(Note 13)*	—	—	(23,940)	(23,940)	—	(23,940)
Total transactions with owners	—	(1,436)	(23,940)	(25,376)	(2,564)	(27,940)
Balance at December 31, 2022	63,000	372,680	358,556	794,236	5,034	799,270
Balance at January 1, 2023	63,000	372,680	358,556	794,236	5,034	799,270
Comprehensive income						
— Profit for the period	—	—	24,366	24,366	(798)	23,568
Other Comprehensive income						
— Changes in the fair value of an equity instrument at fair value through other comprehensive income, net of tax	—	(842)	—	(842)	—	(842)
Total comprehensive income for the period, net of tax	—	(842)	24,366	23,524	(798)	22,726
Transactions with owners						
— Changes in ownership interests in subsidiaries without change of control *(Note 26 (c))*	—	(102)	—	(102)	(498)	(600)
— Dividends *(Note 13)*	—	—	(6,300)	(6,300)	—	(6,300)
Total transactions with owners	—	(102)	(6,300)	(6,402)	(498)	(6,900)
Balance at June 30, 2023	63,000	371,736	376,622	811,358	3,738	815,096

	Attributable to owners of the Company					
	Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000 *(Note 25)*	*RMB'000* *(Note 26)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
(Unaudited)						
Balance at January 1, 2022	63,000	374,764	310,291	748,055	9,311	757,366
Comprehensive income						
— Profit for the period	—	—	30,907	30,907	(548)	30,359
Other Comprehensive income						
— Changes in the fair value of an equity instrument at fair value through other comprehensive income, net of tax	—	291	—	291	—	291
Total comprehensive income for the period, net of tax	—	291	30,907	31,198	(548)	30,650
Transactions with owners						
— Changes in ownership interests in subsidiaries without change of control *(Note 27 (c))*	—	(1,436)	—	(1,436)	(2,564)	(4,000)
— Dividends *(Note 13)*	—	—	(23,940)	(23,940)	—	(23,940)
Total transactions with owners	—	(1,436)	(23,940)	(25,376)	(2,564)	(27,940)
As at June 30, 2022	63,000	373,619	317,258	753,877	6,199	760,076

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended December 31,			Six months ended June 30,	
		2020	2021	2022	2022	2023
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Cash flows from operating activities						
Cash generated from operations	31(a)	124,547	34,438	68,194	48,692	20,375
Interest received		1,248	2,078	717	482	162
Interest paid		(7,208)	(10,767)	(13,500)	(6,218)	(7,819)
Income tax paid		(25,124)	(34,733)	(15,776)	(7,081)	(14,517)
Net cash generated from/(used in) operating activities		93,463	(8,984)	39,635	35,875	(1,799)
Cash flows from investing activities						
Payments for purchase of right-of-use assets		—	—	(33,767)	(26,240)	—
Payments for purchase of property, plant and equipment		(22,241)	(40,699)	(26,156)	(12,284)	(5,342)
Proceeds from disposals of property, plant and equipment	31(c)	127	1,428	79	26	103
Purchase of intangible assets	18	—	(848)	(3,051)	(1,745)	—
Purchase of financial assets at fair value through profit or loss		—	—	(48,000)	(48,000)	—
Proceeds from disposals of financial assets at fair value through profit or loss		—	—	48,079	48,079	—
Receipt of government grants in relation to assets		1,000	—	375	—	—
Dividend income		468	—	—	—	565
Increase in investments in associates	14	(300)	(17,075)	(14,375)	(12,785)	—
Proceeds from disposals of associates	14	—	—	—	—	478
Proceeds from finance lease		—	—	—	—	47
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	32	—	1,001	—	—	—
Net cash used in investing activities		(20,946)	(56,193)	(76,816)	(52,949)	(4,149)

		Year ended December 31,			Six months ended June 30,	
		2020	2021	2022	2022	2023
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Cash flows from financing activities						
Proceeds from borrowings	31(b)	106,000	50,300	63,000	33,000	103,000
Repayments of borrowings	31(b)	(123,200)	(9,200)	(6,650)	(6,150)	(102,200)
Dividends paid		(16,800)	(16,800)	(23,940)	(23,940)	—
Proceeds from issuance of shares for the employee share scheme		—	30,000	—	—	—
Capital contributions from non-controlling shareholders		1,960	9,143	—	—	—
[REDACTED] expenses paid		—	(5,134)	(17,584)	(7,846)	(4,202)
Acquisitions of additional equity interests from non-controlling interests	26(c)	—	(200)	(4,000)	(4,000)	(600)
Changes in restricted cash pledged for borrowings		1,819	—	—	—	—
Principal elements of lease payments	31(b)	(29,159)	(25,297)	(25,164)	(11,773)	(14,428)
Net cash (used in)/generated from financing activities		(59,380)	32,812	(14,338)	(20,709)	(18,430)
Net increase/(decrease) in cash and cash equivalents		13,137	(32,365)	(51,519)	(37,783)	(24,378)
Cash and cash equivalents at beginning of the year/period		160,774	173,911	141,546	141,546	90,027
Cash and cash equivalents at end of the year/period		173,911	141,546	90,027	103,763	65,649

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION

Pu'er Lancang Ancient Tea Co., Ltd. (the "Company", formerly as "Lancang Ancient Tea Co., Ltd.") was incorporated in the People's Republic of China (the "PRC") on September 11, 2002, as a limited liability company under the Company Law of the PRC. On February 13, 2018, the Company was converted to a joint stock limited liability company under the Company Law of the PRC and the registered name was changed to Pu'er Lancang Ancient Tea Co., Ltd.. The address of its registered office is Pingzhang Road, West Suburb Hot Spring Community, Menglang Town, Lancang Lahu Ethnic Autonomous County, Pu'er City, Yunnan Province, PRC.

The Company and its subsidiaries (together, the "Group") are principally engaged in the development, manufacturing and sales of tea products, primarily Pu'er tea products, in the PRC.

Ms. Du Chunyi and Ms. Wang Juan, who are acting in concert, together are the ultimate controlling shareholders of the Company.

2 MATERIAL ACCOUNTING POLICY INFORMATION

This note provides a list of significant accounting policies applied in the preparation of the Historical Financial Information. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information of the Group has been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Historical Financial Information has been prepared on a historical cost basis, except for certain financial asset measured at fair value. Details for the financial asset measured at fair value are as stated in Note 3.3.

The preparation of Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

All effective standards, amendments to standards and interpretation, which are mandatory for the financial year beginning on January 1, 2023, are consistently applied to the Group for the Track Record Period.

(i) New standards, amendments to standards and interpretation that have been issued but are not effective

New standards, amendments to standards and interpretation that have been issued but not yet effective during the Track Record Period and have not been early adopted by the Group are as follows:

		Effective for annual periods beginning on or after
Hong Kong Interpretation 5 (Revised)	Hong Kong Interpretation 5 (Revised) Presentation of financial statements — classification by the borrower of a term loan that contains a repayment on demand clause	January 1, 2024
Amendments to HKAS 1	Classification of liabilities as current or non-current	January 1, 2024
Amendments to HKAS 1	Non-current liabilities with covenants	January 1, 2024
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements	January 1, 2024
Amendments to HKFRS 16	Lease liability in a sale and leaseback	January 1, 2024
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group has commenced an assessment of the impact of these new standards, amendments to standards and interpretation, certain of which are relevant to the Group's operations. According to the preliminary assessment made by the directors, no significant impact on the Group's financial performance and position is expected when they become effective.

2.2 Principles of consolidation and equity accounting

2.2.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.3).

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests ("NCI") in the results and equity of subsidiaries are shown separately in the consolidated statements of comprehensive income, statements of changes in equity and consolidated balance sheets respectively.

2.2.2 Associates

Associates are all entities over which the Group has significant influence but not control or joint control, including participation in the finance and operation decisions. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost.

2.2.3 Equity method

Under the equity method of accounting, the investments are initially recognized at cost, and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss of the investee after the date of acquisition. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its associates are recognized in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains and losses on dilution of equity interests in the associates are recognized in profit or loss.

2.2.4 Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified or permitted by applicable HKFRSs.

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred to the former owners of the acquired business and the equity issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquired entity and the acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in profit or loss.

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividends exceed the total comprehensive income of the subsidiary in the period the dividends are declared or if the carrying amount of the investments in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the executive directors that make strategic decisions of the Group.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Group's subsidiaries is Renminbi ("RMB"). The Historical Financial Information is presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. All foreign exchange gains and losses are presented in the consolidated statements of comprehensive income on a net basis within "Other (losses)/gains — net".

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

Plant and buildings	20 to 30 years
Machinery	10 years
Equipment and furniture	3 to 5 years
Fittings	Shorter of the lease terms or 5 years
Vehicles	3 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at 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 (Note 2.10).

Gains and losses on disposals are determined by comparing net proceeds with the carrying amount and are recognized in profit or loss.

2.8 Construction-in-progress

Construction-in-progress represents buildings under construction and machinery and equipment under installation, which is stated at historical cost less accumulated impairment losses, if any. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are ready for use, the costs are transferred to the relevant categories of property, plant and equipment and depreciated in accordance with the policy as stated in Note 2.7 above.

2.9 Intangible assets

Intangible assets mainly include computer software. They are initially recognized and measured at costs incurred to acquire and bring them to use. Computer software is stated at historical cost less amortization and impairment losses, if any. They are amortized using the straight-line method over their estimated useful lives of 5 years based on management's expectation on the technological lives of the computer software. Costs associated with maintaining software programs are recognized as an expense as incurred.

2.10 Impairment of non-financial assets

Non-financial assets that are subject to amortization are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.11 Financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and

- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in "Other (losses)/gains — net" together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statements of comprehensive income.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in "Other (losses)/gains — net". Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in "Other (losses)/gains — net" and impairment expenses are presented as separate line item in the consolidated statements of comprehensive income.

- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within "Other (losses)/gains — net" in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investment at fair value. Where the Group's management has elected to present fair value gains and losses on equity investment in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as "Other income" when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in "Other (losses)/gains — net" in the consolidated statements of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investment measured at FVOCI are not reported separately from other changes in fair value.

(d) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instrument carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1.2(b) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables, see Note 3.1.2(b) for further details.

Impairment of other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheets where the Group currently has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.13 Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realizable value. Cost comprises direct materials, direct labor and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.14 Trade and other receivables

Trade receivables are amounts due from customers for goods sold performed in the ordinary course of business. They are generally due for settlement within one year and therefore are all classified as current.

Trade and other receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. See Note 3.1.2(b) for a description of the Group's impairment policies.

2.15 Cash and cash equivalents

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents include cash on hand and at banks, and deposits held at call with financial institutions.

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables

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

2.18 Contract liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide services to the customer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognized as contract asset if the measure of the remaining rights exceeds the measure of the remaining performance obligations. Conversely, the contract is a liability and recognized as contract liability if the measure of the remaining performance obligations exceeds the measure of the remaining rights.

2.19 Borrowings and borrowing costs

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the consolidated balance sheets when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as "Finance costs — net".

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowing costs are expensed in the period in which they are incurred.

2.20 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. The Group will recognize a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

2.21 Employee benefits

(a) Short-term obligations

Liabilities for wages, salaries, bonuses and other allowances that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated balance sheets.

(b) Pension obligation

Employees in the PRC are covered by various government-sponsored defined contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no further payment obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(c) Housing funds, medical insurances and other social insurances

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurances and other social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each year. Contributions to the housing funds, medical insurances and other social insurances are expensed as incurred.

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.22 Share-based payments

The Group operates employee share scheme for directors and employees, under which the entity receives services from directors and employees as consideration for equity instruments of the Group. Information relating to the employee share scheme is set out in Note 26.

Under the employee share scheme, shares were issued by the Company to certain directors and employees through the share platform. There is no vesting condition for these shares, therefore the shares vest immediately on grant date. The fair value of the employee services received in exchange for the grant of shares is recognized as an employee benefit expense with corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the shares granted at the grant date and the issue price.

2.23 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

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

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

2.24 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods or services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax ("VAT"), returns and rebates and after eliminating sales within the Group.

(a) Sales of goods — wholesale

The Group manufactures and sells a range of tea products in the wholesale market. Revenue from the sales of goods is recognized when control of the products has been transferred to the distributors, which usually occurs when the products have been shipped to the specific location and the distributor accepts the goods, and there is no unfulfilled obligation that could affect the distributor's acceptance of the goods.

The products are sold with standard return and exchange terms for faulty products. Revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. Accumulated experience is used to estimate and provide for the returns and exchange. No element of financing is deemed present as the sales are made with a credit term of 15 to 60 days, which is consistent with the market practice.

(b) Sales of goods — retail

The Group operates retail stores and online stores on third-party e-commercial platforms selling its products. Revenue from the sales of goods is recognized when control of the products has been transferred to the customers. Retail sales are usually settled in cash, by credit/debit cards or through online payment platforms.

Customers have the right to return faulty products. Accumulated experience is used to estimate and provide for such returns at the time of sale.

(c) Provision of services

The Group provides teahouse services in stores. Revenue from the provision of services are recognized over time in the accounting period when the services have been rendered to customers.

2.25 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial years.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account (if applicable):

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.26 Dividend income

Dividends are received from FVOCI. Dividends are recognized as other income in profit or loss when the right to receive payment is established.

2.27 Leases

The Group as a lessee

The Group leases various properties and land use rights in the PRC as lessee. Rental contracts for land use rights and properties are typically made for fixed periods of 1 to 50 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. 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 payments 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 the Group under residual value guarantees.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases, which does not have recent third-party financing; and

- makes adjustments specific to the lease, e.g., term and security.

If a readily observable amortizing loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the group entities use that rate as a starting point to determine the incremental borrowing rate.

Lease payments are allocated between the principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,

- any lease payments made at or before the commencement date less any lease incentives received, and

- any initial direct costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases of stores and warehouses are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

The Group as a lessor

A lessor shall classify each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Lease income from operating leases is recognised in profit or loss on a straight-line basis over the terms of the relevant lease. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised 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 lease receivables under lease arrangements are recognised as lease receivables in the consolidated balance sheet.

The Group as a sublease lessor

Sub-lease is a transaction for which an underlying asset is re-leased by a lessee ("sublease lessor") to a third party, and the lease ("head lease") between the head lessor and lessee remains in effect. In classifying a sublease, a sublease lessor shall classify the sublease as a finance lease or an operating lease as follows:

if the head lease is a short-term lease that the entity, as a lessee, has accounted for the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis, the sublease shall be classified as an operating lease.

otherwise, the sublease shall be classified by reference to the right-of-use asset arising from the head lease as finance lease or operating lease.

2.28 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorized and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

2.29 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets. Note 8 provides further information on how the Group accounts for government grants.

2.30 Interest income

Interest income on financial assets at amortized cost calculated using the effective interest method is recognized in the consolidated statement of comprehensive income as "Finance cost — net".

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

3.1.1 Market risk

(a) Foreign exchange risk

The Group principally operates in the PRC with most of the transactions being settled in RMB, which is the functional currency of the Company and its subsidiaries. The foreign exchange risk mainly arises from monetary assets and liabilities of certain subsidiaries denominated in foreign currencies other than their functional currencies. The directors consider that the foreign exchange risk is not significant to the Group as the carrying amounts of foreign currency denominated monetary assets and liabilities were immaterial as at each period end of the Track Record Period.

(b) Cash flow and fair value interest rate risk

The Group's interest-rate risk mainly arises from borrowings with variable rates. Bank borrowings at variable rates expose the Group to cash flow interest rate risk. Bank borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group closely monitors the trend of interest rate and its impact on the Group's interest rate risk exposure. The Group currently has not used any interest rate swap arrangements but will consider hedging interest rate risk should the need arise.

As at December 31, 2020, 2021, 2022 and June 30, 2023, bank borrowings of the Group which were bearing at floating rates amounted to approximately RMB110,750,000, RMB154,850,000, RMB208,200,000 and RMB209,000,000 respectively, and bank borrowings of RMB3,000,000, nil, RMB3,000,000, and RMB3,000,000 were at fixed interests rate respectively. For the years ended December 31, 2020, 2021, 2022 and the six months ended June 30, 2023, if the floating interest rates on borrowings had been increased or decreased by 100 basis points with all other variables held constant, the post-tax profit for the years ended December 31, 2020, 2021, 2022 and the six months ended June 30, 2023 would have decreased or increased by RMB931,000, RMB1,190,000, RMB1,740,000, and RMB1,747,000, respectively, mainly as a result of higher or lower interest expenses on floating rate borrowings.

3.1.2 Credit risk

(a) Risk management

The Group is exposed to credit risk in relation to its cash and cash equivalents, trade and notes receivables, other receivables and finance lease receivables. The carrying amount of each class of the above financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

The Group expects that there is no significant credit risk associated with cash and cash equivalents since they are substantially deposited at state-owned banks and other medium or large-sized listed banks in the PRC. Management does not expect that there will be any significant losses from non-performance by these counter parties.

The Group's trade and notes receivables are mainly from sales of tea products and the other receivables and finance lease receivables are mainly from rental deposits and finance lease. For trade and notes receivables, management makes periodic assessments on the recoverability based on historical settlement records and past experience and adjusts for forward looking information. Management of the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the expected credit losses of these receivables at the end of each reporting period to ensure that adequate impairment losses are made. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

(b) Impairment of financial assets

The Group has three types of financial assets that are subject to the expected credit loss model:

- cash and cash equivalents,
- trade and notes receivables, and
- other receivables and finance lease receivables.

A summary of the assumptions underpinning the Group's expected credit loss model is as follows:

Category	**Group definition of category**	**Basis for recognition of expected credit loss provision**
Performing ("Stage 1")	Debtors have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Underperforming ("Stage 2")	Receivables for which have a high risk of default or at a terrible operating situation, which is presumed if interest and/or principal repayments are 30 to 365 days past due	Lifetime expected losses
Non-performing ("Stage 3")	Interest and/or principal repayments are 1 year to 3 years past due	Lifetime expected losses
Write-off	Interest and/or principal repayments are over 3 years past due and there is no reasonable expectation of recovery.	Asset is written off

(i) Cash and cash equivalents

To manage this risk, cash and cash equivalents are mainly placed with state-owned and other medium or large-sized listed banks in the PRC. There has been no recent history of default in relation to these financial institutions. These instruments are considered to have low credit risk because they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term. The identified credit losses are insignificant.

(ii) Trade and notes receivables

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which uses a lifetime expected loss allowance for trade and notes receivables. To measure the expected credit losses, trade and notes receivables have been grouped based on shared credit risk characteristics and the days past due. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of receivables and adjusts for forward-looking macroeconomic data.

The expected credit losses rates for the trade and notes receivables are determined according to the following provision matrix based on invoice date:

June 30, 2023	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**
		RMB'000	*RMB'000*
Current	1.1%	11,492	129
Up to 90 days past due	7.7%	12,753	987
Up to 180 days past due	38.0%	5,256	1,995
More than 180 days past due	77.6%	2,042	1,584
		31,543	4,695

December 31, 2022	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**
		RMB'000	*RMB'000*
Current	1.1%	13,638	155
Up to 90 days past due	7.4%	9,984	739
Up to 180 days past due	34.7%	1,164	404
More than 180 days past due	94.1%	697	656
		25,483	1,954

December 31, 2021	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**
		RMB'000	*RMB'000*
Current	0.9%	12,945	119
Up to 90 days past due	3.9%	1,893	73
Up to 180 days past due	45.7%	81	37
More than 180 days past due	90.1%	1,461	1,317
		16,380	1,546

December 31, 2020	Expected loss rate	Gross carrying amount	Loss allowance
		RMB'000	*RMB'000*
Current	0.4%	794	3
Up to 90 days past due	6.4%	706	45
Up to 180 days past due	26.3%	38	10
More than 180 days past due	100.0%	28	28
		1,566	86

The movements of provision for impairment of trade and notes receivables are as follows:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
As at beginning of the year/ period,	1,014	86	1,546	1,546	1,954
(Reversal)/provision for doubtful receivables	(883)	1,460	408	(485)	2,741
Write off of trade and notes receivables	(45)	—	—	—	—
As at end of the year/period,	86	1,546	1,954	1,061	4,695

Impairment losses on trade and notes receivables are separately presented as "Net reversal of impairment losses/(impairment losses) on financial assets" in the consolidated statements of comprehensive income. Trade and notes receivables are written off when there is no reasonable expectation of recovery. The Group normally categorizes a trade receivable or note receivable for write off when a debtor fails to make contractual payments greater than 3 years. Subsequent recoveries of amounts previously written off are credited against the same line item.

