

---

## BUSINESS

---

### OVERVIEW

In 2008, we launched our first ChaPanda store in Chengdu. Since establishment, we have been dedicated to exploring a range of combinations of natural ingredients with Chinese tea. We have been continuously developing diversified tea products and focusing on enhancing consumer experience. During the Track Record Period, our product portfolio includes classic tea drinks typically available throughout the year, and seasonal tea drinks and regional tea drinks only sold in limited time periods or certain regions. Through a franchise model that drives mutual benefits for our franchisees and ourselves, we have grown to be an established freshly-made tea drink company in China. Under the franchise model, we partner with qualified franchisees by participating in business planning and location selection, offering in-depth training and providing raw materials, equipment and services. Our franchisees primarily focus on the day-to-day operation and maintenance of their stores, on-site staff management and customer service. During the Track Record Period, we generated our revenue from (i) sale of goods and equipment, (ii) royalty and franchising income and (iii) other revenue.

According to Frost & Sullivan, we ranked third in China’s freshly-made tea shop market in terms of retail sales value in 2023 with a market share of 6.8%. As of the Latest Practicable Date, the ChaPanda store network in China comprised 7,927 stores, spanning across 31 provinces and municipalities, covering all provinces and different tiers of cities in China. In 2023, the total retail sales value of ChaPanda stores reached approximately RMB16.9 billion.

With the increase in consumer spending, beverage preferences are evolving to encompass various dimensions. In the meantime, the fast development and wide application of 5G mobile Internet, big-data capabilities and other new technologies in China has enabled and driven the significant development of freshly-made tea shops in the key aspect of their business operation, such as location planning, marketing, product manufacturing and delivery. Benefiting from the foregoing factors, the freshly-made tea shop market in China has developed rapidly. According to Frost & Sullivan, the CAGR of China’s freshly-made tea shop market was 25.2% from 2018 to 2023, significantly higher than the CAGR of China’s soft beverage market of 4.4% for the same period. China’s freshly-made tea shop market is also expected to have great growth potential in the coming years, with an estimated CAGR of 16.8% from 2023 to 2028.

Our rapid development is attributed to our unwavering dedication to product offering, consumer service and franchisee. For products, we are dedicated to ensuring the quality of our tea drinks by selecting our suppliers and raw materials through a strict process. We strive to offer in-store service, food safety control and brand promotion that meet our consumers’ demand. For franchisees, we conduct prudent screening process and deliver to our franchisees meticulous management and continuous empowerment. With ongoing supporting measures, we cultivate them into our long-term business partners.

---

## BUSINESS

---

During the Track Record Period, we achieved strong financial growth. Our revenue increased by 16.1% from RMB3,644.2 million in 2021 to RMB4,231.7 million in 2022, and further increased by 34.8% to RMB5,704.3 million in 2023. From 2021 to 2023, the CAGR for our net profit reached 21.6%.

### **OUR COMPETITIVE STRENGTHS**

#### **We are a leading and fast-growing freshly-made tea drink company in China.**

We are committed to redefining and promoting the freshly-made tea drinks to consumers as a market leader in China. Since establishment, we have been dedicated to advancing tea drink consumption with continuous product development and striving to become everyone’s everyday drink. We revitalize and promote traditional Chinese tea drinks and tea culture among consumers in a refreshing and modernizing manner. According to Frost & Sullivan, we ranked third in China’s freshly-made tea shop market in terms of retail sales value in 2023 with a market share of 6.8%.

Recent years have witnessed the increase in urbanization and per capita disposable income, as well as Chinese consumers’ pursuit of health and quality. In addition, the trend of consumption upgrading and the growing recognition of traditional culture among young consumers continued in China’s consumer sector. These factors drive the significant increase in the consumption frequency of freshly-made tea drinks and the growth of the freshly-made tea shop market in China. According to Frost & Sullivan, the market size of the freshly-made tea shop market in China in terms of retail sales value increased from RMB80.5 billion in 2018 to RMB247.3 billion in 2023, representing a CAGR of 25.2%, and is expected to reach RMB538.5 billion by 2028, with a CAGR of 16.8% from 2023 to 2028. The freshly-made tea shop market, with its significant growth potential and extensive development prospect, has served as the essential foundation for us to achieve sustained and rapid growth.