(iii) Other receivables and finance lease receivables

Other financial assets at amortized cost include other receivables from third parties and related parties and finance lease receivables. Other receivables and finance lease receivables have been assessed for impairment on a collective basis based on different credit risk characteristics. Other receivables and finance lease receivables are categorized as follows for assessment purpose:

Group 1	Other receivables due from related parties and deposits
Group 2	Others

The directors of the Company have assessed that other receivables and finance lease receivables have not had a significant increase in credit risk since initial recognition. The Group assessed and concluded that the counterparties have a low risk of default and a strong capacity to meet contractual cash flows. Thus, a 12-month expected credit loss approach that results from possible default event within 12 months of the reporting period of the Group is adopted, and the directors of the Company have determined the credit risk is insignificant.

3.1.3 Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at December 31, 2020					
Borrowings and interests	10,545	10,387	102,878	—	123,810
Lease liabilities	15,438	12,106	32,258	13,647	73,449
Trade and other payables (a)	82,528	—	—	—	82,528
	108,511	22,493	135,136	13,647	279,787
As at December 31, 2021					
Borrowings and interests	12,474	105,040	46,882	—	164,396
Lease liabilities	27,914	27,382	61,105	36,631	153,032
Trade and other payables (a)	96,413	—	—	—	96,413
	136,801	132,422	107,987	36,631	413,841
As at December 31, 2022					
Borrowings and interests	140,059	77,374	—	—	217,433
Lease liabilities	38,399	39,292	82,713	36,264	196,668
Trade and other payables (a)	181,518	—	—	—	181,518
	359,976	116,666	82,713	36,264	595,619
As at June 30, 2023					
Borrowings and interests	118,731	6,764	99,538	—	225,033
Lease liabilities	39,933	41,355	73,452	22,313	177,053
Trade and other payables (a)	197,573	—	—	—	197,573
	356,237	48,119	172,990	22,313	599,659

Note (a): Trade and other payables excluded employee benefit payable and other tax payables.

3.2 Capital risk management

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

The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital. Total debt refers to the total borrowings (current and non-current) as shown in the consolidated balance sheets. Total capital is calculated as equity as shown in the consolidated balance sheets plus total debt.

The gearing ratios at December 31, 2020, 2021, 2022 and June 30, 2023 were as follows:

	As at December 31,			As at June 30,
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total borrowings *(Note 28)*	113,750	154,850	211,200	212,000
Total equity	588,299	757,366	799,270	815,096
Total capital	702,049	912,216	1,010,470	1,027,096
Gearing ratio	16%	17%	21%	21%

3.3 Fair value estimation

This note explains the judgements and estimates made in determining the fair values of the non-financial assets that are recognized and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its non-financial assets and liabilities into the three levels prescribed under the accounting standards.

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. The Group does not have this type of financial instruments.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The Group does not have this type of financial instruments.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for wealth management products which are held for collection of contractual cash flows and for selling and other equity investment.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments; and
- Discounted cash flow model and unobservable inputs mainly including assumptions of price to book ratio and discount for lack of marketability.

The fair values of the financial assets and financial liabilities which are measured at amortized cost, including trade and other receivables, cash and cash equivalents, trade and other payables, borrowings and lease liabilities, approximate their carrying amounts as of December 31, 2020, 2021, 2022 and June 30, 2023. The carrying amounts of the Group's financial asset at FVOCI were measured at fair value as of December 31, 2020, 2021, 2022 and June 30, 2023.

The table below presents the Group's financial instruments carried at fair value as at December 31, 2020, 2021, 2022 and June 30, 2023, by level 3 of the inputs to valuation techniques used to measure fair value.

	As at December 31,			As at June 30,
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Level 3				
Financial asset at FVOCI				
— Other equity investment	12,930	12,529	11,767	10,776

The movements in level 3 instrument for the years ended December 31, 2020, 2021, 2022 and June 30, 2023 are presented in Note 19.

Quantitative information about fair value measurements using significant unobservable inputs (Level 3) is as follows:

			Unobservable inputs			
			As at December 31,			As at June 30,
Description	**Significant unobservable inputs**	**Valuation approach**	**2020**	**2021**	**2022**	**2023**
Other equity investment	Price to book ratio	Market approach	0.69	0.63	0.56	0.50
	Discount for lack of marketability	Market approach	15.8%	15.8%	15.8%	15.7%

Relationship of unobservable inputs to fair value:

- The higher of price to book ratio, the higher the fair value.
- The higher of discount for lack of marketability, the lower the fair value.

If the price to book ratio had been 50 basis points higher/lower, the fair value of the financial asset at FVOCI as of December 31, 2020, 2021, 2022 and June 30, 2023 would increase/decrease by RMB93,000, RMB100,000, RMB104,000 and RMB108,000 respectively.

If the discount for lack of marketability had been 50 basis points higher/lower, the fair value of the financial asset at FVOCI as of December 31, 2020, 2021, 2022 and June 30, 2023 would decrease/increase by RMB77,000, RMB74,000, RMB70,000 and RMB64,000 respectively.

The Group manages the valuation of level 3 instruments for financial reporting purpose on a case by case basis. At least once every six months, the Group would assess the fair value of the Group's level 3 instruments by using valuation techniques.

The valuation of level 3 instruments mainly included an investment in an unlisted company. As this investment is not traded in an active market, the fair value has been determined by using applicable valuation techniques, which mainly include the fair value of guideline public companies.

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer. There were no transfers to or out of fair value hierarchy levels during the years ended December 31, 2020, 2021, 2022 and the six months ended June 30, 2023.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4.1 Net realizable value of inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Management reassesses the estimation at the end of each reporting period.

4.2 Impairment of financial assets

The loss allowance for financial assets is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 3.1.2(b).

4.3 Current and deferred income tax

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

4.4 Fair value of financial asset at FVOCI

For the fair values of financial assets not traded in an active market, the Group would use valuation techniques to estimate the fair values. The methodologies, models, assumptions and parameters used in valuing these financial instruments require judgement by management at each reporting date.

5 REVENUE AND SEGMENT INFORMATION

The chief operating decision-maker ("CODM") has been identified as the executive directors of the Group. The CODM reviews the performance of the Group on a regular basis.

As substantial business operations of the Group relate to the manufacture and sales of tea products and the provision of services, the CODM makes decisions about resources allocation and performance assessment based on the entity-wide consolidated financial information. No geographical segment information is presented as substantially all the revenue and operating profits of the Group are derived from the PRC based on the location of customers and substantially all the operating assets of the Group are located in the PRC. On that basis, the executive directors of the Company regard that there is only one segment which is used to make strategic decisions for the Group qualified as operating segment under HKFRS 8. No separate segmental analysis is presented in the Historical Financial Information.

(a) Revenue from contracts with customers

Revenue from the sales of goods and the provision of services recognized is as follows:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
At a point in time					
— Sales of tea products	381,692	522,279	429,002	210,219	212,561
— Sales of other products	21,716	32,307	29,173	15,672	16,391
	403,408	554,586	458,175	225,891	228,952
Over time					
— Provision of services	2,057	4,091	4,694	2,363	3,076
	405,465	558,677	462,869	228,254	232,028

During the Track Record Period, no customer individually contributed more than 10% of the Group's total revenue.

(b) Contract liabilities

The Group

The Group recognized the following liabilities related to contract with customers:

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Sales of tea products	22,148	14,864	4,944	12,778

Contract liabilities of the Group mainly represent deposits received from customers in advance while the underlying goods are yet to be delivered.

The following table shows how much of the revenue recognized in the years/period relates to carried-forward contract liabilities:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Revenue recognized that was included in the contract liabilities balance at the beginning of the year/period					
Sales of tea products	6,062	22,148	14,864	14,864	4,944

The amounts of transaction price from unsatisfied performance obligation as at December 31, 2020, 2021, 2022 and June 30, 2023 were equivalent to the contract liabilities as at each of the respective year date. Management expects that 100% of the contract liabilities balance as at December 31, 2020, 2021, 2022 and June 30, 2023 will be recognized as revenue during the next financial year.

6 EXPENSES BY NATURE

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Cost of raw materials	66,282	103,583	66,275	46,269	45,162
Employee benefits expenses *(Note 7)*	63,724	109,951	103,104	49,813	49,119
Advertising and promotion expenses	33,771	39,301	39,948	15,891	16,580
Packaging expenses	14,093	30,327	26,289	12,768	15,253
Depreciation of right-of-use assets *(Note 17)*	13,885	22,609	29,773	13,426	18,657
Consigned processing expenses	14,203	16,199	16,898	6,292	9,804
Depreciation of property, plant and equipment *(Note 16)*	8,650	12,243	18,393	9,183	11,109
Consumables expenses	6,777	11,818	11,872	6,326	2,377
Sample expenses	7,324	10,790	11,377	5,120	4,211
Transportation expenses	5,640	7,487	10,503	4,333	4,377
Other taxes and levies	4,914	6,672	4,433	2,031	2,728
Professional services expenses	4,539	4,883	4,044	1,780	2,216
Travelling expenses	2,429	4,700	2,739	1,417	1,631
Rental expenses related to short-term leases *(Note 17)*	1,499	2,688	4,595	1,941	1,846
Utilities	1,040	1,912	2,489	1,233	1,186
[REDACTED] expenses	—	—	1,455	—	1,193
Write-down of inventories *(Note 20)*	—	1,167	706	341	671
Impairment losses of right-of-use assets *(Note 17)*	—	511	—	—	694
Others	13,885	22,047	17,632	12,064	9,543
	262,655	408,888	372,525	190,228	198,357

7 EMPLOYEE BENEFITS EXPENSES

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Wages, salaries and bonuses	56,335	76,253	76,501	36,931	37,894
Share-based payment expenses *(Note 26)*	—	18,000	—	—	—
Contributions to retirement benefit scheme *(Note (a))*	384	5,291	10,160	4,316	5,349
Other social security costs, housing benefits and other employee benefits	7,005	10,407	16,443	8,566	5,876
	63,724	109,951	103,104	49,813	49,119

(a) Employees in the Group's PRC entities are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's PRC entities contribute funds which are calculated on certain percentage of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

(b) Five highest paid individuals

For each of the years ended December 31, 2020, 2021, 2022 and six months ended June 30, 2022 and 2023, the five individuals whose emoluments were the highest in the Group consisted of 3, 4, 3, 2 and 2 directors, respectively. Their emoluments are reflected in the analysis presented in Note 7 (c). The employee benefit expenses in relation to the remaining 2, 1, 2, 3 and 3 highest paid individuals are as follows:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Wages, salaries and bonuses	1,644	408	900	795	596
Share-based payment expenses	—	3,000	—	—	—
Contributions to retirement benefit scheme	3	36	66	43	61
Other social security costs, housing benefits and other employee benefits	16	28	81	23	96
	1,663	3,472	1,047	861	753

The emoluments of the above individuals fell within the following bands during each of the years ended December 31, 2020, 2021, 2022 and six months ended June 30, 2022 and 2023:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022 (Unaudited)	2023
Emolument bands					
HKD$100,001-HKD$500,000	—	—	—	3	3
HKD500,001-HKD1,000,000	2	—	2	—	—
HKD$4,000,001-HKD$4,500,000	—	1	—	—	—
	2	1	2	3	3

(c) Benefits and interests of directors and supervisors

The remuneration paid or payable to the directors and supervisors of the Company (including emoluments for services as employees/directors/supervisors of the Group entities prior to becoming the directors and supervisors of the Company) during the years ended December 31, 2020, 2021, 2022 and six months ended June 30, 2022 and 2023 was as follows:

	Fees	Salaries and bonus	Allowances and benefits in kind	Employer's contributions to retirement benefit scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended December 31, 2020					
Executive directors					
Du Chunyi (i)	—	407	—	—	407
Wang Juan (i)	—	1,218	8	2	1,228
Zhang Muheng (i)	—	863	9	2	874
Liu Jiajie (i)	—	759	39	—	798
Shi Yijing (i)	—	300	13	2	315
Fu Gang (i)	—	288	14	3	305
Independent non-executive directors					
Cao Wei (ii)	50	—	—	—	50
Xie Xiaoyao (ii)	50	—	—	—	50
Wang Xiaolu (iii)	50	—	—	—	50
Supervisors					
Huang Yingzhi (v)	—	230	11	2	243
Zhu Meixuan (v)	—	316	12	2	330
Luo Zhonghong (v)	—	191	13	3	207
	150	4,572	119	16	4,857

	Fees	Salaries and bonus	Share-based payment expenses	Allowances and benefits in kind	Employer's contributions to retirement benefit scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended December 31, 2021						
Executive directors						
Du Chunyi (i)	—	616	—	—	—	616
Wang Juan (i)	—	1,365	6,000	19	22	7,406
Zhang Muheng (i)	—	1,055	3,000	19	23	4,097
Liu Jiajie (i)	—	1,316	3,000	38	34	4,388
Shi Yijing (i)	—	420	3,000	26	19	3,465
Fu Gang (i)	—	471	—	27	36	534
Independent non-executive directors						
Cao Wei (ii)	60	—	—	—	—	60
Xie Xiaoyao (ii)	60	—	—	—	—	60
Wang Xiaolu (iii)	60	—	—	—	—	60
Supervisors						
Huang Yingzhi (v)	—	377	—	21	36	434
Zhu Meixuan (v)	—	469	—	25	36	530
Luo Zhonghong (v)	—	212	—	25	31	268
	180	6,301	15,000	200	237	21,918
For the year ended December 31, 2022						
Executive directors						
Du Chunyi (i)	—	265	—	—	—	265
Wang Juan (i)	—	591	—	36	38	665
Zhang Muheng (i)	—	465	—	36	38	539
Liu Jiajie (i)	—	848	—	70	39	957
Shi Yijing (i)	—	256	—	34	38	328
Fu Gang (i)	—	171	—	30	38	239
Independent non-executive directors						
Cao Wei (ii)	60	—	—	—	—	60
Xie Xiaoyao (ii)	60	—	—	—	—	60
Wang Xiaolu (iii)	10	—	—	—	—	10
Tang Zhangliang (iv)	50	—	—	—	—	50
Supervisors						
Huang Yingzhi (v)	—	142	—	29	38	209
Zhu Meixuan (v)	—	189	—	30	38	257
Luo Zhonghong (v)	—	191	—	29	32	252
	180	3,118	—	294	299	3,891

	Fees	Salaries and bonus	Share-based payment expenses	Allowances and benefits in kind	Employer's contributions to retirement benefit scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the six months ended June 30, 2023						
Executive directors						
Du Chunyi (i)	—	134	—	—	—	134
Wang Juan (i)	—	217	—	21	19	257
Zhang Muheng (i)	—	160	—	21	19	200
Liu Jiajie (i)	—	307	—	38	21	366
Shi Yijing (i)	—	96	—	36	24	156
Fu Gang (i)	—	84	—	17	18	119
Independent non-executive directors						
Cao Wei (ii)	30	—	—	—	—	30
Xie Xiaoyao (ii)	30	—	—	—	—	30
Tang Zhangliang (iv)	30	—	—	—	—	30
Supervisors						
Huang Yingzhi (v)	—	72	—	16	17	105
Zhu Meixuan (v)	—	94	—	16	19	129
Luo Zhonghong (v)	—	82	—	30	25	137
	90	1,246	—	195	162	1,693
(Unaudited)						
For the six months ended June 30, 2022						
Executive directors						
Du Chunyi (i)	—	146	—	—	—	146
Wang Juan (i)	—	217	—	17	18	252
Zhang Muheng (i)	—	150	—	17	18	185
Liu Jiajie (i)	—	472	—	33	18	523
Shi Yijing (i)	—	108	—	17	17	142
Fu Gang (i)	—	97	—	15	18	130
Independent non-executive directors						
Cao Wei (ii)	30	—	—	—	—	30
Xie Xiaoyao (ii)	30	—	—	—	—	30
Wang Xiaolu (iii)	10	—	—	—	—	10
Tang Zhangliang (iv)	20	—	—	—	—	20
Supervisors						
Huang Yingzhi (v)	—	90	—	15	18	123
Zhu Meixuan (v)	—	111	—	15	18	144
Luo Zhonghong (v)	—	95	—	14	14	123
	90	1,486	—	143	139	1,858

(i) Ms. Du Chunyi, Ms. Wang Juan, Mr. Zhang Muheng, Ms. Shi Yijing and Mr. Fu Gang were appointed as executive directors of the Group on February 8, 2018. Mr. Liu Jiajie, joined the Group and was appointed as executive director of the Group on March 10, 2020.

(ii) Ms. Cao Wei and Mr. Xie Xiaoyao joined the Group and were appointed as independent non-executive director on March 10, 2020.

(iii) Ms. Wang Xiaolu joined the Group and were appointed as independent non-executive director on March 10, 2020. Ms. Wang Xiaolu resigned from her position as independent non-executive director on March 2, 2022.

(iv) Mr. Tang Zhangliang was appointed as independent non-executive director on March 2, 2022.

(v) Ms. Huang Yingzhi, Ms. Zhu Meixuan and Mr. Luo Zhonghong were appointed as supervisors of the Group on January 30, 2018, February 8, 2018 and February 8, 2018, respectively.

(vi) There were no retirement benefits paid to or receivable by directors and supervisors during the Track Record Period by defined benefit pension plans operated by the Group and there were no directors' and supervisors' termination benefits subsisted during the Track Record Period.

(vii) During the Track Record Period, the Group did not pay consideration to any third parties for making available directors' and supervisors' services.

(viii) During the Track Record Period, there were no loans, quasi-loans and other dealings in favor of directors and supervisors, their controlled bodies corporate and connected entities.

(ix) Saved as disclosed in Note 34 to the Historical Financial Information, no other significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director or a supervisor of the Company had a material interest, whether directly or indirectly, subsisted at December 31, 2020, 2021, 2022 and June 30, 2023 or at any time during the Track Record Period.

8 OTHER INCOME

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Government grants *(Note (a))*	8,336	6,555	6,506	1,775	1,614
Dividend income from a financial asset at FVOCI	468	—	—	—	565
	8,804	6,555	6,506	1,775	2,179

(a) Government grants mainly consisted of funds granted by the local governments for the operations and purchase of assets with no unfulfilled condition.

9 OTHER (GAINS)/LOSSES — NET

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Charity donation *(Note (a))*	6,305	1,255	945	700	30
Losses from disposal of an associate	—	—	—	—	210
Gains on right-of-use assets transfer to finance lease receivables	—	—	—	—	(194)
Net losses/(gains) on disposals of property, plant and equipment	453	447	33	18	(13)
Remeasurement gains resulting from associates transferred to subsidiaries *(Note 14(ii))*	—	(139)	—	—	—
Penalty income	(250)	(601)	(303)	(189)	(209)
Net (gains)/losses on disposals of right-of-use assets	(234)	(153)	128	(8)	(90)
Others	30	(36)	(65)	(75)	(70)
	6,304	773	738	446	(336)

(a) For the year ended December 31, 2020, charity donation mainly consisted of the donation of RMB5,000,000 to a charity to fight against the spread of COVID-19.

10 FINANCE COSTS — NET

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Finance income:					
Interest income	(1,248)	(2,078)	(717)	(482)	(158)
Interest income from sublease	—	—	—	—	(4)
	(1,248)	(2,078)	(717)	(482)	(162)
Finance costs:					
Interest expense on bank borrowings	5,317	5,716	6,829	3,080	3,946
Interest expense on lease liabilities *(Note 17(b))*	1,891	5,051	6,671	3,138	3,873
	7,208	10,767	13,500	6,218	7,819
Finance costs — net	5,960	8,689	12,783	5,736	7,657

11 INCOME TAX EXPENSE

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Current income tax					
— PRC corporate income tax	28,046	35,323	20,453	11,067	6,333
Deferred income tax *(Note 30)*					
— PRC corporate income tax	(11,059)	(18,001)	(5,496)	(6,894)	(2,869)
Income tax expense	16,987	17,322	14,957	4,173	3,464

(a) PRC corporate income tax ("CIT")

Income tax provision of the Group in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the year, based on the existing legislation, interpretations and practices in respect thereof.

Pursuant to the PRC Corporate Income Tax Law (the "CIT Law"), the CIT is unified at 25% for the years ended December 31, 2020, 2021, 2022 and six months ended June 30, 2022 and 2023.

Under the relevant regulations of the CIT Law, for eligible enterprises which meet the criteria of small low-profit enterprises, the annual taxable income that is not more than RMB1,000,000 shall be recognized at 25% of income and be subject to a CIT rate of 20%; the annual taxable income that is more than RMB1,000,000 but less than RMB3,000,000 shall be recognized at 50% of income and be subject to a CIT rate of 20%. During the Track Record Period, certain entities of the Group were eligible for small low-profit enterprises and subject to stated preferential income tax rates.

Under the relevant regulations of the CIT Law, the Company and a subsidiary of the Group located in western region in the PRC are qualified to enjoy the preferential income tax rate of 15% until December 31, 2030.

(b) The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the Group for the Track Record Period as follows:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit before income tax	140,019	146,282	85,449	34,532	27,032
Tax calculated at tax rates applicable to profits in the respective entities of the Group	16,581	15,550	8,098	1,494	889
Tax effects of:					
Income not subject to tax	(70)	—	—	—	(84)
Expenses not deductible for tax purpose	618	715	691	327	587
Associates' results reported net of tax	—	1,086	1,133	280	114
Tax losses and temporary differences for which no deferred income tax asset was recognized	190	85	5,177	2,091	2,046
Super deduction of research and development expenses	(332)	(114)	(142)	(19)	(88)
Income tax expense	16,987	17,322	14,957	4,173	3,464

12 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares during the Track Record Period.

The Company did not have any potential ordinary shares outstanding during the Track Record Period, thus diluted earnings per share equals to the basic earnings per share.

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
				(Unaudited)	
Profit attributable to owners of the Company (RMB'000)	122,882	131,006	72,205	30,907	24,366
Weighted average number of ordinary shares in issue (in thousands)	60,000	60,781	63,000	63,000	63,000
Basic and diluted earnings per share attributable to the owners of the Company (expressed in RMB per share)	2.05	2.16	1.15	0.49	0.39

13 DIVIDENDS

The Group and the Company

A dividend of RMB16,800,000 for the year ended December 31, 2019 was approved by the shareholders on May 8, 2020. The dividend was distributed out of the Company's retained earnings to the shareholders in the PRC.

A dividend of RMB16,800,000 for the year ended December 31, 2020 was approved by the shareholders on February 26, 2021. The dividend was distributed out of the Company's retained earnings to the shareholders in the PRC.

A dividend of RMB23,940,000 for the year ended December 31, 2021 was approved by the shareholders on March 31, 2022. The dividend was distributed out of the Company's retained earnings to the shareholders in the PRC.

A dividend of RMB6,300,000 for the year ended December 31, 2022 was approved by the shareholders on March 31, 2023. The dividend was distributed out of the Company's retained earnings to the shareholders in the PRC on July 27, 2023.

14 INVESTMENTS IN ASSOCIATES

The balances recognized in the consolidated balance sheets are as follows:

The Group

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Associates	299	10,967	21,616	20,033

The amounts recognized in the consolidated statements of comprehensive income are as follows:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Share of net (losses)/profits of investments in associates	(1)	1,270	2,780	715	1,298

The Company

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Associates	—	—	9,921	9,914

The amounts recognized in the statements of comprehensive income of the Company are as follows:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Share of net losses/profits of investments in associates	—	—	79	(167)	7

The movements of the investments in associates are as follows:

The Group

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Balance as at beginning of the year/period,	—	299	10,967	10,967	21,616
Additions (i)	300	17,075	14,375	12,785	—
Remeasurement gains resulting from associates transferred to subsidiaries (ii)	—	139	—	—	—
Disposals	—	—	—	—	(1,389)
Transfer to subsidiaries (ii)	—	(2,201)	—	—	—
Effect of share of net losses of investments in associates (iii)	(1)	(4,345)	(3,726)	(297)	(194)
Balance as at end of the year/period,	299	10,967	21,616	23,455	20,033

The Company

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Balance as at beginning of the year/period,	—	—	—	—	9,921
Additions (i)	—	—	10,000	10,000	—
Share of net (losses)/profits of investments in associates	—	—	(79)	167	(7)
Balance as at end of the year/period,	—	—	9,921	9,833	9,914

(i) During the years ended December 31, 2020, 2021, 2022 and six months ended June 30, 2022 and 2023, the Group invested in certain associates engaged in the sale of tea products due to business expansion. During the six months ended June 30, 2022, the Group and the Company invested in an associate engaged in the provision of tea leaves purchase service.

(ii) During the year ended December 31, 2021, the Group acquired additional equity interests in two associates from the respective independent shareholders of the associates at a total consideration of RMB550,000. Upon the completion of the acquisitions, the associates became the subsidiaries of the Group. The Group recognized the remeasurement gains on the investments in associates amounting to RMB139,000 (Note 9).

(iii) Unrealized gains or losses on downstream transactions have been eliminated against the investment in associates. Unrealized gains or losses on upstream transaction have been eliminated against the assets transferred.

During the years ended December 31, 2020, 2021, 2022 and six months ended June 30, 2022 and 2023, the Group had downstream sales of goods to certain associates with the share of profits amounting to approximately nil, RMB5,615,000, RMB7,343,000, RMB1,903,000 and RMB1,756,000.

During the year ended December 31, 2022 and six months ended June 30, 2022 and 2023, the Group had upstream purchase of service from an associate with the share of profits amounting to approximately RMB837,000, RMB891,000 and RMB264,000.

As at December 31, 2020, 2021, 2022 and June 30, 2023, the Group had interest in the following associates:

Company name	Place of incorporation and kind of legal entity	Principal activities	Particulars of registered and paid-up share capital	Percentage of ownership interest attributable to the Group			
				December 31,			June 30,
				2020	2021	2022	2023
Yixing City Langu Gongfang E-commerce Co., Ltd. (i)	Yixing, Jiangsu Province; limited liability company	Sales of teapot products	RMB1,000,000/ 750,000	30%	NA	NA	NA
Pu'er Tea Small Town Investment Co., Ltd. (ii)	Pu'er, Yunnan Province; limited liability company	Investment in tea cultural tourist town	RMB200,000,000	5%	5%	5%	5%
Chongqing Langu Tea Co., Ltd.	Chongqing; limited liability company	Sale of tea products	RMB20,000,000/ RMB12,000,000	NA	20%	30%	30%
Foshan Lanpu Zunming Tea Industry Co., Ltd.	Foshan, Guangdong Province; limited liability company	Sale of tea products	RMB10,000,000/ RMB6,000,000	NA	20%	20%	20%
Hefei Cangping Tea Co., Ltd.	Hefei, An'hui Province; limited liability company	Sale of tea products	RMB5,000,000	NA	45%	45%	45%
Shanghai Tea Mama Tea Sales Co., Ltd.	Shanghai; limited liability company	Sale of tea products	RMB10,000,000/ RMB4,000,000	NA	30%	30%	20%
Hangzhou Jingshangjing Trading Co., Ltd.	Hangzhou, Zhejiang Province; limited liability company	Sale of tea products	RMB5,000,000/ RMB3,000,000	NA	20%	20%	20%
Anhui Lanzai Tea Co., Ltd.	Hefei, An'hui Province; limited liability company	Sale of tea products	RMB5,000,000/ RMB2,000,000	NA	30%	30%	30%
Qingdao Langu Tea Co., Ltd.	Qingdao, Shandong Province; limited liability company	Sale of tea products	RMB3,000,000/ RMB2,300,000	NA	45%	45%	45%
Qingdao Lancang Tea Mother Tea Industry Co., Ltd.	Qingdao, Shandong Province; limited liability company	Sale of Pu'er tea products	RMB3,000,000/ RMB2,000,000	NA	45%	45%	45%
Dongying Youfang Langu Tea Co., Ltd.	Dongying Shandong Province; limited liability company	Sale of tea products	RMB5,000,000/ RMB2,000,000	NA	45%	45%	NA
Dongguan Langu Tea Trading Co., Ltd.	Dongguan Guangdong Province; limited liability company	Sale of tea products	RMB5,000,000/ RMB4,200,000	NA	40%	40%	40%
Shenzhen Langu Tea Co., Ltd.	Shenzhen, Guangdong Province; limited liability company	Sale of tea products	RMB5,000,000/ RMB3,500,000	NA	45%	45%	45%
Yunnan Jingyan Tea Industry Co., Ltd.	Pu'er, Yunnan Province; limited liability company	Provision of tea leaves purchase service	RMB50,000,000/ RMB34,500,000	NA	NA	33%	33%
Hefei Cangxin Tea Co., Ltd.	Hefei, An'hui Province; limited liability company	Sale of tea products	RMB2,000,000/ RMB1,000,000	NA	NA	45%	45%
Shanghai Pudong Tea Mother Lanxiang Tea Sales Co., Ltd.	Shanghai; limited liability company	Sale of tea products	RMB2,000,000/ RMB1,700,000	NA	NA	40%	40%

(i) Yixing City Langu Gongfang E-commerce Co., Ltd. became a subsidiary from August 31, 2021.

(ii) According to the Articles of Association of Pu'er Tea Small Town Investment Co., Ltd., the Company is empowered to appoint one director among the seven members of the Board of Directors with no restriction on the voting right compared with other directors, which enables the Company to participate in the financial and operating policy decisions. Therefore, the Company has significant influence but not control or joint control on Pu'er Tea Small Town Investment Co., Ltd., which is accounted for investment as an investment in associate.

(iii) The English names of certain associates referred to above represent the best effort made by management of the Group in translating the Chinese names as they do not register any official English names.

(iv) The directors consider none of the associates were significant to the Group during the Track Record Period.

(v) There are no contingent liabilities or commitments relating to the Group's investments in the associates.

15 INVESTMENTS IN SUBSIDIARIES

The Company

	As at December 31,			As at June 30,
	2020	2021	2022	2023
Investment, at cost				
— Unlisted shares	61,608	61,608	61,608	61,608

The following is a list of principal subsidiaries held by the Company as at December 31, 2020, 2021, 2022 and June 30, 2023:

Company name	Place, date of incorporation and kind of legal entity	Registered/ paid-in capital	Attributable equity interest of the Group as at December 31, 2020	2021	2022	June 30, 2023	Date of this report	Principal activities	Place of operations
Directly held:									
Pu'er Lancang Ancient Tea Renhe Co., Ltd.	Pu'er, Yunnan Province; April 30, 2014; limited liability company	RMB31,357,962	100%	100%	100%	100%	100%	Manufacturing and sales of tea products	Pu'er City, Yunnan Province
Guangzhou Kangrui Lancang Ancient Tea Co., Ltd. (a)	Guangzhou, Guangdong Province; December 22, 2016; limited liability company	RMB30,000,000	100%	100%	100%	100%	100%	Sale of tea products	Guangzhou, Guangdong Province
Indirectly held:									
Shenzhen Langu Brand Management Industry Co., Ltd.	Shenzhen, Guangdong Province; March 9, 2021; limited liability company	RMB50,000,000	N/A	100%	100%	100%	100%	Sale of tea products	Shenzhen, Guangdong Province
Chengdu Hekang Langu Tea Company Limited	Chengdu, Sichuan Province; August 31, 2020; limited liability company	RMB10,000,000	51%	51%	51%	51%	51%	Sale of tea products	Chengdu, Sichuan Province

(a) Guangzhou Kangrui Lancang Ancient Tea Co., Ltd. was audited by Dahua Certified Public Accountants LLP Shandong Branch for the year ended December 31, 2020. No statutory audit was required for other subsidiaries during the Track Record Period.

(b) The English names of certain subsidiaries referred to above represent the best effort made by management of the Company in translating the Chinese names as they do not register any official English names.

16 PROPERTY, PLANT AND EQUIPMENT

The Group

	Plant and buildings	Machinery	Equipment and furniture	Fittings	Vehicles	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at January 1, 2020							
Cost	93,977	6,341	7,323	7,569	1,632	16,933	133,775
Accumulated depreciation	(15,411)	(2,006)	(4,562)	(3,916)	(686)	—	(26,581)
Net book amount	78,566	4,335	2,761	3,653	946	16,933	107,194
Year ended December 31, 2020							
Opening net book amount	78,566	4,335	2,761	3,653	946	16,933	107,194
Additions	—	3,469	1,197	4,050	368	4,364	13,448
Transfers	20,929	59	—	—	—	(20,988)	—
Depreciation	(4,081)	(615)	(988)	(2,721)	(245)	—	(8,650)
Disposals	(87)	(287)	(199)	—	(7)	—	(580)
Closing net book amount	95,327	6,961	2,771	4,982	1,062	309	111,412
As at December 31, 2020							
Cost	114,655	9,452	8,189	11,619	1,990	309	146,214
Accumulated depreciation	(19,328)	(2,491)	(5,418)	(6,637)	(928)	—	(34,802)
Net book amount	95,327	6,961	2,771	4,982	1,062	309	111,412
Year ended December 31, 2021							
Opening net book amount	95,327	6,961	2,771	4,982	1,062	309	111,412
Additions	801	3,623	4,478	23,726	1,618	6,724	40,970
Acquisition of subsidiaries	—	—	138	503	—	—	641
Transfers	4,498	2,226	—	—	—	(6,724)	—
Depreciation	(4,594)	(996)	(1,449)	(4,851)	(353)	—	(12,243)
Disposals	(387)	(1,322)	(156)	—	(10)	—	(1,875)
Closing net book amount	95,645	10,492	5,782	24,360	2,317	309	138,905
As at December 31, 2021							
Cost	119,341	13,840	12,584	35,849	3,404	309	185,327
Accumulated depreciation	(23,696)	(3,348)	(6,802)	(11,489)	(1,087)	—	(46,422)
Net book amount	95,645	10,492	5,782	24,360	2,317	309	138,905

	Plant and buildings	Machinery	Equipment and furniture	Fittings	Vehicles	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended December 31, 2022							
Opening net book amount	95,645	10,492	5,782	24,360	2,317	309	138,905
Additions	98	2,834	3,269	17,070	216	2,110	25,597
Transfers	179	—	73	—	—	(252)	—
Depreciation	(4,665)	(1,466)	(2,217)	(9,438)	(607)	—	(18,393)
Disposals	(35)	(24)	(53)	—	—	—	(112)
Closing net book amount	91,222	11,836	6,854	31,992	1,926	2,167	145,997
As at December 31, 2022							
Cost	119,578	16,617	15,816	52,919	3,620	2,167	210,717
Accumulated depreciation	(28,356)	(4,781)	(8,962)	(20,927)	(1,694)	—	(64,720)
Net book amount	91,222	11,836	6,854	31,992	1,926	2,167	145,997
Six months ended June 30, 2023							
Opening net book amount	91,222	11,836	6,854	31,992	1,926	2,167	145,997
Additions	—	1,055	2,689	1,001	—	273	5,018
Transfers	62	—	—	—	—	(62)	—
Depreciation	(2,333)	(804)	(1,251)	(6,435)	(286)	—	(11,109)
Disposals	(8)	(1)	(81)	—	—	—	(90)
Closing net book amount	88,943	12,086	8,211	26,558	1,640	2,378	139,816
As at June 30, 2023							
Cost	119,592	17,504	18,329	53,920	3,620	2,378	215,343
Accumulated depreciation	(30,649)	(5,418)	(10,118)	(27,362)	(1,980)	—	(75,527)
Net book amount	88,943	12,086	8,211	26,558	1,640	2,378	139,816
(Unaudited)							
Six months ended June 30, 2022							
Opening net book amount	95,645	10,492	5,782	24,360	2,317	309	138,905
Additions	98	2,752	2,309	6,124	86	995	12,364
Transfers	179	—	73	—	—	(252)	—
Depreciation	(2,333)	(688)	(1,115)	(4,736)	(311)	—	(9,183)
Disposals	—	—	(44)	—	—	—	(44)
Closing net book amount	93,589	12,556	7,005	25,748	2,092	1,052	142,042
As at June 30, 2022							
Cost	119,618	16,584	14,893	41,973	3,490	1,052	197,610
Accumulated depreciation	(26,029)	(4,028)	(7,888)	(16,225)	(1,398)	—	(55,568)
Net book amount	93,589	12,556	7,005	25,748	2,092	1,052	142,042

As at December 31, 2020, 2021, 2022 and June 30, 2023, property, plant and equipment with net book value of RMB67,575,000, RMB85,600,000, 81,463,000, and RMB79,395,000, respectively, were pledged as collateral for the Group's borrowings (Note 28).