#### **Product development brings differentiated and consistent consumer experience.**

We focus on exploring a range of combinations of natural ingredients with Chinese tea drinks. We aim to create diversified beverage flavors and culture experience, and satisfy consumers’ evolving demands for quality, health and innovative experience. We create our own product recipes through discovering and exploring the tastes and features of a wide range of raw materials. We collaborate with upstream suppliers who implement the manufacturing process strictly following our product requirements. We also have consumers conduct sample testing on our new products before they are released. With these efforts, we drive product standardization in our product development, allowing all stores across ChaPanda store network to offer consistent product to consumers.

---

## BUSINESS

---

We implement careful selection and strict quality control for our raw materials.

- For the tea bases in our products, we insist on extracting the flavors from original tea leaves. Through continuously discovering and selecting production areas and tea varieties, we have developed a wide range of quality tea bases with unique flavor, such as Qixun Jasmine in Hengzhou, Guangxi, Gaoshan Meizhan in northern Fujian, Zhengwei Lanxiang Guanyin in southern Fujian and Baiya Qilan in Zhangzhou, Fujian.
- When selecting dairy products, we carefully use premium dairy products from quality sources. Our market-leading production process is designed to preserve a superior flavor with butterfat, protein and other nutrients to the most extent.
- When selecting fruits, we purposely procure premium fresh fruits from quality production areas under various procurement models and make pre-orders for the required amount of fruits to ensure a stable supply. Meanwhile, we actively explore the unique fruits from various regions, such as Heilongjiang raspberry, Henan plum, Guangdong wampee and Guangdong guava to provide differentiated product experiences with regional features.
- To ensure the stability and standardization of product flavor, we used frozen fresh juice in the freshly-made tea drinks. We have developed our own formulas for most of the frozen fresh juice, utilizing the latest ultra-high pressure processing (“HPP”) method for sterilization. This method effectively retains the enriched flavor and freshness of the juice.

Relying on our industry-leading product development capabilities, we have established an enriched product matrix of (i) classic tea drinks and (ii) seasonal and regional tea drinks, allowing us to meet the varied consumption demands of different consumer groups.

- In 2023, we had a monthly average SKU of 68 tea drinks in each ChaPanda store, nearly 40% of which were classic tea drinks. Leveraging our deep understanding of consumer preferences and our constant product upgrading, we successfully launched a number of signature tea drinks that enjoy long-lasting popularity in the market. In 2023, we sold over 60 million cups of each of Mango Pomelo Sago (楊枝甘露), Taro Bubble Tea (招牌芋圓奶茶) and Jasmine Milk Green Tea (茉莉奶綠), all of which have become signature products of ChaPanda.
- In addition to classic tea drinks, we offer seasonal and regional tea drinks by analyzing and anticipating the evolving trend of consumers’ tastes and preferences. We keep developing new flavors with refreshing ingredients based on distinctive fruits from different regions across China. Our efforts help us present consumers with our latest seasonal or regional tea drinks every few months. Seasonal products such as Wu Qi Ma Hei (烏漆嘛黑) and Strawberry Pudding Milk (草莓奶凍) have been popular among consumers as soon as they were released. In 2023, we developed more than 250 products, including launching 48 new products and upgrading the formulas of 13 classic tea drinks.

---

## BUSINESS

---

### **Our brand is appealing to the young group.**

We strive to build and promote ChaPanda brand. In particular, we implemented a comprehensive brand upgrade in 2023, in which we launched our latest brand IP, “ChaCha,” a panda-based figure embodying traditional Chinese culture and new-generation personas. Utilizing our digitalization capabilities, we adopt flexible and diversified marketing strategies to access our consumer base. Through multi-channel and innovative brand promotion and marketing, we launched an integrated online and offline network to enhance our brand awareness, reaching new target consumers and improving the stickiness of existing consumers, especially our main consumer base aged between 18 and 35.

- *Digitalized Marketing.* We build a full-coverage, robust online presence with our digitalized marketing. We gain access to consumer base through well-known mainstream social media platforms such as Weibo, Weixin, Xiaohongshu, Douyin, Bilibili and Kuaishou. In particular, we utilize the social media network, such as Douyin, to attract consumers through live-streaming and brand marketing. Our Douyin live-streaming group purchase program ranked first on a number of Douyin’s official lists, such as “Nationwide Group Purchase List,” “Tea Drinks Live-streamed Retail Sales Value List” and “Brand Conversion Rate List.” On March 10, 2023, our single-day retail sales value through Douyin live-streaming group purchase program surpassed RMB100.0 million, setting the retail sales value record on Douyin in the life and service category. On the same day, the number of followers of our official Douyin account increased by approximately 230,000 in a single day.