(a) Depreciation expenses have been charged to the consolidated statements of comprehensive income as follows:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Cost of sales	3,242	4,000	4,231	2,358	1,889
Selling and marketing expenses	2,673	4,699	8,693	4,314	5,911
Administrative expenses	2,735	3,544	5,469	2,511	3,309
	8,650	12,243	18,393	9,183	11,109

The Company

	Plant and buildings	Machinery	Equipment and furniture	Fittings	Vehicles	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at January 1, 2020							
Cost	30,933	3,766	1,916	625	720	16,933	54,893
Accumulated depreciation	(5,976)	(1,091)	(1,536)	(276)	(393)	—	(9,272)
Net book amount	24,957	2,675	380	349	327	16,933	45,621
Year ended December 31, 2020							
Opening net book amount	24,957	2,675	380	349	327	16,933	45,621
Additions	—	3,467	158	294	—	4,364	8,283
Transfers	20,929	59	—	—	—	(20,988)	—
Depreciation	(2,080)	(370)	(133)	(115)	(76)	—	(2,774)
Disposals	(87)	(225)	(1)	—	—	—	(313)
Closing net book amount	43,719	5,606	404	528	251	309	50,817
As at December 31, 2020							
Cost	51,612	6,980	2,048	919	720	309	62,588
Accumulated depreciation	(7,893)	(1,374)	(1,644)	(391)	(469)	—	(11,771)
Net book amount	43,719	5,606	404	528	251	309	50,817

	Plant and buildings	Machinery	Equipment and furniture	Fittings	Vehicles	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended December 31, 2021							
Opening net book amount	43,719	5,606	404	528	251	309	50,817
Additions	801	3,332	1,154	6,368	1,336	6,724	19,715
Transfers	4,498	2,226	—	—	—	(6,724)	—
Depreciation	(2,594)	(750)	(267)	(227)	(78)	—	(3,916)
Disposals	(387)	(1,322)	(4)	—	(10)	—	(1,723)
Closing net book amount	46,037	9,092	1,287	6,669	1,499	309	64,893
As at December 31, 2021							
Cost	56,299	11,078	3,181	7,287	1,852	309	80,006
Accumulated depreciation	(10,262)	(1,986)	(1,894)	(618)	(353)	—	(15,113)
Net book amount	46,037	9,092	1,287	6,669	1,499	309	64,893
Year ended December 31, 2022							
Opening net book amount	46,037	9,092	1,287	6,669	1,499	309	64,893
Additions	98	1,925	460	1,940	—	2,110	6,533
Transfers	179	—	73	—	—	(252)	—
Depreciation	(2,668)	(1,147)	(530)	(675)	(322)	—	(5,342)
Disposals	(35)	(24)	(2)	—	—	—	(61)
Closing net book amount	43,611	9,846	1,288	7,934	1,177	2,167	66,023
As at December 31, 2022							
Cost	56,534	12,947	3,703	9,227	1,852	2,167	86,430
Accumulated depreciation	(12,923)	(3,101)	(2,415)	(1,293)	(675)	—	(20,407)
Net book amount	43,611	9,846	1,288	7,934	1,177	2,167	66,023
Six months ended June 30, 2023							
Opening net book amount	43,611	9,846	1,288	7,934	1,177	2,167	66,023
Additions	—	980	357	315	—	274	1,926
Transfers	62	—	—	—	—	(62)	—
Depreciation	(1,334)	(627)	(261)	(346)	(153)	—	(2,721)
Disposals	(8)	(1)	(1)	—	—	—	(10)
Closing net book amount	42,331	10,198	1,383	7,903	1,024	2,379	65,218
As at June 30, 2023							
Cost	56,548	13,762	4,051	9,542	1,852	2,379	88,134
Accumulated depreciation	(14,217)	(3,564)	(2,668)	(1,639)	(828)	—	(22,916)
Net book amount	42,331	10,198	1,383	7,903	1,024	2,379	65,218

	Plant and buildings	Machinery	Equipment and furniture	Fittings	Vehicles	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
(Unaudited)							
Six months ended June 30, 2022							
Opening net book amount	46,037	9,092	1,287	6,669	1,499	309	64,893
Additions	98	1,881	369	1,587	—	995	4,930
Transfers	179	—	73	—	—	(252)	—
Depreciation	(1,334)	(545)	(260)	(325)	(165)	—	(2,629)
Closing net book amount	44,980	10,428	1,469	7,931	1,334	1,052	67,194
As at June 30, 2022							
Cost	56,576	12,950	3,624	8,874	1,852	1,052	84,928
Accumulated depreciation	(11,596)	(2,522)	(2,155)	(943)	(518)	—	(17,734)
Net book amount	44,980	10,428	1,469	7,931	1,334	1,052	67,194

As at December 31, 2020, 2021, 2022 and June 30, 2023, the Company's property, plant and equipment with net book value of RMB19,416,000, RMB39,311,000, RMB37,044,000 and RMB35,911,000 were pledged as collateral for the Company's borrowings (Note 28).

17 LEASES

(a) Amounts recognized in the consolidated balance sheets

The Group

	As at December 31,			As at June 30,
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Right-of-use assets				
Land use rights	23,058	27,927	60,584	59,903
Properties	60,097	122,683	159,680	142,830
	83,155	150,610	220,264	202,733
Lease liabilities				
Current	12,627	22,328	30,457	34,225
Non-current	50,836	106,259	138,754	123,156
	63,463	128,587	169,211	157,381

The Group leases various land use rights, buildings, offices and stores to operate its business. Lease contracts are entered into for fixed terms of 3 years to 50 years of land use rights and for fixed terms of over 2 years to 20 years for properties. Lease terms are negotiated on an individual basis and contain different payment terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

As at December 31, 2020, 2021, 2022 and June 30, 2023, land use rights of RMB5,445,000, RMB5,317,000, RMB28,094,000 and RMB27,760,000, respectively, were pledged to banks to secure bank borrowings (Note 28).

The Company

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Right-of-use assets				
Land use rights	19,194	24,151	57,900	56,761
Properties	3,333	16,793	14,038	13,663
	22,527	40,944	71,938	70,424
Lease liabilities				
Current	1,381	2,177	1,589	1,058
Non-current	2,797	15,838	14,109	15,192
	4,178	18,015	15,698	16,250

(b) Amount recognized in consolidated statements of comprehensive income

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Depreciation charge of right-of-use assets					
Properties	13,428	21,930	28,842	13,094	17,976
Land use rights	457	679	931	332	681
	13,885	22,609	29,773	13,426	18,657
Interest expense *(Note 10)*	1,891	5,051	6,671	3,138	3,873
Expenses relating to short-term leases *(Note 6)*	1,499	2,688	4,595	1,941	1,846

(c) Right-of-use assets reconciliation

	Land use rights	Properties	Total
	RMB'000	*RMB'000*	*RMB'000*
Carrying amounts as at January 1, 2020	5,750	28,915	34,665
Additions	17,784	46,874	64,658
Disposals	(19)	(2,264)	(2,283)
Depreciation	(457)	(13,428)	(13,885)
Carrying amounts as at December 31, 2020	23,058	60,097	83,155
Additions	5,548	84,096	89,644
Acquisition of subsidiaries	—	4,497	4,497
Disposals	—	(3,566)	(3,566)
Impairment	—	(511)	(511)
Depreciation	(679)	(21,930)	(22,609)
Carrying amounts as at December 31, 2021	27,927	122,683	150,610
Additions	33,767	70,544	104,311
Disposals	(179)	(4,705)	(4,884)
Depreciation	(931)	(28,842)	(29,773)
Carrying amounts as at December 31, 2022	60,584	159,680	220,264
Additions	—	4,055	4,055
Disposals	—	(1,367)	(1,367)
Transfer to finance lease receivables	—	(868)	(868)
Impairment	—	(694)	(694)
Depreciation	(681)	(17,976)	(18,657)
Carrying amounts as at June 30, 2023	59,903	142,830	202,733
(Unaudited)			
Carrying amounts as at January 1, 2022	27,927	122,683	150,610
Additions	—	9,653	9,653
Disposals	—	(121)	(121)
Depreciation	(332)	(13,094)	(13,426)
Carrying amounts as at June 30, 2022	27,595	119,121	146,716

Depreciation of the right-of-use assets has been charged to cost of sales, administrative expenses and selling and marketing expenses in the consolidated statements of comprehensive income as follows.

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Selling and marketing expenses	6,973	12,597	14,818	7,356	11,732
Administrative expenses	6,156	9,284	13,684	5,434	6,497
Cost of sales	756	728	1,271	636	428
	13,885	22,609	29,773	13,426	18,657

Total cash outflow for leases during the years ended December 31, 2020, 2021, 2022 and six months ended June 30, 2022 and 2023 were approximately RMB32,549,000, RMB33,036,000, RMB70,197,000, RMB 16,852,000 and RMB20,147,000, respectively.

18 INTANGIBLE ASSETS

	Computer software
	RMB'000
As at January 1, 2020	
Cost	215
Accumulated amortization	(87)
Net book amount	128
Year ended December 31, 2020	
Opening net book amount	128
Amortization	(43)
Closing net book amount	85
As at December 31, 2020	
Cost	215
Accumulated amortization	(130)
Net book amount	85
Year ended December 31, 2021	
Opening net book amount	85
Additions	848
Amortization	(79)
Closing net book amount	854
As at December 31, 2021	
Cost	1,063
Accumulated amortization	(209)
Net book amount	854

	Computer software
	RMB'000
Year ended December 31, 2022	
Opening net book amount	854
Additions	3,051
Amortization	(587)
Closing net book amount	3,318
As at December 31, 2022	
Cost	4,114
Accumulated amortization	(796)
Net book amount	3,318
Six months ended June 30, 2023	
Opening net book amount	3,318
Amortization	(463)
Closing net book amount	2,855
As at June 30, 2023	
Cost	4,114
Accumulated amortization	(1,259)
Net book amount	2,855
(Unaudited)	
Six months ended June 30, 2022	
Opening net book amount	854
Additions	1,745
Amortization	(211)
Closing net book amount	2,388
As at June 30, 2022	
Cost	2,808
Accumulated amortization	(420)
Net book amount	2,388

(a) Amortization of the intangible assets has been charged to the consolidated statements of comprehensive income as follows.

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Administrative expenses	43	55	555	16	16
Selling and marketing expenses	—	24	32	195	447
	43	79	587	211	463

19 FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Group and the Company

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other equity investment	12,930	12,529	11,767	10,776

As at December 31, 2020, 2021, 2022 and June 30, 2023, other equity investment mainly represented the Group's equity investment in an unlisted company. The directors considered other equity investment is not held for trade, and initially recognized as a financial asset at FVOCI.

The movements of financial asset at fair value through other comprehensive income are as follows:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Balance as at beginning of the year/period	15,178	12,930	12,529	12,529	11,767
Change in the fair value	(2,248)	(401)	(762)	342	(991)
Balance as at end of the year/period	12,930	12,529	11,767	12,871	10,776

Information about the methods and assumptions used in determining fair value is provided in Note 3.3.

20 INVENTORIES

The Group

	As at December 31,			As at June 30,
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	71,026	136,673	158,357	173,224
Work in progress	207,957	243,375	272,986	280,153
Finished goods	191,357	256,789	353,894	382,881
Inventories — gross	470,340	636,837	785,237	836,258
Less: provision for impairment	—	(1,167)	(1,582)	(1,699)
Inventories — net	470,340	635,670	783,655	834,559

Operating cycle of inventories is approximately 1 to 5 years.

The inventories are expected to be realized within an operating cycle.

The costs of inventories recognized as cost of sales amounted to approximately RMB66,282,000, RMB103,583,000, RMB66,275,000, RMB46,269,000 and RMB45,162,000 for the years ended December 31, 2020, 2021, 2022 and six months ended June 30, 2022 and 2023, respectively.

A provision of approximately nil, RMB1,167,000, RMB706,000, RMB341,000 and RMB671,000 was made to write down the inventories during the years ended December 31, 2020, 2021, 2022 and six months ended June 30, 2023, respectively.

As at December 31, 2020, 2021, 2022 and June 30, 2023, inventories of RMB26,573,000, RMB16,114,000, RMB27,289,000 and RMB28,011,000, respectively, were pledged as collateral for the Group's and the Company's borrowings (Note 28).

The Company

	As at December 31,			As at June 30,
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	70,412	135,080	155,373	170,778
Work in progress	203,094	236,360	264,693	271,094
Finished goods	70,847	82,200	137,833	170,565
Inventories — gross	344,353	453,640	557,899	612,437
Less: provision for impairment	—	(28)	(90)	(105)
Inventories — net	344,353	453,612	557,809	612,332

21 FINANCIAL INSTRUMENTS

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Financial assets at amortized cost				
— Trade and other receivables *(Note 22)*	5,805	26,155	35,842	40,704
— Cash and cash equivalents *(Note 24)*	173,911	141,546	90,027	65,649
Financial asset at fair value through other comprehensive income *(Note 19)*	12,930	12,529	11,767	10,776
	192,646	180,230	137,636	117,129
Financial liabilities				
Financial liabilities at amortized cost				
— Borrowings *(Note 28)*	113,750	154,850	211,200	212,000
— Trade and other payables (excluding employee benefit payables and other tax payables)	82,528	96,413	181,518	197,573
— Lease liabilities *(Note 17)*	63,463	128,587	169,211	157,381
	259,741	379,850	561,929	566,954

22 TRADE AND OTHER RECEIVABLES

The Group

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables (i)	1,480	14,834	23,331	26,848
Notes receivable (i)	—	—	198	—
Other receivables (ii)	4,325	11,321	12,313	12,887
Finance lease receivables (ii)	—	—	—	969
	5,805	26,155	35,842	40,704

(i) Trade and notes receivables

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables				
— Third parties	1,566	15,525	23,009	27,365
— Related parties	—	855	2,274	4,178
Notes receivable				
— Third party	—	—	200	—
Less: allowance for impairment	(86)	(1,546)	(1,954)	(4,695)
	1,480	14,834	23,529	26,848

(ii) Other receivables and finance lease receivables

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other receivables				
— Deposits	4,090	8,193	11,249	10,977
— Others	237	3,228	1,166	2,015
Finance lease receivables	—	—	—	1,020
Less: allowance for impairment	(2)	(100)	(102)	(156)
	4,325	11,321	12,313	13,856

The Company

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables (iii)	184,479	340,526	378,687	373,308
Other receivables (iv)	10,230	10,113	10,427	15,394
	194,709	350,639	389,114	388,702

(iii) Trade receivables

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables				
— Group companies	184,479	340,526	378,679	373,308
— Third parties	—	—	8	—
Less: allowance for impairment	—	—	—	—
	184,479	340,526	378,687	373,308

(iv) Other receivables

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other receivables				
— Third parties	231	115	432	411
— Group companies	10,000	10,000	10,013	15,000
Less: allowance for impairment	(1)	(2)	(18)	(17)
	10,230	10,113	10,427	15,394

(a) Trade and notes receivables of the Group mainly arose from sales of tea products. As at December 31, 2020, 2021, 2022 and June 30, 2023, trade receivables were all denominated in RMB and approximated their fair value.

The Group generally allows a credit period of 15 to 60 days to its customers. The ageing analysis of trade and notes receivables based on invoice date is as follows:

The Group

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0–30 days	794	4,897	13,638	11,492
31–60 days	100	9,622	5,504	6,450
61–90 days	388	162	2,847	3,672
91–180 days	255	199	2,708	7,118
Over 181 days	29	1,500	786	2,811
	1,566	16,380	25,483	31,543

The ageing of trade and notes receivables of the Company was within 1 year.

Information about impairment of trade and other receivables and the Group's exposure to credit risk is disclosed in Note 3.1.2.

(b) As at December 31, 2020, 2021, 2022 and June 30, 2023, other receivables were all denominated in RMB and approximated their fair value.

23 PREPAYMENTS

The Group

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments				
Prepayments for [REDACTED]	—	10,160	31,874	35,024
Prepayments for purchase of property, plant and equipment	4,065	6,015	7,095	5,249
Prepayments for advertising and promotion expenses	6,901	6,131	1,492	3,543
Input VAT available for future deduction	2,410	5,197	983	877
Prepayments for purchase of raw materials and packaging materials	916	204	1,539	1,190
Others	1,460	1,967	2,361	3,050
	15,752	29,674	45,344	48,933
Less: non-current portion				
Prepayments for purchase of property, plant and equipment	(4,065)	(6,015)	(7,095)	(5,249)
Current portion	11,687	23,659	38,249	43,684

The Company

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments				
Prepayments for [REDACTED]	—	10,160	31,874	35,024
Prepayments for purchase of property, plant and equipment	—	1,005	1,347	948
Prepayments for purchase of raw materials and packaging materials	625	63	—	—
Input VAT available for future deduction	1,228	11	—	—
Others	157	80	125	153
	2,010	11,319	33,346	36,125
Less: non-current portion				
Prepayments for purchase of property, plant and equipment	—	(1,005)	(1,347)	(948)
Current portion	2,010	10,314	31,999	35,177

24 CASH AND CASH EQUIVALENTS

The Group

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash on hand	6	11	3	2
Cash at bank	173,905	141,535	90,024	65,647
	173,911	141,546	90,027	65,649

The Company

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash on hand	1	—	—	—
Cash at bank	102,596	87,174	45,422	38,176
	102,597	87,174	45,422	38,176

All cash and cash equivalents were denominated in RMB as at December 31, 2020, 2021, 2022 and June 30, 2023.

25 SHARE CAPITAL

An analysis of the Company's authorized, issued and fully paid share capital are as follows:

	Share capital	
	Number of ordinary shares	Share capital
	'000	*RMB'000*
As at January 1, 2020 and December 31, 2020	60,000	60,000
Issuance of shares pursuant to the employee share scheme *(Note 26 (a))*	3,000	3,000
As at December 31, 2021, December 31, 2022 and June 30, 2023	63,000	63,000

26 OTHER RESERVES

The Group

	Share premium	Statutory reserves *(Note (b))*	Fair value reserve	Share-based payments	Other reserves	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance as at January 1, 2020	276,735	14,603	8,056	—	909	300,303
Appropriation to statutory reserves	—	14,477	—	—	—	14,477
Changes in the fair value of an equity instrument at FVOCI, net of tax	—	—	(1,911)	—	—	(1,911)
Balance as at December 31, 2020	276,735	29,080	6,145	—	909	312,869
Balance as at January 1, 2021	276,735	29,080	6,145	—	909	312,869
Issuance of shares under the employee share scheme (a)	27,000	—	—	18,000	—	45,000
Appropriation to statutory reserves	—	17,235	—	—	—	17,235
Changes in the fair value of an equity instrument at FVOCI, net of tax	—	—	(340)	—	—	(340)
Balance as at December 31, 2021	303,735	46,315	5,805	18,000	909	374,764
Balance as at January 1, 2022	303,735	46,315	5,805	18,000	909	374,764
Changes in ownership interests in subsidiaries without change of control (c)	—	—	—	—	(1,436)	(1,436)
Changes in the fair value of an equity instrument at FVOCI, net of tax	—	—	(648)	—	—	(648)
Balance as at December 31, 2022	303,735	46,315	5,157	18,000	(527)	372,680
Balance as at January 1, 2023	303,735	46,315	5,157	18,000	(527)	372,680
Changes in ownership interests in subsidiaries without change of control (c)	—	—	—	—	(102)	(102)
Changes in the fair value of an equity instrument at FVOCI, net of tax *(Note 19)*	—	—	(842)	—	—	(842)
Balance as at June 30, 2023	303,735	46,315	4,315	18,000	(629)	371,736
(Unaudited)						
Balance as at January 1, 2022	303,735	46,315	5,805	18,000	909	374,764
Changes in ownership interests in subsidiaries without change of control (c)	—	—	—	—	(1,436)	(1,436)
Changes in the fair value of an equity instrument at FVOCI, net of tax *(Note 19)*	—	—	291	—	—	291
Balance as at June 30, 2022	303,735	46,315	6,096	18,000	(527)	373,619

The Company

	Share premium	Statutory reserves *(Note (b))*	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance as at January 1, 2020	276,735	14,603	8,056	299,394
Appropriation to statutory reserves	—	14,477	—	14,477
Changes in the fair value of an equity instrument at FVOCI, net of tax	—	—	(1,911)	(1,911)
Balance as at December 31, 2020	276,735	29,080	6,145	311,960
Balance as at January 1, 2021	276,735	29,080	6,145	311,960
Issuance of shares under the employee share scheme (a)	27,000	—	18,000	45,000
Appropriation to statutory reserves	—	17,235	—	17,235
Changes in the fair value of an equity instrument at FVOCI, net of tax	—	—	(340)	(340)
Balance as at December 31, 2021	303,735	46,315	23,805	373,855
Balance as at January 1, 2022	303,735	46,315	23,805	373,855
Changes in the fair value of an equity instrument at FVOCI, net of tax	—	—	(648)	(648)
Balance as at December 31, 2022	303,735	46,315	23,157	373,207
Balance as at January 1, 2023	303,735	46,315	23,157	373,207
Changes in the fair value of an equity instrument at FVOCI, net of tax *(Note 19)*	—	—	(842)	(842)
Balance as at June 30, 2023	303,735	46,315	22,315	372,365
(Unaudited)				
Balance as at January 1, 2022	303,735	46,315	23,805	373,855
Changes in the fair value of an equity instrument at FVOCI, net of tax *(Note 19)*	—	—	291	291
Balance as at June 30, 2022	303,735	46,315	24,096	374,146

(a) Employee share scheme of the Company

Pursuant to the board resolution dated September 27, 2021, the Company announced an employee share scheme, under which the Company granted 3,000,000 shares in total to certain directors and employees at the cash consideration of RMB30,000,000. There is no vesting condition for these shares, therefore the shares vested immediately on the grant date. According to the fair value as appraised by the market price adopted by the recent share transactions entered between certain independent shareholders, the fair value of the shares subscribed amounted to RMB48,000,000. The difference between the fair value and the subscription price of the shares under the scheme amounting to RMB18,000,000 was recognized as share-based payment expenses in the profit or loss.

(b) Statutory reserves

In accordance with relevant rules and regulations in the PRC, when declaring dividend, the Group's PRC subsidiaries are required to appropriate not less than 10% of their profit after taxation calculated under PRC accounting rules and regulations to the statutory reserve fund, until the accumulated total of the fund reaches 50% of the registered capital of the respective companies. The statutory reserve fund can only be used, upon approval by the relevant authority, to offset losses brought forward from prior years or to increase the paid-up capital of respective companies.

(c) Changes in ownership interests in subsidiaries without change of control

During the year ended December 31, 2022, the Group acquired 30% of equity interests of Xi'an Tangyun Guming Tea Co., Ltd. from a non-controlling shareholder for a cash consideration of RMB4,000,000. The difference between the consideration paid and the carrying amount of the equity interest acquired amounting to RMB1,436,000 was recognized as a reduction in other reserves.

During the six months ended June 30, 2023, the Group acquired 20% of equity interests of Xi'an Renhe Langu Tea Co., Ltd. from a non-controlling shareholder for a cash consideration of RMB600,000. The difference between the consideration paid and the carrying amount of the equity interest acquired amounting to RMB102,000 was recognized as a reduction in other reserves.

27 DEFERRED INCOME

The Group

	Year ended December 31,			Six months ended June 30,	
	2020	**2021**	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
At the beginning of the year/period	9,584	9,972	9,387	9,387	9,136
Additions	1,000	—	375	—	1,900
Recognized as other income	(612)	(585)	(626)	(313)	(322)
At the end of the year/period	9,972	9,387	9,136	9,074	10,714

The Company

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
At the beginning of the year/period	6,860	7,357	6,881	6,881	6,739
Additions	1,000	—	375	—	1,900
Recognized as other income	(503)	(476)	(517)	(259)	(268)
At the end of the year/period	7,357	6,881	6,739	6,622	8,371

As at December 31, 2020, 2021, 2022 and June 30, 2023, deferred income mainly represented government grants received from certain local municipal governments as encouragement for the Group's purchase of property, plant and equipment and to compensate for certain expenses to be incurred. Government grants relating to assets are being recognized as other income on a straight-line basis over the expected lives of the related properties and government grants relating to expenses are deferred and recognised in profit or loss over the period necessary to match them with the expenses that they are intended to compensate.

28 BORROWINGS

The Group

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current				
Bank borrowings	110,750	154,850	178,200	179,000
Less: current portion of non-current borrowings	(3,000)	(6,650)	(101,900)	(79,100)
	107,750	148,200	76,300	99,900
Current				
Bank borrowings	3,000	—	33,000	33,000
Current portion of non-current borrowings	3,000	6,650	101,900	79,100
	6,000	6,650	134,900	112,100
Total borrowings	113,750	154,850	211,200	212,000

The Company

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current				
Bank borrowings	102,700	149,200	178,200	179,000
Less: current portion of non-current borrowings	(600)	(1,000)	(101,900)	(79,100)
	102,100	148,200	76,300	99,900
Current				
Current portion of non-current borrowings	600	1,000	101,900	79,100
	600	1,000	101,900	79,100
Total borrowings	102,700	149,200	178,200	179,000

(a) As at December 31, 2020, 2021, 2022 and June 30, 2023, bank borrowings of RMB110,750,000, RMB154,850,000, RMB178,200,000 and RMB209,000,000 were secured by property, plant and equipment (Note 16), inventories (Note 20) and right-of-use assets (Note 17), and guaranteed by the related parties of the Group (Note 34(e)). The guarantees provided by the related parties of the Group will be released upon [REDACTED].

(b) Details of borrowings with variable rates and fixed rates were presented in Note 3.1.1(b).

(c) The weighted average effective interest rates for the years ended December 31, 2020, 2021, 2022 and six months ended June 30, 2023 were 4.63%, 4.03%, 3.86%, and 3.68% per annum, respectively.

As at December 31, 2020, 2021, 2022 and June 30, 2023, the Group's borrowings were repayable as follows:

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	6,000	6,650	134,900	112,100
Between 1 and 2 years	6,250	101,900	76,300	3,200
Between 2 and 5 years	101,500	46,300	—	96,700
	113,750	154,850	211,200	212,000

The carrying amounts of the borrowings approximate their fair values and all balances were denominated in RMB.

29 TRADE AND OTHER PAYABLES

The Group

	As at December 31,			As at June 30,
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables				
— Third parties	33,553	40,327	94,304	93,807
— Related parties *(Note 34(d))*	59	—	26,606	37,504
Other payables				
— Deposits from distributors	44,459	42,801	40,575	38,716
— [REDACTED] payables	—	5,026	9,156	9,297
— Payables for purchase of property, plant and equipment	1,633	3,854	4,375	2,205
— Dividend payables	—	—	—	6,300
— Others	2,824	4,405	6,502	9,744
Employee benefit payables	11,330	15,407	8,796	5,086
Other tax payables	2,510	7,819	12,471	5,348
	96,368	119,639	202,785	208,007

The Company

	As at December 31,			As at June 30,
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables				
— Third parties	13,966	33,146	68,692	83,795
— Related parties	—	—	26,606	37,504
— Group companies	—	—	608	536
Other payables				
— Deposits from distributors	44,225	42,652	40,443	38,586
— [REDACTED] payables	—	5,026	9,156	9,297
— Dividend payables	—	—	—	6,300
— Payables for purchase of property, plant and equipment	1,617	3,684	1,681	1,643
— Others	1,235	1,118	668	2,052
Employee benefit payables	3,793	3,844	3,857	2,191
Other tax payables	34	4,529	9,527	1,950
	64,870	93,999	161,238	183,854

The ageing analysis of the trade payables based on invoice dates is as follows:

The Group

	As at December 31,			As at June 30,
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Up to 3 months	7,712	18,633	36,205	94,270
3 to 6 months	15,332	4,136	56,319	3,264
6 months to 1 year	10,568	17,537	28,386	26,905
1 year to 2 years	—	21	—	6,872
	33,612	40,327	120,910	131,311

The Company

	As at December 31,			As at June 30,
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Up to 3 months	1,877	14,731	24,149	88,710
3 to 6 months	1,521	4,136	43,401	2,218
6 months to 1 year	10,568	14,258	28,356	24,037
1 year to 2 years	—	21	—	6,870
	13,966	33,146	95,906	121,835

As at December 31, 2020, 2021, 2022 and June 30, 2023, the carrying amounts of trade and other payables were all denominated in RMB and approximated their fair values.

30 DEFERRED INCOME TAX

The Group

The analysis of deferred income tax assets and liabilities is as follows:

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Gross deferred income tax assets:				
Deferred income tax assets to be recovered after more than 12 months	18,300	40,072	47,889	46,748
Deferred income tax assets to be recovered within 12 months	25,435	34,737	37,713	38,552
	43,735	74,809	85,602	85,300
Set-off of deferred income tax assets pursuant to set-off provisions	(14,161)	(27,234)	(32,531)	(29,360)
Net deferred income tax assets	29,574	47,575	53,071	55,940
Gross deferred income tax liabilities:				
Deferred income tax liabilities to be settled after more than 12 months	15,246	28,258	33,441	30,121
Set-off of deferred income tax assets pursuant to set-off provisions	(14,161)	(27,234)	(32,531)	(29,360)
Net deferred income tax liabilities	1,085	1,024	910	761

The net movements on deferred income tax account are as follows:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
At the beginning of the year/period	17,093	28,489	46,551	46,551	52,161
Credited to profit or loss *(Note 11)*	11,059	18,001	5,496	6,894	2,869
Credited/(charged) to other comprehensive income	337	61	114	(51)	149
At the end of the year/period	28,489	46,551	52,161	53,394	55,179

The movements in deferred income tax assets/liabilities account before offsetting during the Track Record Period are as follows:

Deferred income tax assets	Tax losses	Lease liabilities	Provision of trade and other receivables	Government grants	Write-down of inventories	Employee share scheme	Unrealized profit on transactions with an associate	Unrealized profit on intra-group transactions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended December 31, 2020									
Opening book amount	342	7,439	256	1,438	—	—	—	16,245	25,720
Credited/(charged) to profit or loss	3,218	7,301	(235)	58	—	—	—	7,673	18,015
Closing book amount	3,560	14,740	21	1,496	—	—	—	23,918	43,735
Year ended December 31, 2021									
Opening book amount	3,560	14,740	21	1,496	—	—	—	23,918	43,735
Credited/(charged) to profit or loss	5,389	13,683	389	(88)	245	2,700	—	8,756	31,074
Closing book amount	8,949	28,423	410	1,408	245	2,700	—	32,674	74,809
Year ended December 31, 2022									
Opening book amount	8,949	28,423	410	1,408	245	2,700	—	32,674	74,809
Credited/(charged) to profit or loss	2,104	5,713	89	(38)	74	—	125	2,726	10,793
Closing book amount	11,053	34,136	499	1,370	319	2,700	125	35,400	85,602
Six months ended June 30, 2023									
Opening book amount	11,053	34,136	499	1,370	319	2,700	125	35,400	85,602
Credited/(charged) to profit or loss	1,583	(2,724)	682	(1,370)	20	—	40	1,467	(302)
Closing book amount	12,636	31,412	1,181	—	339	2,700	165	36,867	85,300
(Unaudited)									
Six months ended June 30, 2022									
Opening book amount	8,949	28,423	410	1,408	245	2,700	—	32,674	74,809
Credited/(charged) to profit or loss	4,886	1,777	(116)	(47)	1	—	134	1,877	8,512
Closing book amount	13,835	30,200	294	1,361	246	2,700	134	34,551	83,321

Deferred income tax liabilities	Right-of-use assets	Fair value losses	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended December 31, 2020			
Opening book amount	7,205	1,422	8,627
Charged to profit or loss	6,956	—	6,956
Credited to other comprehensive income	—	(337)	(337)
Closing book amount	14,161	1,085	15,246
Year ended December 31, 2021			
Opening book amount	14,161	1,085	15,246
Charged to profit or loss	13,073	—	13,073
Credited to other comprehensive income	—	(61)	(61)
Closing book amount	27,234	1,024	28,258

Deferred income tax liabilities	**Right-of-use assets**	**Fair value losses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Year ended December 31, 2022			
Opening book amount	27,234	1,024	28,258
Charged to profit or loss	5,297	—	5,297
Credited to other comprehensive income	—	(114)	(114)
Closing book amount	32,531	910	33,441
Six months ended June 30, 2023			
Opening book amount	32,531	910	33,441
Credited to profit or loss	(3,171)	—	(3,171)
Credited to other comprehensive income	—	(149)	(149)
Closing book amount	29,360	761	30,121
(Unaudited)			
Six months ended June 30, 2022			
Opening book amount	27,234	1,024	28,258
Charged to profit or loss	1,618	—	1,618
Charged to other comprehensive income	—	51	51
Closing book amount	28,852	1,075	29,927

Deferred income tax assets are recognized for the tax losses carry-forward to the extent that the realization of the related tax benefit through future taxable profits is probable. As at December 31, 2020, 2021, 2022 and June 30, 2023, the Group did not recognize deferred income tax assets of RMB190,000, RMB275,000, RMB5,452,000 and RMB7,498,000 in respect of tax losses and temporary differences amounting to RMB760,000, RMB1,100,000, RMB21,808,000 and RMB29,992,000 respectively, which can be carried forward to offset against future taxable income due to uncertainty of realization. The tax losses shall expire in five years from the year of occurrence under the current tax legislation.

Unused tax losses and temporary differences for which no deferred tax asset was recognized as follows:

	As at December 31,			**As at June 30,**
Expire year	**2020**	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2025	760	760	760	760
2026	—	340	340	340
2027	—	—	20,708	20,708
2028	—	—	—	8,184
	760	1,100	21,808	29,992

31 CASH FLOW INFORMATION

(a) Cash generated from operations

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Profit before income tax	140,019	146,282	85,449	34,532	27,032
Adjustments for:					
Depreciation of property, plant and equipment	8,650	12,243	18,393	9,183	11,109
Depreciation of right-of-use assets	13,885	22,609	29,773	13,426	18,657
Amortization of intangible assets	43	79	587	211	463
Net (reversal of impairment losses)/ impairment losses on financial assets	(670)	1,870	660	(198)	2,795
Write-down of inventories	—	1,167	706	341	671
Remeasurement gains resulting from associates transferred to subsidiaries	—	(139)	—	—	—
Losses from disposal of an associate	—	—	—	—	210
Impairment losses of right-of-use assets	—	511	—	—	694
Net losses on disposals of property, plant and equipment	453	447	33	18	(13)
Amortization of deferred income	(612)	(585)	(626)	(313)	(322)
Gains on right-of-use assets transfer to finance lease receivables	—	—	—	—	(194)
Dividend income from financial asset at FVOCI	(468)	—	—	—	(565)
Net (losses)/gains from disposals of right-of-use assets	(234)	(153)	128	(8)	(90)
Fair value change of FVPL	—	—	(79)	(79)	—
Share-based payment expenses	—	18,000	—	—	—
Finance costs — net	5,960	8,689	12,783	5,736	7,657
Effect of share of net losses of investments in associates	1	4,345	3,726	297	194
Changes in working capital					
Trade and other receivables	7,281	(22,179)	(10,347)	8,303	(5,941)
Prepayments	(8,800)	(6,273)	2,994	(9,526)	(1,233)
Contract liabilities	16,086	(7,284)	(9,920)	(861)	7,834
Inventories	(56,088)	(166,238)	(148,691)	(105,592)	(51,575)
Deferred income	—	—	—	—	1,900
Trade and other payables	(959)	21,047	82,625	93,222	1,092
Cash generated from operations	124,547	34,438	68,194	48,692	20,375

(b) Net debt reconciliation

	Lease liabilities	Borrowings	Total
	RMB'000	*RMB'000*	*RMB'000*
As at January 1, 2020	30,481	130,950	161,431
Cash inflows	—	106,000	106,000
Cash outflows	(29,159)	(123,200)	(152,359)
Non-cash items:			
Addition of leases	64,658	—	64,658
Interest expense	1,891	5,317	7,208
Interest payments (presented as operating cash flows)	(1,891)	(5,317)	(7,208)
Disposals	(2,517)	—	(2,517)
As at December 31, 2020	63,463	113,750	177,213
As at January 1, 2021	63,463	113,750	177,213
Cash inflows	—	50,300	50,300
Cash outflows	(25,297)	(9,200)	(34,497)
Non-cash items:			
Addition of leases	89,644	—	89,644
Acquisition of subsidiaries *(Note 32)*	4,497	—	4,497
Interest expense	5,051	5,716	10,767
Interest payments (presented as operating cash flows)	(5,051)	(5,716)	(10,767)
Disposals	(3,720)	—	(3,720)
As at December 31, 2021	128,587	154,850	283,437
As at January 1, 2022	128,587	154,850	283,437
Cash inflows	—	63,000	63,000
Cash outflows	(25,164)	(6,650)	(31,814)
Non-cash items:			
Addition of leases	70,544	—	70,544
Interest expense	6,671	6,829	13,500
Interest payments (presented as operating cash flows)	(6,671)	(6,829)	(13,500)
Disposals	(4,756)	—	(4,756)
As at December 31, 2022	169,211	211,200	380,411

	Lease liabilities	Borrowings	Total
	RMB'000	*RMB'000*	*RMB'000*
As at January 1, 2023	169,211	211,200	380,411
Cash inflows	—	103,000	103,000
Cash outflows	(14,428)	(102,200)	(116,628)
Non-cash items:			
Addition of leases	4,055	—	4,055
Interest expense	3,873	3,946	7,819
Interest payments (presented as operating cash flows)	(3,873)	(3,946)	(7,819)
Disposals	(1,457)	—	(1,457)
As at June 30, 2023	157,381	212,000	369,381
(Unaudited)			
As at January 1, 2022	128,587	154,850	283,437
Cash inflows	—	33,000	33,000
Cash outflows	(11,773)	(6,150)	(17,923)
Non-cash items:			
Addition of leases	9,653	—	9,653
Interest expense	3,138	3,080	6,218
Interest payments (presented as operating cash flows)	(3,138)	(3,080)	(6,218)
Disposals	(130)	—	(130)
As at June 30, 2022	126,337	181,700	308,037

(c) Proceeds from disposals of property, plant and equipment

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Net book amount of disposed property, plant and equipment *(Note 16)*	580	1,875	112	44	90
Net losses on disposals of property, plant and equipment	(453)	(447)	(33)	(18)	13
Proceeds from disposals of property, plant and equipment	127	1,428	79	26	103

32 Business combination

In August 2021 and December 2021, the Group acquired 30% of the issued shares in Yixing City Langu Gongfang E-commerce Co., Ltd. and 25% of the issued shares in Henan Delan Tea Co., Ltd. from the respective shareholders, at total considerations of RMB550,000. Upon the completion of the acquisitions, the associates became the subsidiaries of the Group and a combined remeasurement gain of RMB139,000 was recognized. The directors of the Company consider that none of these subsidiaries acquired during the year was significant to the Group and thus the individual financial information of these subsidiaries on the acquisition date was not disclosed.

Details of the purchase considerations, the net assets acquired are as follows:

	Total
	RMB'000
Purchase consideration	
Cash consideration	550
Fair value of investments in associates held before business combination	1,651
Total purchase consideration	2,201
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	1,001
Property, plant and equipment	641
Right-of-use assets	4,497
Inventories	259
Trade and other receivables	41
Prepayments	565
Trade and other payables	(49)
Lease liabilities	(4,497)
Total identifiable net assets	2,458
Less: non-controlling interests	(257)
Identifiable net assets attributable to the Group	2,201
Net cash inflow arising on acquisitions during the year ended December 31, 2021:	
Cash and cash equivalents in the subsidiaries acquired	1,001
Less: total cash considerations	(550)
Cash inflow in the year	451

The acquired businesses contributed revenues of nil and net profits of RMB50,000 to the Group for the period from the respective acquisition dates to December 31, 2021.

If the acquisitions had occurred on January 1, 2021, the Group's consolidated pro-forma revenue and profit for the year ended December 31, 2021 would have been RMB560,121,000 and RMB128,468,000, respectively.

No contingent liability has been recognized for the business combination.

33 COMMITMENTS

(a) Operating leases commitments

The future aggregate minimum lease payments of the Group under non-cancellable short-term operating leases are as follows:

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
No later than one year	420	1,873	334	514

(b) Capital commitments

The Group has the following capital expenditures contracted but not provided for in the Historical Financial Information.