We also initiate marketing campaigns for our tea drinks on social networking platforms. Through a series of innovative online marketing, Wu Qi Ma Hei quickly amassed huge popularity among consumers after its launch in April 2022 with its unique flavor, black appearance and catchy name. It had become one of our bestselling products in 2022. During the promotion period, Wu Qi Ma Hei amassed over 100 million views on Weibo topic and over 670 million exposure online.

- *IP Marketing.* We leverage our brand IP, “ChaCha,” to promote our brand image. We create a series of ChaCha-themed visual contents, such as emojis, which can be shared on social networking platforms to increase our brand awareness. We launch various creative merchandises featuring “ChaCha,” helping us further promote our brand image and create additional revenue sources. We sponsor offline culture events, such as Strawberry Music Festival in Chengdu, as well as collaborate with key opinion leaders (“KOLs”) to market our brand to potential consumers.
- *Crossover Collaboration.* In addition, we proactively implement crossover co-branding with well-known brands and partners. We further enhance our brand awareness and increase fan base by jointly developing and launching creative co-brand products in line with our brand image. Our co-brand products are widely welcomed by consumers once released, especially the ones in collaboration with Dunhuang Museum (敦煌博物館), Tears of Themis (未定事件簿), Yellow Swan (黃天鵝) and Viki Lee’s The Classic of Mountains and Rivers (觀山海).



---

## BUSINESS

---

Benefiting from our strong brand influence, we have accumulated a large and loyal member base and are able to provide our members with premium and more convenient services through digital capabilities. Our membership has grown rapidly since we launched the ChaPanda Membership Program in February 2021, reaching over 98.5 million registered members as of the Latest Practicable Date. In the fourth quarter of 2023, we had 20.4 million active members. Our membership repurchase rate in the fourth quarter of 2023 reached 35.0%, which was higher than the industry average level. Going forward, we believe our consumer stickiness will continue to increase as more and more consumers consider purchasing ChaPanda products as part of their lifestyle.

**Our efficient and mutually beneficial business model enables us to realize rapid and sustainable development.**

Our success stems from the efficient franchise model and our aspiration to drive mutual benefits to our franchisees and ourselves. Compared with a self-operated model, our franchise model has advantages in terms of quickly expanding our presence and establishing brand influence, all of which are key to rapid market expansion. Since establishment, we have attracted and accumulated quality and sustainable franchisee base while we constantly deliver mutual benefits and share success with our franchisees. We believe that our approach has enabled us to construct a distinctive and competitive business model that achieves a balance among size, quality and returns.

Our proven business model allowed us to achieve rapid store network expansion during the Track Record Period, helping us build an extensive store network covering all of the provinces and municipalities in China. The number of ChaPanda stores in China expanded from 2,242 as of January 1, 2021 to 7,801 as of December 31, 2023, and further to 7,927 as of the Latest Practicable Date.

We utilize digitalization to enhance our operating efficiency. We utilize big-data capabilities when selecting locations for ChaPanda stores. Supported by location business intelligence and AI technology, we conduct integrated analysis and assist franchisees in selecting their store location based on GDP per capita for urban residents, density, regional population flow and composition, consumption capacities and competitive landscapes. In addition, we support a stable operation of existing stores through methods such as protected franchisee territory, centralized delivery management and in-store business management. As of December 31, 2023, ChaPanda stores had expanded into all city tiers in China with a relatively even distribution. As of the same date, the number of ChaPanda stores in first-tier, new first-tier, second-tier, third-tier, fourth-tier and below cities accounted for 10.6%, 26.9%, 20.9%, 19.4% and 22.2% of the total number of ChaPanda stores, respectively. In terms of the types of store locations, the number of ChaPanda stores in shopping centers, residential communities and other business areas accounted for 37.3%, 28.6% and 34.1% of the total number of ChaPanda stores, respectively, as of December 31, 2023.

---

## BUSINESS

---

We adopt an efficient “small store” model that allows us to reduce store operating costs while improving store operating performance through collaboration with third-party online delivery platforms. During the Track Record Period, the GFA of most ChaPanda stores ranged between 30-100 square meters. As of December 31, 2023, 44.3% and 42.8% of ChaPanda stores had GFA between 30-49 square meters and 50-100 square meters, respectively. Over the same periods, ChaPanda stores have seen a rapid increase with respect to online sales fulfilled through collaboration with third-party online delivery platforms. The percentage of ChaPanda stores who fulfilled online orders through collaboration with third-party online delivery platforms increased from 91.8% in January 2021 to 95.9% in December 2023.

We also increase consumer traffic to offline stores, empower franchisees’ store operations and enhance their store profitability through various methods, such as introducing online ordering function on our official Weixin Mini Program, enhancing collaborations with Douyin live-streaming group purchase programs, and assisting franchisees in building private domain traffic pools for their stores.

### **We have an industry-leading franchise system and sustainable franchisee base.**

As of December 31, 2023, we had set up 16 regional operation centers nationwide that utilized our digitalization to provide comprehensive support to franchisees in store location selection, decoration and opening, staff training, store operation, unified delivery business and in-store business enhancement and marketing. We have instituted several departments at headquarter-level to empower our franchise model and franchisees, such as the operation inspection department, the supervision department, the operation training department, the operation support department, the location planning department and the offline store and online delivery department.

- *Onboarding Standard.* We have implemented a rigorous franchisee onboarding process to ensure the quality and stability of franchisees from the beginning. We have high requirements in terms of age, education and overall capability for potential franchisees. In general, a franchisee candidate must go through a number of onboarding procedures, such as communications with online consultants, submitting application forms, undergoing qualification assessment, taking online tests and in-person interviews.
- *Service and Support.* We launched ChaPanda Professional Training School for the franchisee training process. Supported by over 140 designated professional tutors, it provides franchisees with professional online and offline training covering the full operational cycle from store launch to daily operation. To serve franchisees across China, we have set up training centers in all regional operation centers, enabling our franchisees to receive training sessions at our regional operating centers that are near to them. As to franchisee service support, we have built a prompt feedback mechanism and experience-sharing platform on which our designated personnel help address problems faced by the franchisees in daily operation and franchisees share their store-operating experience. We also designate inspectors from our regional operation centers to provide the franchisees with various guidances, including store operations, recruitment, branding and marketing, among others.

---

## BUSINESS

---

- *Management and Supervision.* We adopt a centralized system where we manage key business aspects across the store network, such as store operation and supply chain. To ensure the effective implementation of our management policies across franchised stores, we have also established an inspection system to guarantee the consistency of store operation standards and product quality. Under our inspection system, we conduct various types of inspections across ChaPanda store network to achieve efficiency and effectiveness, including regional inspection, headquarter inspection and third-party inspection. As of December 31, 2023, our regional supervision team comprised approximately 567 employees across China. It typically conducts store inspections three to four times a month. We have appointed headquarter and regional inspection teams to conduct sampling inspections on daily store operation. Furthermore, we have engaged third-party organizations to carry out regular food safety inspections in ChaPanda stores due to our concerns over food safety control. The inspections are mainly focused on rectifying food safety incidents and immediately closing stores that violate our food-safety standards.

Leveraging our industry-leading franchise model, we have cultivated a sustainable and large franchisee base. In 2021, 2022 and 2023, the store closure rate for franchised ChaPanda stores was 0.2%, 1.1% and 2.3%, respectively, significantly beneath the industry average, according to Frost & Sullivan.

**We have built advanced capabilities to manage our supply chain across China and a strict quality control system.**

We provide consistent key raw materials to franchised ChaPanda stores across China, ensuring the standardized quality and food safety in the products they offer. Therefore, our efficient and quality supply chain capabilities lay the foundation for our sustainable business expansion. To ensure the consistent quality of raw materials and improve operation efficiency and profitability, we have established a nationwide warehousing and logistics network consisting of self-owned facilities and third-party facilities, allowing us to achieve high-frequency and prompt product delivery. As of December 31, 2023, our warehousing facilities consisted of 21 high-standard warehouses collectively occupying approximately 80,000 square meters, including 20 central hubs and one pre-positioned hub. To serve different temperature and humidity storage requirements of various raw materials, we have set up room-temperature zones, refrigeration zones and freezing zones in the warehousing facilities, each offering comprehensive and refined warehousing process for raw materials from storage to shipment. Our multi-layer temperature zones satisfy the storage and delivery requirements of our short shelf life raw materials, such as dairy products, frozen fresh juice and fresh fruit. For the raw material delivery, we deliver raw materials to most of ChaPanda stores nationwide twice or more a week. Our distribution is fully visualized and traceable with digitalized methods, which minimizes the material loss in the distribution process and enables quality assurance and quality traceability, thus guaranteeing a fresh and quality material supply to ChaPanda stores.