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	8,416	9,733	10,766	14,196

34 RELATED PARTIES TRANSACTIONS

(a) Name and relationship with related parties

English name*	Chinese name	Relationship
Du Chunyi	杜春嶧	Controlling shareholders
Wang Juan	王娟	Controlling shareholders
Shi Yue	石躍	Close family member of the controlling shareholders
Shi Ailing	石艾靈	Close family member of the controlling shareholders
He Chengrui	何承睿	Close family member of the controlling shareholders
Shi Yijing	石一景	Director
Zhang Muheng	張慕衡	Director
Fu Gang	付剛	Director
Liu Jiajie	劉佳杰	Director
Huang Yingzhi	黃瀅芝	Supervisor
Zhu Meixuan	朱美宣	Supervisor
Luo Zhonghong	羅忠宏	Supervisor
Cao Wei	曹瑋	Independent non-executive Director
Xie Xiaoyao	謝曉堯	Independent non-executive Director
Tang Zhangliang	湯章亮	Independent non-executive Director
Wang Xiaolu	王曉路	Independent non-executive Director
Yang Lihua	楊麗華	Key management personnel
Linyi Wholesale City Puqin Tea Shop	臨沂批發城普沁茶行	Companies controlled by close family members of a key management personnel

English name*	Chinese name	Relationship
Lancang Jiarun Tea House	瀾滄佳潤茶行莊	Companies controlled by close family members of a key management personnel
Yixing City Langu Gongfang E-commerce Co., Ltd.	宜興市瀾古工坊電子商務有限公司	Associate (i)
Henan Delan Tea Co., Ltd.	河南德瀾茶業有限公司	Associate (i)
Pu'er Tea Small Town Investment Co., Ltd.	普洱茶小鎮投資有限公司	Associate
Chongqing Langu Tea Co., Ltd.	重慶瀾古茶葉有限公司	Associate
Foshan Lanpu Zunming Tea Co., Ltd.	佛山市瀾普尊茗茶業有限公司	Associate
Hefei Cangping Tea Co., Ltd.	合肥滄平茶葉有限公司	Associate
Shanghai Tea Mama Tea Sales Co., Ltd.	上海茶媽媽茶葉銷售有限公司	Associate
Hangzhou Jingshangjing Trading Co., Ltd.	杭州景上景商貿有限公司	Associate
Qingdao Langu Tea Co. Ltd.	青島瀾古茶業有限公司	Associate
Qingdao Lancang Tea Mama Tea Co., Ltd.	青島瀾滄茶媽媽茶業有限公司	Associate
Dongying Youfang Langu Tea Co., Ltd.	東營有方瀾古茶業有限公司	Associate
Anhui Lanzai Tea Co., Ltd.	安徽瀾在茶葉有限公司	Associate
Dongguan Langu Tea Trade Co., Ltd.	東莞瀾古茶業商貿有限公司	Associate
Shenzhen Langu Tea Co., Ltd.	深圳瀾古茶葉有限公司	Associate
Yunnan Jingyan Tea Industry Co., Ltd.	雲南景巖茶業有限公司	Associate
Hefei Cangxin Tea Co., Ltd.	合肥滄新茶葉有限公司	Associate
Chongqing Lan'er Tea Co., Ltd.	重慶瀾洱茶葉有限公司	Subsidiary of an associate
Foshan Lanpuwanzhong Tea Co., Ltd.	佛山市瀾普萬中茶業有限公司	Subsidiary of an associate
Foshan Lanpu Zhicheng Tea Co., Ltd.	佛山市瀾普智成茶業有限公司	Subsidiary of an associate
Shanghai Huangpu Tea Mama Jingmai Tea Sales Co., Ltd	上海黃浦茶媽媽景邁茶業銷售有限公司	Subsidiary of an associate

(i) Yixing City Langu Gongfang E-commerce Co., Ltd. and Henan Delan Tea Co., Ltd. were transferred to subsidiaries from August 31, 2021 and December 31, 2021, respectively.

(ii) The English names of certain entities referred to above represent the best effort made by management of the Company to translate the Chinese names as they have not registered any official English names.

(b) Key management compensation

Compensations for key management for the Track Record Period is set out as below:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Wages, salaries and bonuses	5,009	6,890	3,980	1,868	1,655
Share-based payment expenses	—	18,000	—	—	—
Contributions to retirement benefit scheme	18	274	371	170	206
Other social security costs, housing benefits and employee benefits	133	229	381	176	266
	5,160	25,393	4,732	2,214	2,127

(c) Transactions with related parties

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Sales of goods:					
Associates and their subsidiaries	22	25,571	28,483	11,203	11,411
Companies controlled by close family members of a key management personnel	362	316	16	16	—
Controlling shareholders	72	171	133	78	50
Close family members of the controlling shareholders	13	97	—	—	—
Directors	46	96	18	13	2
Supervisors	9	—	—	—	—
	524	26,251	28,650	11,310	11,463
Purchases of goods:					
Associate	59	1,320	—	—	—
Purchases of service:					
Associate	—	—	3,240	2,778	1,713

The transaction was conducted in the ordinary course of business in accordance with terms mutually agreed between the Group and respective related parties.

(d) Balances with related parties

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade:				
Trade receivables				
— Associates	—	855	2,274	4,178
Trade Payables				
— Associate	59	—	26,606	37,504
Contract liabilities				
— Associates and their subsidiaries	—	1,108	34	6,134
— Controlling shareholder	—	10	15	16
— Directors	17	3	2	2
	17	1,121	51	6,152
Other payables				
— Companies controlled by close family members of a key management personnel	50	50	—	—
Non-trade:				
Other payables				
— Directors	1	19	—	—
— Associates	—	—	—	13
— Key management personnel	—	1	—	—
	51	70	—	13

(i) Trade and notes receivables, trade and other payables and contract liabilities were denominated in RMB, unsecured, interest-free, repayable on demand.

(e) Guarantees in respect of bank borrowings provided by related parties

As at December 31, 2020, 2021, 2022 and June 30, 2023, the amounts of guarantees in respect of bank borrowings provided by related parties are as follows:

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Controlling shareholders	219,050	202,910	202,910	202,910
Director	20,000	20,000	—	—
	239,050	222,910	202,910	202,910

As at December 31, 2020, 2021, 2022 and June 30, 2023, the amounts utilized by the Group were RMB110,750,000, RMB154,850,000, RMB148,200,000 and RMB46,000,000, respectively. The above guarantees will be released upon [REDACTED].

35 CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at December 31, 2020, 2021, 2022 and June 30, 2023.

36 EVENTS AFTER THE REPORTING PERIOD

There have been no material events subsequent to the Track Record Period, which require adjustment or disclosure in accordance with HKFRSs.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries now comprising the Group in respect of any period subsequent to June 30, 2023 and up to the date of this report.

The following information does not form part of the Accountant's Report from [PricewaterhouseCoopers], Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set forth in Appendix I to this document, and is included herein for information only. The unaudited [REDACTED] financial information should be read in conjunction with the section entitled "Financial Information" in this document and the "Accountant's Report" set forth in Appendix I to this document.

A. UNAUDITED [REDACTED] STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited [REDACTED] statement of adjusted net tangible assets of the Group has been 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 [REDACTED] on the audited consolidated net tangible assets of the Group attributable to the owners of the Company as of June 30, 2023 as if [REDACTED] had taken place on June 30, 2023 assuming [REDACTED] is not exercised.

This unaudited [REDACTED] statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to the owners of the Company had [REDACTED] been completed as at June 30, 2023 or at any future dates.

	Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at June 30, 2023	Estimated [REDACTED] from the [REDACTED]	Unaudited [REDACTED] adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at June 30, 2023	Unaudited [REDACTED] adjusted net tangible assets per Share	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on an [REDACTED] of HK$[REDACTED] per Share	808,503	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK$[REDACTED] per Share	808,503	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to the owners of the Company as at June 30, 2023 is extracted from the Accountant's Report set out in Appendix I to this document, which is based on the audited consolidated net assets of the Group attributable to the owners of the Company as at June 30, 2023 of approximately RMB811,358,000 with adjustment for intangible assets of approximately RMB2,855,000.

(2) The estimated [REDACTED] from [REDACTED] are based on [REDACTED] and the indicative [REDACTED] of HK$[REDACTED] per Share and HK$[REDACTED] per Share, being low and high end of the indicative [REDACTED] range, after deduction of the [REDACTED] fees and other related expenses (excluding [REDACTED] of approximately [REDACTED] which have been recognised in the consolidated statements of comprehensive income up to the six months ended June 30, 2023) and takes no account of any Shares which may be issued upon the exercise of [REDACTED] or any Shares which may be issued or repurchased by the Company.

(3) The unaudited [REDACTED] net tangible assets of the Group 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 [REDACTED] has been completed on June 30, 2023 but takes no account of any Shares which may be allotted and issued pursuant to the exercise of [REDACTED] or any Shares which may be issued or repurchased by the Company.

(4) For the purpose of this unaudited [REDACTED] adjusted net tangible assets per Share, the balances stated in Renminbi are converted into Hong Kong dollars at a rate of RMB0.91550 to HK$1.00, as set out in "Information about this Document and the [REDACTED]" to this document. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(5) No adjustment has been made to the unaudited [REDACTED] adjusted net tangible assets per Share to reflect any [REDACTED] result or other transaction of the Group entered into subsequent to June 30, 2023.

[REDACTED]

[REDACTED]

[REDACTED]

This appendix sets out the summary of the principal provisions of the Articles of Association which will be effective from the [REDACTED].

SHARES AND REGISTERED CAPITAL

The Shares take the form of share certificates. All the shares issued by the Company are denominated in RMB with a par value of RMB1 per Share.

The Company shall issue shares in an open, fair and just manner, and each share of the same class shall have equal rights.

All shares of the same class issued at the same time shall be issued under the same conditions and at the same price; the same price shall be paid for each share subscribed by any entities or individuals.

INCREASE, DECREASE AND REPURCHASE OF SHARES

Increase of Capital

Pursuant to the requirements of laws and regulations, the Company may, based on its operation and development needs, increase its capital in the following manners upon respective resolutions being adopted at general meetings:

1. by public offering of shares;
2. by non-public offering of shares;
3. by issuing bonus shares to existing shareholders;
4. by capital increase through provident fund transfer;
5. by other ways permitted by the laws, administrative regulations and relevant regulatory authorities.

Decrease of Capital

The Company may reduce registered capital. The Company shall prepare a balance sheet and a list of assets in the event it is required to reduce registered capital.

The Company's reduction of registered capital shall be carried out in accordance with the procedures stipulated in the PRC Company Law, the Listing Rules and other relevant regulations as well as the Company's Articles of Association.

Repurchase of Shares

The Company is not allowed to repurchase its shares except under one of the following circumstances:

1. to reduce the registered capital of the Company;
2. to merge with other companies which hold shares in the Company;

3. to utilize its shares in employee stock ownership plans or share incentive plans;

4. acquiring shares held by shareholders, who vote against any resolution proposed in any general meeting on the merger or division of the Company, upon their request;

5. using shares for converting corporate bonds issued by the Company which are convertible into shares;

6. for the need of protecting corporate value and shareholders' interests;

7. other circumstances as permitted by laws, administrative regulations, departmental rules, normative documents and the securities regulatory rules of the places where the Company's shares are listed.

The Company may purchase its shares through public centralized trading or other ways as permitted by laws, administrative regulations, securities regulatory rules of the place where the Shares are listed and relevant regulatory authorities.

The acquisition shall be resolved at a general meeting of the Company if the Company acquires its shares under the circumstances prescribed in items 1 and 2 above. The acquisition may be resolved at a Board meeting attended by at least two-thirds (2/3) of the Directors in accordance with the provisions of the Articles of Association or the authorization of the general meeting if the Company acquires shares under the circumstances prescribed in item 3, 5 and 6 above.

The shares acquired by the Company shall be cancelled within ten (10) days from the date of acquisition if it falls under the circumstances prescribed in item 1 above. The shares shall be transferred or cancelled within six (6) months if the acquisition falls under the circumstances prescribed in items 2 and 4 above. The shares shall be transferred or cancelled within three (3) years if the acquisition falls under the circumstances prescribed in items 3, 5 and 6 above and the total number of shares held by the Company shall not exceed 10% of the total issued Shares.

Where the laws and regulations, normative documents and relevant requirements of the Securities Regulatory Authorities in the place where the Company's shares are listed contain any other provisions in respect of the relevant matters related to the aforementioned share buy-back, such provisions shall prevail.

TRANSFER OF SHARES

The Shares held by the promoters shall not be transferred within one year after the incorporation of the Company. Shares issued prior to any public offer of Shares shall not be transferred within one year from the date on which the Shares are [REDACTED] and [REDACTED] on the Stock Exchange.

The Directors, Supervisors and senior management of the Company shall report to the Company their shareholdings and changes thereof and shall not transfer more than twenty-five per cent (25%) of the total number of their shares in the Company per annum as long as they hold office in the Company. The shares held by them shall not be transferred within one year of the date on which the shares are listed and traded. The aforesaid persons shall not transfer their shares in the Company within half a year after they terminate service with the Company.

Register of Shareholders

The Company establishes a register of shareholders in accordance with certificates from the share registrar. The register of shareholders represents sufficient evidence of the shareholders' shareholding in the Company.

The register of shareholders registers the following particulars or registers shareholders in accordance with the laws, administrative regulations, departmental rules and the Listing Rules:

1. the name (title), address (domicile), occupation or nature of each Shareholder;
2. the class and number of shares held by each Shareholder;
3. the amount paid or payable for the shares held by each Shareholder;
4. the serial number of the share certificate held by each Shareholder;
5. the date on which each shareholder is registered as a Shareholder;
6. the date on which each shareholder ceases to be a Shareholder.

The shareholders' register serves as sufficient evidence of the shareholders' shareholdings in the Company unless there is evidence to the contrary.

The Company may keep overseas the register of shareholders of H Shares and entrust the administration thereof to an overseas agent in accordance with the understanding and agreement reached between the securities regulatory authorities of the State Council and the overseas Securities Regulatory Authorities. The original register of shareholders of H Shares [REDACTED] on the Stock Exchange shall be kept in Hong Kong.

The Company shall keep at its domicile a copy of the register of shareholders of H Shares. The entrusted overseas agent shall always ensure that the original and copies of the register of shareholders of H Shares are consistent.

Where the original and copies of the register of shareholders of H Shares are inconsistent, the original shall prevail.

The Company shall keep a complete shareholders' register, which shall include the following parts:

1. the register(s) of shareholders kept at the Company's domicile other than those specified in items 2 and 3;

2. the original register(s) of shareholders of H Shares kept in the place(s) of the overseas stock exchange(s) where the shares are listed;

3. the register(s) of shareholders kept in other places as the Board may decide and consider necessary for listing purposes.

The various parts of the register of shareholders shall not overlap with each another. The transfer of shares registered in a certain part of the register of shareholders shall not, during the continuance of the registration of such shares, be registered in any other part of the register of shareholders.

Changes and corrections to each part of the register of shareholders shall be carried out in accordance with the laws of the places where each part is kept.

When the Company convenes a general meeting, distributes dividends, commences liquidation or participates in other activities requiring the identification of shareholders, the Board or the convener of the general meeting shall decide the share record date. The shareholders whose names appear on the register of shareholders at the close of trading on the share record date shall be entitled to the relevant rights.

RIGHTS AND OBLIGATIONS OF SHAREHOLDERS

The Shareholders of the Company shall be entitled to the following rights:

1. the right to receive dividends and other profit distributions in proportion to their shareholdings;

2. the right to request, convene, preside, attend or appoint proxies to attend general meetings lawfully and to exercise the corresponding voting rights;

3. the right to supervise the operation of the Company, to present proposals or to raise enquires;

4. the right to transfer, gift or pledge shares in accordance with laws, administrative regulations as well as the Articles of Association;

5. the right to access the Articles of Association, register of shareholders, corporate bond stubs, minutes of general meetings, resolutions of Board meetings, resolutions of the Supervisory Committee meetings and financial accounting reports;

6. in the event of the termination or liquidation of the Company, to participate in the distribution of remaining assets of the Company in accordance with the shareholdings;

7. with respect to shareholders who vote against any resolution adopted at the shareholders' general meeting on the merger or division of the Company, the right to demand the Company to buy back their shares;

8. other rights prescribed by laws, administrative regulations, departmental rules and the Articles of Association.

The Shareholders of the Company shall have the following obligations:

1. to abide by laws, administrative regulations and the Articles of Association;

2. to pay capital contribution for the shares subscribed for in the prescribed method of subscription;

3. not to return the shares except as otherwise provided for by laws and regulations;

4. not to abuse their shareholders' rights to jeopardize the interests of the Company or other shareholders; and not to abuse the status of the Company as an independent legal person and the limited liability of shareholders to jeopardize the interests of any creditors of the Company;

5. to fulfill other obligations as stipulated by laws, administrative regulations, the securities regulatory rules of the places where the Company's shares are listed and the Articles of Association.

If a shareholder of the Company abuses the rights of shareholders to incur losses to the Company or other shareholders, then the shareholder concerned shall be liable for compensation in accordance with the law. A shareholder who abuses the independent status of the Company as a legal entity and the limited liability of shareholders to evade debts and seriously damage the interests of the Company's creditors shall be jointly and severally liable for the debts of the Company.

RESTRICTIONS ON THE CONTROLLING SHAREHOLDERS' RIGHTS

The controlling shareholders and effective controllers of the Company shall not use their affiliation to harm the interests of the Company. Anyone who violates the regulations and incurs losses to the Company shall be liable for compensation.

The controlling shareholders and the effective controllers of the Company shall have an obligation of good faith to the Company and the shareholders of the Company's common shares. The controlling shareholders shall exercise their rights as capital contributors strictly in accordance with the law. The controlling shareholders shall neither damage the legitimate rights and interests of the Company and the public shareholders by means of profit distribution, asset reorganization, outbound investment, capital appropriation and loan guarantee nor damage the interests of the Company and the public shareholders by their controlling status.

SHAREHOLDERS' GENERAL MEETING

General rules for the Shareholders' General Meeting

The general meeting is the authority of power of the Company, and shall exercise the following duties and powers in accordance with the law:

1. to decide the Company's operational policies and investment plans;
2. to elect and change the Directors and Supervisors who are not employees' representatives and decide on the remunerations of such Directors and Supervisors;
3. to consider and approve the reports of the Board of Directors;
4. to consider and approve reports of the Supervisory Committee;
5. to consider and approve the proposed annual financial budgets and final accounts of the Company;
6. to consider and approve the profit distribution plans and loss recovery plans of the Company;
7. to resolve on the increase or reduction of the registered capital of the Company;
8. to resolve on the bonds of the Company;
9. to resolve on the merger, division, dissolution, liquidation or change in the form of the Company;
10. to amend the Articles of Association;
11. to resolve on the Company's engagement and removal of accounting firms;
12. to consider and approve the guarantees as stipulated in Article 48 of the Articles of Association;
13. to consider and approve the Company's purchase or disposal of major assets within one year with the aggregate transaction amount exceeding thirty per cent (30%) of the latest audited total assets of the Company;

14. to consider and approve the related transactions required to be approved by the general meeting in accordance with the laws, regulations, and the listing rules of the places where the Company's shares are listed;

15. to consider and approve the change in use of proceeds;

16. to consider and approve equity incentive plan and employee stock ownership plan;

17. to resolve on the acquisition of the Company's shares under the circumstances prescribed in items 1 and 2 of Article 24 of the Articles of Association;

18. to consider other matters required to be resolved by the shareholders' general meeting pursuant to laws, regulations, departmental rules, the securities regulatory rules of the places where the Company's shares are listed and the Articles of Association.

The duties and powers at the above general meetings shall not be exercised by the Board or other institutions and individuals on behalf of others by way of authorization. Save as the above, the general meetings may authorize or entrust the Board and/or a person authorized by the Board to handle issues that are authorized or entrusted by the meetings, provided that the laws and regulations as well as the mandatory requirements of the relevant laws and regulations of the listing place are not violated.

The general meetings consist of annual general meetings and extraordinary general meetings. The annual general meeting shall be held once (1) every year within six (6) months from the end of the previous financial year.

The Company shall convene an extraordinary general meeting within two (2) months upon occurrence of the following events:

1. when the number of Directors is less than the number stipulated in the Company Law or two-thirds (2/3) of the number specified in the Articles of Association;

2. when the unrecovered losses of the Company amount to one-third of the total amount of its paid-up share capital;

3. at the request of shareholder(s) severally or jointly holding more than ten per cent (10%) of the Company's shares;

4. when the Board considers necessary;

5. when the Supervisory Committee proposes to convene such meeting;

6. any other circumstances stipulated by laws, administrative regulations, departmental regulations, the securities regulatory rules of the places where the Company's shares are listed or the Articles of Association.

Convening of General Meetings

The Board of Directors may convene general meetings. Subject to the provisions of the Articles of Association, the Supervisory Committee or shareholders who severally or jointly hold more than 10% shares in the Company for more than 90 consecutive days may convene general meetings themselves.