---

## BUSINESS

---

Fresh fruit is a key raw material used in our tea drinks, the quality and stable supply of which has a significant impact on our daily operations. We have developed a proprietary network for fresh fruits purchasing and delivery. As of December 31, 2023, we had achieved centralized procurement and delivery of most frequently used fruits for most stores. For some key fruits, such as peaches, Tainong mangoes and summer black grapes, we have entered into procurement agreements with quality fruit production areas nationwide to secure a long-term steady supply from the source. Besides, for core raw materials usually purchased in large quantities such as dairy products, tea, frozen fresh juice, we are continuously strengthening our cooperation with leading suppliers to guarantee a large-quantity supply of raw materials from upstream quality production areas.

In addition, we manufacture packaging materials, such as biodegradable straws and cups, through Senmian New Materials, which are used in our products as well as provided to third-party purchasers. By doing so, we decrease the costs in relation to procuring packaging materials, create an additional revenue source, and enhance our bargaining power with upstream suppliers.

**Our corporate culture reflects our unwavering dedication to product offering, consumer service and franchisee empowerment and the commitment of our forward-looking management team.**

We are led by our guiding operation philosophy of unwavering dedication to product offering, consumer service and franchisee empowerment, which enables us to constantly deliver product offerings to the market and bring compelling value propositions to consumers and franchisees. Our Founder, Mr. Wang, is an industry veteran with more than 15 years of experience in the freshly-made tea drink sector. He is devoted to his initial aspirations and craftsmanship, always striving to achieve a better future with his entrepreneurial spirit, openness and cooperation, all of which lay a strong foundation for our success. Mr. Wang started our first freshly-made tea drink store in Chengdu in 2008 and has been deeply involved in the freshly-made tea shop market for over 15 years since. With a thorough understanding of the industry trends, business operation and marketing of the brand, Mr. Wang has steered us to grow into a distinguished freshly-made tea drink operator in China.

Our management team comprises seasoned experts with wide-ranging expertise and extensive experience from previous service in multinational groups or leading consumer companies, as well as members who have been with us since our inception. Members of our senior management team have diverse expertise and backgrounds, which provides us with in-depth expertise in store operations, branding, supply chain management, digital transformation and product development.

We believe in the value of “innovation, win-win, integrity and responsibility,” as evidenced by our cooperative and mutually beneficial relationship with franchisees and our devoted attention to corporate social responsibility and public welfare. Our cooperation with Jasmine Industrial Park in Hengzhou, Guangxi Province (廣西橫州茉莉花產業項目) and Yunnan Fengqing Dianhong Tea Garden (雲南鳳慶滇紅茶園) created job opportunities for local farmers and increased their income. We wholeheartedly shoulder our social responsibilities and have established the Sichuan Youth Development Foundation ChaPanda Special Public Welfare Fund (四川省青少年發展基金會茶百道愛心專項公益基金), which actively takes part in financial assistance projects, social practice projects, education condition improvement projects and other initiatives for teenagers in disadvantaged areas.

---

## BUSINESS

---

### OUR GROWTH STRATEGIES

**We will grow our store network by deepening penetration in domestic market and expanding into overseas markets.**

Leveraging profound understanding of the freshly-made tea shop market and a highly standardized and scalable franchise model, we intend to further enhance our leading position in the freshly-made tea shop market in China and expand into overseas markets through the expansion of our store network.