Independent non-executive Directors shall be entitled to propose to the Board to convene an extraordinary general meeting. Regarding the proposal requesting to convene an extraordinary general meeting by the independent non-executive Directors, the Board shall, in accordance with laws, administrative regulations and the Articles of Association, inform in writing whether it agrees or disagrees to convene an extraordinary general meeting within ten (10) days upon receipt of the proposal.

The Supervisory Committee shall be entitled to propose to the Board to convene an extraordinary general meeting, and shall put forward its proposal to the Board in writing. The Board shall, pursuant to laws, administrative regulations and the Articles of Association, inform in writing whether it agrees or disagrees to convene the extraordinary general meeting within ten (10) days upon receipt of the proposal.

Shareholder(s) severally or jointly holding ten per cent (10%) or more of the Shares shall be entitled to request the Board to convene an extraordinary general meeting, and shall put forward such request to the Board in writing. The Board shall, pursuant to laws, administrative regulations and the Articles of Association, inform in writing whether it agrees or disagrees to convene the extraordinary general meeting within ten (10) days upon receipt of the request.

If the Board does not agree to hold the extraordinary general meeting or fails to respond within ten (10) days upon receipt of the request, shareholder(s) severally or jointly holding ten per cent (10%) or more of the Shares shall be entitled to propose to the Supervisory Committee to convene an extraordinary general meeting, and shall put forward such request to the Supervisory Committee in writing.

In the case of failure to issue the notice of general meeting within the prescribed period, the Supervisory Committee shall be deemed as failing to convene and preside over the general meeting and the shareholder(s) severally or jointly holding ten per cent (10%) or more Shares for ninety (90) or more consecutive days may convene and preside over such meeting by itself/themselves.

Proposals of General Meetings

When a general meeting is convened by the Company, the Board, Supervisory Committee and shareholder(s) who severally or jointly hold(s) three per cent (3%) or more of the Shares, shall be entitled to make proposals to the general meetings.

Shareholder(s), who severally or jointly hold(s) three per cent (3%) or more of the Shares, may submit ad hoc proposals in writing to the convener ten (10) days before the convening of the general meeting. The convener shall issue a supplemental notice of the general meeting within two (2) days upon receipt of the proposals to announce the contents of the ad hoc proposals.

Except for circumstances provided in the above paragraph, the convener, after issuing the announcement regarding the notice of the general meeting, shall neither modify the proposals stated in the notice of general meetings nor add new proposals.

Notices of the Shareholders' General Meeting

The convener shall notify all shareholders by written meeting notice twenty-one (21) days before the date of convening the annual general meeting and fifteen (15) days before the date of convening the extraordinary general meeting.

Subject to compliance with the relevant provisions of laws and regulations and the requirements of the securities regulatory rules of the place where the Shares are listed and the relevant procedures, the Company may issue notice of general meetings by means of publication on the Company's website and/or the website designated by the Stock Exchange or in such other manners as permitted under the Listing Rules and the Articles of Association.

Convening of Shareholders' General Meeting

All ordinary shareholders registered on the share record date (including shareholders whose voting rights have been restored in respect of preference shares) or their proxies shall be entitled to attend general meetings and shall speak and exercise their voting rights in accordance with the relevant laws and regulations, the Listing Rules and the Articles of Association.

Any individual shareholders who attend the meeting in person should present their identity card or other valid documents or proofs that can indicate their identity and their stock account card. Any shareholders who attend the meeting by proxy should present their valid identity card and power of attorney.

The legal person shareholders shall attend the meeting by the legal representative or the proxy appointed by the legal representative. The legal representative who attends the meeting shall present his/her identity card and valid proof of his/her qualification as a legal representative. The proxy who attends the meeting shall present his/her identity card and a written power of attorney issued by the legal representative of the legal person shareholder under the law (except where the shareholder is a recognized clearing house or its proxy as defined in the relevant ordinance in force from time to time under the laws of Hong Kong).

Such power of attorney shall contain a statement that in the absence of instructions from the shareholders, whether or not his/her proxy may vote at his/her discretion.

The proxy form shall be deposited at the domicile of the Company or such other place as the notice of the general meeting may specify not less than twenty-four (24) hours prior to convening of the general meeting at which the relevant matters will be voted on, or twenty-four (24) hours before the designated voting time. The power of attorney or other authorization documents that authorized signing shall be notarized if the proxy form is signed by a person authorized by the appointing shareholder. The notarized power of attorney or other authorization documents and the proxy form shall be kept at the Company's address or at such other place as specified in the notice convening the meeting.

Where the appointing shareholder is a legal person, its legal representative or the person authorized by the resolution of its Board of Directors or other governing bodies may attend the shareholders' general meetings of the Company as a representative of such appointing shareholder.

Resolutions of Shareholders' General Meetings

Resolutions of the general meeting include ordinary resolutions and special resolutions.

Ordinary resolution at a general meeting shall be adopted by more than one half of the voting rights held by Shareholders (including their proxies) attending the general meeting.

Special resolution at a general meeting shall be adopted by more than two-thirds (2/3) of the voting rights held by Shareholders (including their proxies) attending the general meeting.

The following matters shall be resolved by way of ordinary resolutions at a general meeting:

1. work reports of the Board and the Supervisory Committee;
2. profit distribution plan and loss recovery plan formulated by the Board;
3. appointment and dismissal of the members of the Board and Supervisory Committee, and decide on remuneration and payment methods thereof;
4. annual financial budget and final accounts of the Company;
5. annual report of the Company;
6. matters other than those requiring approval by special resolutions in accordance with laws, administrative regulations or the Articles of Association.

The following matters shall be resolved by way of special resolutions at a general meeting:

1. the increase or reduction of the Company's registered capital;
2. division, spin-off, merger, dissolution and liquidation of the Company;
3. amendments to the Articles of Association;
4. the Company's purchase or disposal of major assets or guarantee exceeds thirty per cent (30%) of the latest audited total assets of the Company within one year;
5. share incentive schemes;
6. other matters stipulated by laws, administrative regulations, the securities regulatory rules of the places where the Company's shares are listed or the Company's Articles of Association and the rules of procedure of the general meeting, and the general meeting of shareholders adopting ordinary resolutions that are considered to have a significant impact on the Company, requiring approval by special resolutions.

DIRECTORS AND BOARD OF DIRECTORS

Directors

Directors shall be elected or replaced at the general meeting and may be removed at the general meeting prior to the expiration of their term of office. The term of office of the Directors is three (3) years and they are eligible for re-election at the end of the term. However, the re-appointment of independent non-executive Director shall be considered and approved by the shareholders by way of a separate resolution if the relevant independent non-executive Director has served for more than nine (9) years. The document accompanying the resolution to the shareholders should state the reasons why the Board (or the nomination committee) considers that the Director remains independent and should be re-elected, including the factors considered as well as the process and the discussion by which the Board (or the nomination committee) made such decision.

The term of office of the Directors shall be counted from the date of appointment until the expiration of the term of the current Board of Directors. When the Directors' term expires and re-election not be held in time, or where the resignation of a Director during his term of office causes the number of Board members to be less than the quorum, the original Directors shall still perform their duties as Directors in accordance with laws, administrative regulations, departmental rules and the Company's Articles of Association before the re-elected Directors take office.

Board of Directors

The Company shall have a Board of Directors which shall be accountable and report to the general meeting. The Board of Directors shall consist of no less than seven (7) Directors with one (1) as chairman.

The Board of Directors exercises the following powers and duties:

1. to convene a general meeting and submit a work report to such meeting;

2. to implement the resolutions of a general meeting;

3. to decide on the operation plan and investment scheme of the Company;

4. to prepare the draft annual budget and final accounts of the Company;

5. to prepare the profit distribution plan and loss recovery plan of the Company;

6. to prepare the plan for the Company to increase or reduce its registered capital, issuance of bonds or other securities and listing plans;

7. to prepare plans for the material acquisitions by the Company, acquisition of the Company's shares under the circumstances specified in items 1 and 2 of Article 24 of the Articles of Association, the mergers, divisions, dissolution and changes of the form of the Company;

8. to decide on the Company's outbound investments, acquisition and sale of assets, pledge of assets, external guarantees, entrusted financial management, connected transactions and external donations in accordance with the provisions of laws, regulations and securities regulatory rules where the Company's shares are listed or within the scope of authorization of the general meeting;

9. to decide, by resolution at a meeting of the Board of Directors attended by at more than two-thirds (2/3) of the Directors, the plan to acquire the Company's shares under the circumstances specified in items 3, 5 and 6 of Article 24 of the Articles of Association;

10. to decide on the establishment of the internal management organisations of the Company;

11. to appoint or dismiss the general manager, the secretary to the Board and such other senior management members; to appoint or dismiss the senior management including the deputy general managers and the chief financial officer of the Company in accordance with the nominations made by general manager, and to decide on their remunerations;

12. to establish a basic management system of the Company;

13. to prepare plans to amend the Articles of Association;

14. to manage information disclosure by the Company;

15. to make the proposal of engaging or replacing an accounting firm to the general meeting;

16. to hear the report by the general manager of the Company and review the work performance of the general manager;

17. to exercise other powers and duties conferred by relevant laws, administrative regulations, departmental regulations, the securities regulatory rules of the stock exchange where the Company's shares are listed or the Articles of Association.

Any matters that are beyond the scope of authorization of the general meeting shall be submitted for consideration at the general meeting.

Save for the circumstances permitted by the Listing Rules and applicable regulations, Directors shall not vote on any resolutions of the Board in respect of approving a contract, transaction or arrangement or any other related proposal in which these Directors or any of their close associates (as defined in the applicable Listing Rules in force from time to time) have a material interest. The Directors concerned shall also not be counted for the purpose of determining whether a quorum is present. A Board meeting may be held with the attendance of a majority of the disinterested Directors, and the resolutions made at a Board meeting shall be approved by a majority of the disinterested Directors. The matter shall be submitted to the general meeting for consideration if the number of disinterested Directors present at the Board meeting is less than three (3).

GENERAL MANAGER

The general manager of the Company is accountable to the Board of Directors and shall exercise the following powers and duties:

1. to be in charge of managing the Company's production and operation, organise the implementation of resolutions of the Board of Directors, and report to the Board of Directors;

2. to organise the implementation of annual operating plans and investment scheme of the Company;

3. to formulate internal management organisation plan;

4. to formulate detailed rules of the Company;

5. to formulate specific management system;

6. to advise to the Board of Directors on the appointment or dismissal of the general manager and the chief financial officer;

7. to decide on the appointment or dismissal of senior management of the Company other than those who should be appointed or dismissed by the Board of Directors;

8. other powers and duties prescribed by the Articles of Association and authorized by the Board of Directors;

The general manager may present at meetings of the Board of Directors.

SECRETARY OF THE BOARD

The Company has a secretary of the Board who is responsible for matters such as preparing the Company's general meetings and Board meetings, safekeeping documents, managing the information of the Company's shareholders and handling information disclosure.

The secretary of the Board shall comply with the relevant provisions of the laws, administrative regulations, departmental rules and the Articles of Association.

SUPERVISORY COMMITTEE

The Company shall establish a Supervisory Committee. The Supervisory Committee consists of three (3) members, one (1) of which is the employee representative supervisor. The Supervisory Committee shall have a chairman, who is elected by the majority votes of the members of the Supervisory Committee. The chairman shall be appointed or dismissed by the votes of two thirds or more of the members of the Supervisory Committee.

The Supervisory Committee shall include shareholders' representatives and an appropriate proportion of employees' representatives, of which the proportion of employees' representatives shall not be less than one-third (1/3). The employees' representatives in the Supervisory Committee shall be democratically elected by the employees of the Company through staff assemblies, staff meetings or other means.

The Supervisory Committee exercises the following powers and duties:

1. to review the report regularly prepared by the Board and provide written audit opinions;

2. to review the financial position of the Company;

3. to supervise the performance of Directors and senior management members in fulfilling their duties to the Company, and propose dismissal of Directors and senior management members that have violated laws, administrative regulations, the Articles of Association or resolutions of the general meeting;

4. to demand rectification by Directors and senior management members of the Company when the acts of such persons are prejudicial to the Company's interest;

5. to propose the convening of an extraordinary general meeting and convene and preside over the shareholders' meeting when the Board of Directors fails to perform such duties provided by the Company Law;

6. to submit proposals to shareholders' general meetings;

7. to initiate litigations against Directors and senior management members in accordance with provisions set out in Article 151 of the Company Law;

8. to investigate if unusual business operation is found in the Company and, if necessary, an accounting firm, law firm or other professional organization may be engaged at the expense of the Company to assist its work.

Resolution of the Board of Supervisors shall require approval from two-thirds (2/3) of the Supervisors.

FINANCE AND ACCOUNTING SYSTEM

The Company shall establish its financial and accounting system in accordance with relevant laws, administrative regulations and requirements of the relevant authorities under the State.

The Company shall prepare a financial report at the end of each financial year, and such financial report shall be audited and verified.

The Company shall file, disclose and/or submit documents such as annual report, interim report, preliminary results announcement to shareholders in accordance with the laws and regulations of the place of listing, the listing rules of the stock exchange where the Company's shares are listed and other regulatory documents.

NOTICE

Subject to compliance with laws, administrative regulations, departmental rules and securities regulatory rules of the place where the company's shares are listed, the Company's notice is given by the following manners:

1. in person;

2. by mail;

3. by announcement;

4. by other means either approved by the securities supervisory authority where the Company's shares are listed or stipulated in the Articles of Association.

In respect of the manner in which the Company provides or sends corporate communications to H Shares shareholders as required under the Listing Rules, subject to compliance with the laws, administrative regulations, departmental rules, the securities regulatory rules of the place where the Company's shares are listed and the Articles of Association, such corporate communications may be provided or sent to H Shares shareholders through the Company's designated website and/or the Stock Exchange website or via electronic means.

Notice given by the Company by way of announcement shall be deemed to have been received by all relevant persons upon such announcement.

DISSOLUTION AND LIQUIDATION OF THE COMPANY

The Company may be dissolved in any of the following circumstances:

1. the term of business of the Company stipulated in the Articles of Association has expired or occurrence of any other trigger for dissolution stipulated in the Articles of Association;

2. the resolution of general meeting has resolved to dissolve the Company;

3. the merger or division of the Company requires a dissolution;

4. the business licence is revoked in accordance with the law, or the Company is ordered to close or is cancelled;

5. if the Company gets into serious trouble in operations and management and continuation may incur material losses of the interests of the shareholders, and no solution can be found through any other means, the shareholders holding ten per cent (10%) or more of the total voting rights of the Company may request the People's Court to dissolve the Company;

Where the Company is dissolved under the circumstances set out in items 1, 2, 4 and 5, the Company shall establish a liquidation committee to start liquidation within fifteen (15) days from the date the cause of dissolution occurred. The composition of the liquidation committee shall be determined by the Directors or the general meeting. If a liquidation group fails to be established within the limited time for liquidation, the creditor may apply to the People's Court for appointing relevant personnel to form a liquidation group for liquidation.

The liquidation committee shall notify all creditors within ten (10) days after its establishment and shall publish announcements in newspapers recognized by the stock exchange where the Company's shares are listed within sixty (60) days.

After the liquidation committee has sorted out the assets of the Company and prepared a balance sheet and a property inventory, if it discovers that the Company's assets are insufficient to repay its debts in full, it shall apply to the People's Court to declare the Company bankrupt in accordance with the law.

After completion of liquidation of the Company, the liquidation committee shall prepare a liquidation report and submit the same to the general meeting or the People's Court for confirmation, then deliver the same to the Company registration authority to apply for cancellation of the Company's registration and publicly announce the Company's dissolution.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Company shall amend its Articles of Association under any of the following circumstances:

1. the amendment in the Company Law or the relevant laws, administrative regulations, departmental rules and securities regulatory rules of the place where the Company's shares are listed has caused contradiction between the matters stipulated in the Articles of Association and the amended laws, administrative regulations, departmental rules and securities regulatory rules of the place where the Company's shares are listed;

2. change in the condition of the Company which makes it inconsistent with the content sets out in the Articles of Association;

3. the general meeting decides to amend the Articles of Association.

The amendments of the Articles of Association adopted by the general meeting of shareholders shall be submitted to the competent authorities for approval if they need to be approved by the relevant competent authorities. If an amendment to these Articles of Association involves a registered particular of the Company, registration of the change shall be carried out in accordance with the law.

1. FURTHER INFORMATION ABOUT OUR COMPANY

A. Incorporation

Our Company was incorporated as a limited liability company under the PRC laws on September 11, 2002 and was converted into a joint stock company with limited liability on February 13, 2018 under the PRC laws. Our registered address and principal place of business is at Pingzhang Road, West Suburb Hot Spring Community, Menglang Town, Lancang Lahu Ethic Autonomous County, Pu'er City, Yunnan Province, PRC.

We have established a place of business in Hong Kong at 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong, and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on June 20, 2022. Ms. Wong Yuen Ki is the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong. The address for service of process on our Company in Hong Kong is the same as its principal place of business in Hong Kong as set out above.

As our Company was established in the PRC, we are subject to the relevant laws and regulations of the PRC. A summary of the relevant aspects of laws and regulations of the PRC and our Articles of Association is set out in the section headed "Regulatory Overview" and Appendix III to this document.

B. Changes in the Share Capital of our Company

As of the date of our establishment as a joint stock company with limited liability, our registered capital was RMB49.7 million consisting of 49,680,000 issued Domestic Shares with a nominal value of RMB1.00 each, which has been fully paid up by our promoters.

On September 27, 2021, the registered capital of our Company was further increased from RMB60.0 million to RMB63.0 million, consisting of 63,000,000 issued Domestic Shares with a nominal value of RMB1.00 each.

Immediately following the completion of the [REDACTED], assuming that the [REDACTED] is not exercised, our registered share capital will be increased to [REDACTED], divided into 63,000,000 Domestic Shares and [REDACTED] H Shares, fully paid up or credited as fully paid up, representing approximately [REDACTED]% and approximately [REDACTED]% of our enlarged share capital, respectively.

Save as disclosed above, there has been no alteration in the share capital within two years immediately preceding the date of this document.

C. Resolutions Passed by Our Shareholders' General Meeting in relation to the [REDACTED]

At the extraordinary general meeting of the Shareholders held on March 2, 2022 the following resolutions, among others, were duly passed:

(a) the issue by our Company of H Shares of nominal value of RMB1.00 each and such H Shares be [REDACTED] on the Stock Exchange;

(b) the proposed number of H Shares to be [REDACTED] initially shall not exceed [REDACTED]% (inclusive) of the total issued number of shares as [REDACTED] by the H Shares to be issued pursuant to the [REDACTED] and before the exercise of the [REDACTED]. The number of H Shares to be issued pursuant to the exercise of the [REDACTED] shall not exceed [REDACTED]% of the total number of H Shares to be [REDACTED] initially pursuant to the [REDACTED];

(c) subject to the completion of the [REDACTED], the conditional adoption of the revised Articles of Association, which shall become effective on the [REDACTED]; and

(d) authorization of our Board and its authorized persons to handle all matters relating to, among other things, the [REDACTED].

D. Changes in Share Capital of our Subsidiaries

Save as disclosed below, there has been no alteration in the share capital of any of our subsidiaries within the two years preceding the date of this document.

(1) **Shenzhen Langu Brand Management Industry Co., Ltd. (深圳瀾古品牌管理實業有限公司)**

On October 27, 2021, Shenzhen Langu Brand Management Industry Co., Ltd. increased its registered capital from RMB20.0 million to RMB50.0 million.

(2) **Wuhan Tea Mama Tea Sales Co., Ltd. (武漢茶媽媽茶葉銷售有限公司)**

On November 24, 2021, Wuhan Tea Mama Tea Sales Co., Ltd. was incorporated as a company with limited liability under the PRC laws, with a registered capital of RMB5.0 million.

(3) **Shenzhen City Langu Industrial Innovation Co., Ltd. (深圳市瀾古工業創新有限公司)**

On February 23, 2022, Shenzhen City Langu Industrial Innovation Co., Ltd. was incorporated as a company with limited liability under the PRC Laws, with a registered capital of RMB10.0 million.

(4) **Chengdu Hesheng Langu Tea Co., Ltd. (成都和盛瀾古茶葉有限公司)**

On June 7, 2022, Chengdu Hesheng Langu Tea Co., Ltd. was incorporated as a company with limited liability under the PRC Laws, with a registered capital of RMB1.0 million.

E. Restriction on Share Repurchases

For details of the restrictions on share repurchases by our Company, see "Appendix III — Summary of Articles of Association."

2. FURTHER INFORMATION ABOUT OUR BUSINESS

A. Summary of Our Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this document that are or may be material:

(a) the capital increase agreement dated September 27, 2021 entered into between our Company and Guangzhou Wujin Investment Partnership (Limited Partnership) (廣州烏金投資合夥企業(有限合夥)), pursuant to which Guangzhou Wujin agreed to subscribe for 3,000,000 Shares at the price of RMB10.0 per Share and in consideration of RMB30.0 million in aggregate; and

(b) the [REDACTED].

B. Our Intellectual Property Rights

As of the Latest Practicable Date, our Company has registered, or has applied for the registration of the following intellectual property rights which were material to our Group's business.

Trademarks

As of the Latest Practicable Date, we have registered the following trademarks which we considered to be material to our business:

No.	Trade Mark	Class	Owner	Place of Registration	Registration No.	Validity Period
1.	瀾滄古茶	30	our Company	PRC	42983819	From March 14, 2021 to March 13, 2031
2.		30	our Company	PRC	49627680	From September 14, 2021 to September 13, 2031
3.	岩冷	40	our Company	PRC	24092206	From May 7, 2018 to May 6, 2028
4.		30	our Company	PRC	10546298	From June 14, 2023 to June 13, 2033
5.	瀾古工坊	35	our Company	PRC	49613907	From September 7, 2021 to September 6, 2031
6.		30	our Company	PRC	48919239	From March 21, 2021 to March 20, 2031
7.		30	our Company	PRC	10589406	From July 7, 2023 to July 6, 2033
8.	春億	30	our Company	PRC	51073156	From October 7, 2021 to October 6, 2031
9.		30	our Company	PRC	25193591	From July 7, 2018 to July 6, 2028

No.	Trade Mark	Class	Owner	Place of Registration	Registration No.	Validity Period
10.	TEA MaMa	30	our Company	PRC	15322397	From September 28, 2016 to September 27, 2026
11.	茶妈妈	30	our Company	PRC	36191606	From December 14, 2019 to December 13, 2029
12.	岩冷 岩冷	21, 30, 35, 43	our Company	Hong Kong	305812272	From November 24, 2021 to November 23, 2031
13.		21, 30, 35, 43	our Company	Hong Kong	305812281	From November 24, 2021 to November 23, 2031
14.	工瀾 坊古 2020	21, 30, 35, 43	our Company	Hong Kong	305812317	From November 24, 2021 to November 23, 2031
15.		21, 30, 35, 43	our Company	Hong Kong	305812335	From November 24, 2021 to November 23, 2031
16.		21, 30, 35, 43	our Company	Hong Kong	305812353	From November 24, 2021 to November 23, 2031
17.	龍千 團秋	21, 30, 35, 43	our Company	Hong Kong	305812362	From November 24, 2021 to November 23, 2031

No.	Trade Mark	Class	Owner	Place of Registration	Registration No.	Validity Period
18.	春億	21, 30, 35, 43	our Company	Hong Kong	305812380	From November 24, 2021 to November 23, 2031
19.	Iland Tea	21, 30, 35, 43	our Company	Hong Kong	305812308	From November 24, 2021 to November 23, 2031
20.	Tea MaMa	1, 3, 4, 5, 6, 8, 11, 20, 21, 25, 29, 30, 31, 32, 33, 35, 40, 41, 43	our Company	Hong Kong	305812407	From November 24, 2021 to November 23, 2031
21.	茶妈妈	1, 3, 4, 5, 6, 8, 11, 20, 21, 25, 29, 30, 31, 32, 33, 35, 40, 41, 43	our Company	Hong Kong	305812425	From November 24, 2021 to November 23, 2031
22.		1, 3, 4, 5, 6, 8, 11, 20, 21, 25, 29, 30, 31, 32, 33, 35, 40, 41, 43	our Company	Hong Kong	305812399	From November 24, 2021 to November 23, 2031
23.		30	our Company	PRC	1663309	From November 7, 2021 to November 6, 2031
24.	Iland Tea	30	our Company	PRC	58994599	From December 14, 2022 to December 13, 2032

Patent

As of the Latest Practicable Date, we have registered the following patents in the PRC which we considered to be material to our business:

No.	Owner	Description	Patent No.	Types of Patents	Application Date	Authorization announcement Date
1.	Our Company	a fertilizer application device for tea trees (一種茶樹種植用的施肥裝置)	ZL201822027195.5	Utility Model	December 5, 2018	November 22, 2019
2	Our Company	a wilting groove (一種萎凋槽)	ZL201510667875.1	Innovation	October 16, 2015	September 10, 2019
3	Our Company	a multifunctional pest trapping and killing board for tea garden management (一種多功能茶園管理用害蟲誘殺板)	ZL201822029340.3	Utility Model	December 5, 2018	August 2, 2019
4	Our Company	a tea cake baking device for processing Pu'er tea (一種普洱茶加工用茶餅烘焙裝置)	ZL201821513220.4	Utility Model	September 17, 2018	August 2, 2019
5	Our Company	a ripe tea fermentation device with cleaning function (一種具有清洗功能的熟茶發酵裝置)	ZL201821503741.1	Utility Model	September 14, 2018	August 2, 2019
6	Our Company	a black tea fermentation device (一種紅茶發酵裝置)	ZL201821503827.4	Utility Model	September 14, 2018	October 1, 2019
7	Our Company	a disposable tea cup (一種一次性茶杯)	ZL201920579616.7	Utility Model	April 25, 2019	April 28, 2020
8	Our Company	a variable-frequency pressure spray device for tea garden (茶園用變頻加壓噴霧裝置)	ZL201921779075.9	Utility Model	October 22, 2019	June 19, 2020
9	Our Company	an anti-insect device for ancient tea tree management (一種古茶樹管理防蟲裝置)	ZL201921779069.3	Utility Model	October 22, 2019	June 19, 2020
10	Our Company	a Tea picking device for ancient tea trees (一種用於古茶樹的茶葉採摘裝置)	ZL201921778009.X	Utility Model	October 22, 2019	June 19, 2020
11	Our Company	an efficient pruning machine for tea garden management (一種用於茶園管理的高效修剪機)	ZL201921777997.6	Utility Model	October 22, 2019	July 17, 2020
12	Our Company	telescopic cup (伸縮水杯)	ZL202220766353.2	Utility Model	March 31, 2022	December 13, 2022
13	Our Company	telescopic portable cup (伸縮便攜水杯)	ZL202221141972.9	Utility Model	May 12, 2022	December 13, 2022

Domain Name

As of the Latest Practicable Date, we have registered the following domain name which we considered to be material to our business:

No.	Domain Name	Place of Registration	Name of Registered Proprietor	Expiration Date
1.	http://www.lcgc.cn/	PRC	Our Company	July 27, 2029

Software copyright

As of the Latest Practicable Date, we have registered the following software copyright which we considered to be material to our business:

No.	Software Name	Place of Registration	Owner	Registration No.	Date of First Publication
1.	Tea warehouse management system V 1.0 (茶葉出入庫管理系統V1.0)	PRC	Our Company	2018SR875621	August 30, 2018
2.	Lancang Ancient Tea National Marketing Management System V1.0 (瀾滄古茶全國營銷管理系統V1.0)	PRC	Guangzhou Kangruilan Ancient Tea Co., Ltd. (廣州康瑞瀾滄古茶有限公司)	2022SR0582503	April 7, 2017

Copyright of works of fine art

As of the Latest Practicable Date, we have registered the following copyrights of fine art in the PRC which we considered to be material to our business:

No.	Name of work of fine art	Owner	Registration No.	Registration Date
1.	Lancang Ancient Tea 1966 (瀾滄古茶1966)	Our Company	GZDZ-2018-F-00449353	March 2, 2018
2.	Iland (岩冷)	Our Company	GZDZ-2019-F-00701495	January 22, 2019
3.	Shining Gold (烏金)	Our Company	GZDZ-2019-F-00776327	May 7, 2019
4.	Tea Mama Ganbao (茶媽媽柑寶)	Our Company	GZDZ-2020-F-01101933	August 24, 2020

No.	Name of work of fine art	Owner	Registration No.	Registration Date
5.	Tea Mama Little Green Mandarin (2kg canned) (茶媽媽小青柑（2千克鐵罐裝）)	Our Company	GDZDZ-2020-L-00002133	August 28, 2020
6.	20th anniversary of 0085 series (0085二十週年標識)	Our Company	GZDZ-2020-F-00968111	January 8, 2020
7.	Lancang Ancient Tea (瀾滄古茶)	Our Company	GZDZ-2021-F-00274636	November 29, 2021
8.	茶媽媽 Tea Mama	Our Company	GZDZ-2023-F-00036676	February 24, 2023

3. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUPERVISORS

A. Particulars of Directors' and Supervisors' Contracts

Each of our Directors and Supervisors [has entered] into a service contract with our Company. Each service contract is for an initial term of three years. The service contracts may be renewed in accordance with their respective terms, the Articles and the applicable laws, rules and regulations.

Save as disclosed above, none of our Directors or Supervisors has or is proposed to enter into a service contract with any member of our Group, other than contracts expiring or determinable by the relevant employer within one year without the payment of compensation (other than statutory compensation).

B. Remuneration of Directors and Supervisors

See "Directors, Supervisors and Senior Management" and "Appendix I — Accountant's Report — Notes to Historical Financial Information — 7. Employee Benefits Expenses" in this document for the details of the remuneration of our Directors and Supervisors.

4. DISCLOSURE OF INTERESTS

A. Disclosure of Interests of Directors and Supervisors

Save as disclosed below, immediately following the completion of the [REDACTED] (assuming that the [REDACTED] is not exercised), none of our Directors or Supervisors has any interest and/or short position in the Shares, underlying Shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the

SFO (including interest or short position which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules to be notified to our Company, once the H Shares are [REDACTED] on the Stock Exchange.

Name of Director/ Supervisor	Our Company/ associated corporation	Capacity/nature of interest	Number and nature of shares/underlying shares	Approximate percentage of shareholding interest in the total Domestic Shares	Approximate percentage of shareholding interest in the total share capital of our Company[1]
Ms. Du[2][3][4]	Our Company	Beneficial owner, interest of spouse, interest held jointly with another person, other	30,215,556 Domestic Shares	47.96%	[REDACTED]%
Ms. Wang[2][5][6]	Our Company	Beneficial owner, interest of controlled corporation, interest held jointly with another person	33,215,556 Domestic Shares	52.72%	[REDACTED]%
Mr. Zhang Muheng[5][6]	Our Company	Interest of controlled corporation	7,968,000 Domestic Shares	12.65%	[REDACTED]%
Mr. Luo Zhonghong	Our Company	Beneficial owner	134,846 Domestic Shares	0.21%	[REDACTED]%
Ms. Zhu Meixuan	Our Company	Beneficial owner	119,328 Domestic Shares	0.19%	[REDACTED]%

(1)–(6) See "Substantial Shareholders."

Save as disclosed in this document, up to the Latest Practicable Date, none of the Directors or Supervisors or their respective spouses and children under 18 years of age had been granted by our Company or had exercised any rights to subscribe for shares or debentures of our Company or any of its associated corporations.

B. Substantial Shareholders

Save as disclosed below and in the section headed "Substantial Shareholders" in this document, our Directors, Supervisors or chief executive are not aware of any other person, not being a Director, Supervisor or chief executive of our Company, who has an interest or short position in the Shares and underlying Shares of our Company, which following the completion of the [REDACTED], would fall to be disclosed to our Company under the provisions of Divisions 2 an 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the issued voting Shares of our Company or any member of our Group.

Interests in other members of our Group

Name of our subsidiary	Name of interested party	Capacity/Nature of interest	Approximate percentage of shareholding
Yixing City Langu Gongfang E-commerce Co., Ltd. (宜興市瀾古工坊電子商務有限公司)	Mr. Zhang Zihao (張子豪)	Beneficial owner	20.00%
Chengdu Hekang Langu Tea Co., Ltd. (成都和康瀾古茶葉有限公司)	Chengdu Shiyu Shuangcheng Corporate Management Center (Limited Partnership) (成都詩煜雙成企業管理中心)(有限合夥)	Beneficial owner	49.00%
Chengdu Heya Langu Tea Co., Ltd. (成都和雅瀾古茶葉有限公司)	Chengdu Chenyun Jingya Cultural Communication Co., Ltd. (成都陳韻靜雅文化傳播有限公司)	Beneficial owner	20.00%
Hefei Canggan Tea Co., Ltd. (合肥滄柑茶葉有限公司)	Ms. Ding Xinhui (丁新薈)	Beneficial owner	30.00%
Henan Delan Tea Co., Ltd. (河南德瀾茶業有限公司)	Mr. Li Yang (李陽)	Beneficial owner	30.00%
Shenzhen City Langu Industrial Innovation Co., Ltd. (深圳市瀾古工業創新有限公司)	Shenzhen City Jiaguwen Creative Design Co., Ltd. (深圳市甲古文創意設計有限公司)	Beneficial owner	40.00%

C. Disclaimers

Save as disclosed in this document:

(a) none of our Directors or Supervisors has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this document been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(b) none of our Directors or Supervisors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group taken as a whole; and

(c) so far as is known to our Directors, none of our Directors, Supervisors, their respective close associates (as defined under the Listing Rules) or Shareholders of our Company who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group.

5. OTHER INFORMATION

A. Estate Duty

Our Directors have been advised that no material liability for estate duty under the PRC laws is likely to fall on our Company or its subsidiaries.

B. Litigation

As of the Latest Practicable Date, no member of our Group was engaged in any outstanding material litigation or arbitration which may have material and adverse effect on the [REDACTED] and, so far as our Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of our Group.

C. Joint Sponsors

The Joint Sponsors have made an application on our behalf to [REDACTED] for the [REDACTED] of, and permission to [REDACTED], our H Shares. The Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

China Securities (International) Corporate Finance Company Limited and China Merchants Securities (HK) Co., Limited will be paid by our Company a fee of US$0.8 million and US$0.4 million, respectively, to act as sponsors to our Company in connection with the [REDACTED].

D. Compliance Advisor

Our Company has appointed FUTEC Financial Limited as the compliance advisor upon the [REDACTED] in compliance with Rule 3A.19 of the Listing Rules.

E. Preliminary Expenses

We have not incurred any material preliminary expenses.

F. Promoters

The promoters of our Company are all then 48 Shareholders of our Company as of February 13, 2018 before our conversion into a joint stock company with limited liability.

Save as disclosed in this document, within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given nor is any proposed to be paid, allotted or given to any promoters in connection with the [REDACTED] and the related transactions described in this document.

G. Qualification of Experts

The qualifications of the experts, as defined under the Listing Rules, who have given opinions in this document, are as follows:

Name	Qualification
China Securities (International) Corporate Finance Company Limited	A licensed corporation to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities (as defined under the SFO)
China Merchants Securities (HK) Co., Limited	A licensed corporation to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (advising on asset management) regulated activities under the SFO
PricewaterhouseCoopers	Certified Public Accountants under Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong) Registered Public Interest Entity Auditor under Accounting and Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong)
Beijing Kangda Law Firm	PRC legal advisor
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Independent industry consultant
SHINEWING Risk Services Limited	Independent internal control and IT consultant

H. Consents of Experts

Each of the experts named "5. Other Information — G. Qualification of Experts" above has given and has not withdrawn its written consent to the issue of this document with the inclusion of its report and/or letter and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

Save as disclosed in this document, none of the experts named above has any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe.

I. Taxation of Holders of H Shares

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty if such sale, purchase and transfer is effected on the H Share register of members of our Company, including in circumstances where such transaction is effect on the Stock Exchange. For further information in relation to taxation, see "Regulatory Overview."

J. No Material and Adverse Change

Our Directors confirm that there has been no material and adverse change in the financial or [REDACTED] position of our Group since June 30, 2023, except as otherwise disclosed in this document.

K. Binding Effect

This document shall have the effect, if an application is made in pursuant hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

L. Related Party Transactions

Our Group entered into certain related party transactions within the two years immediately preceding the date of this document as mentioned in Note 34 of the Accountant's Report as set out in Appendix I to this document.

M. Restriction on Share Repurchases

For details of the restrictions on share repurchases by our Company, see "Appendix III — Summary of Articles of Association."

N. Miscellaneous

Save as disclosed in this document:

(a) within the two years immediately preceding the date of this document:

  (i) save as disclosed in the section headed "History and Corporate Structure", no share or loan capital of our Group has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;

  (ii) no share or loan capital of our Group is under option or is agreed conditionally or unconditionally to be put under option;

(iii) save as disclosed in the section headed "[REDACTED]" no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share of our Group; and

(iv) save as disclosed in the section headed "[REDACTED]" no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription for any share in or debentures of our Company;

(b) there are no founder, management or deferred shares or any debentures in our Group;

(c) save as disclosed in the section headed "Summary" there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this document;

(d) our Company has no outstanding convertible debt securities or debentures;

(e) there is no arrangement under which future dividends are waived or agreed to be waived;

(f) save as disclosed in the section headed "History and Corporate Structure", none of our equity and debt securities is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;

(g) all necessary arrangements have been made to enable the H shares to be admitted into [REDACTED] for clearing and settlement; and

(h) no company within our Group is presently listed on any stock exchange or traded on any trading system.

O. Bilingual Document

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were:

(a) a copy of the [REDACTED];

(b) copies of material contracts referred to in "2. Further Information about Our Business — A. Summary of Our Material Contracts" in Appendix IV; and

(c) the written consents referred to in "5. Other information — H. Consents of Experts" in Appendix IV.

2. DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be available on display on the website of our Company at **www.lcgc.cn** and on the website of the Stock Exchange at **www.hkexnews.hk** up to and including the date which is 14 days from the date of this document:

(a) the Articles of Association in Chinese;

(b) the Accountant's Report from PricewaterhouseCoopers, in respect of the historical financial information of the Group for the three years ended December 31, 2020, 2021 and 2022 and the six months ended June 30, 2023, the text of which is set out in Appendix I to this document;

(c) the audited consolidated financial statements of our Group for the three years ended December 31, 2020, 2021 and 2022 and the six months ended June 30, 2023;

(d) the report on the unaudited [REDACTED] financial information of our Group from PricewaterhouseCoopers, the text of which is set out in Appendix II to this Document;

(e) the material contracts referred to in "2. Further Information About Our Business — A. Summary of Our Material Contracts" in Appendix IV;

(f) the written consents referred to in "5. Other information — H. Consents of Experts" in Appendix IV;

(g) the contracts referred to in "3. Further Information about Our Directors and Supervisors — A. Particulars of Directors' and Supervisors' Contracts" in Appendix IV;

(h) the legal opinion issued by Beijing Kangda Law Firm, our legal advisor as to PRC law, in respect of our general matters and property interests of our Group;

(i) the PRC Company Law and the Guidelines for Articles of Association of Listed Companies (2022 Revision) (上市公司章程指引(2022年修訂)) together with their unofficial English translations;

(j) the industry report issued by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.; and

(k) the internal control and IT review report issued by SHINEWING Risk Services Limited.