Our expansion strategies mainly include:

- *Deepening our penetration in existing markets.* We believe there are significant growth potential in lower-tier cities, i.e. the second-, third-, fourth-tier and below tier cities in China. According to Frost & Sullivan, the market size of freshly-made tea shops in these lower-tier cities in 2023 was RMB179.8 billion, occupying more than 70% of the total market size and is expected to increase to RMB408.0 billion in 2028. Supported by big-data capabilities, we plan to launch more stores in second- and lower-tier cities, especially in key business districts and areas with growth potential. To expand into lower-tier cities, we will also encourage our franchisees to set up more stores by offering incentives and discounts, such as discounted franchise fees and operation and management training courses and help them increase operating efficiency and profitability. For instance, franchisee who launch more than one ChaPanda store will enjoy expedited store opening process with streamlined internal application process and discounts in the non-refundable upfront initial fees and royalty income.
- *Expanding into new markets.* We believe there is huge growth potential for freshly-made tea drinks in overseas markets. The potential overseas markets include, among others, Thailand, Vietnam, Malaysia and South Korea, and we will dynamically adjust our target markets based on the specific market demands in the future. According to Frost & Sullivan, in 2023, the market size of freshly-made tea shops in overseas market and Southeast Asia was RMB44.0 billion and RMB32.9 billion, respectively, and is expected to increase to RMB96.4 billion and RMB78.3 billion in 2028, respectively, providing ample market potential. To expand into overseas markets, we plan to work with established and experienced local business partners to launch stores and offer localized tea drinks on a pilot basis, and further bolster our reach after we solidify our presence. Utilizing our overseas supply chain and operating system, we aim to extend our store network to overseas markets with a priority on the Southeast Asia market.

---

## BUSINESS

---

### **We will improve our supply chain capabilities.**

Along with the expansion of ChaPanda network, we will keep enhancing our supply chain capabilities to empower franchisees, strengthen our control over product quality and safety and further ensure sustained business growth.

- *Fresh fruits.* We will continue to discover quality production areas in China and increase the categories and amounts of fruits directly purchased from these areas. To deepen collaboration with local suppliers, we plan to establish sponsorship programs, such as charitable funds or other charitable programs, in the production areas from which we made large-volume fruit purchases to support local farmers and local economy development.
- *Other core raw materials.* We will continue to deepen our cooperation with suppliers of tea leaves, dairy products and juice to optimize our customized manufacturing process with unique flavors.
- *Packaging materials.* We plan to further reduce the cost in relation to packaging materials using economies of scale. In particular, we aim to manufacture more packaging materials through Senmian New Materials.

We also plan to invest in certain of our core suppliers and strengthen our collaborations with them, thus ensuring a long-term, stable and unique supply of raw materials to maintain a differentiated product competitiveness.

We will enhance our delivery network by increasing the number of our warehousing facilities, such as central hubs and pre-positioned hubs close to ChaPanda stores, helping us complete delivery to offline stores in cost-efficient manner. As of the Latest Practicable Date, the average number of stores covered by a central hub and a pre-positioned hub was 386 and 204, respectively. Going forward, we intend to enhance the operating efficiency of our central hubs to cover more ChaPanda stores and increase the number of pre-positioned hubs closely located to ChaPanda stores. In the future, we expect the average number of stores covered by a central hub and a pre-positioned hub will be approximately 400 and 200, respectively. We will also expand the use of multi-temperature zones and increase shipment frequency.

### **We will increase investment in technology to promote overall operating efficiency.**

We aim to achieve operation digitalization, business automation and decision-making intelligence. To do so, we will continue to increase investment in technology to develop digitalization that offers full cycle support to our operation. Our digitalization will be built upon intelligent technologies featuring business middle platform, data middle platform and technology middle platform, which allows it to serve the most fundamental elements in our business, including people, products and market. We believe our digitalization will improve our operating efficiency and continuously enhancing our core competitiveness for long-term development.



---

## BUSINESS

---

For our business operation, we will build a business middle platform where we share key operating capabilities and integrate core functions across various departments. The business middle platform will support the digitalization across multiple businesses, brands and sales channels. We also plan to utilize private traffic pool through membership marketing and joint branding activities via Weixin Mini Program. We intend to connect with third-party platforms to attract consumer traffic and expand our consumer base. We also plan to improve store operation efficiency through automated devices, such as automatic tea making machines and automatic fruit cutting machines.

For our supply chain management, we will continue to optimize key digital systems to improve efficiency and reduce relevant cost, such as a smart warehousing and logistics system, supply chain middle platform, food safety tracking system and research and development digitalization. In addition, we will continue to invest in our digitization, such as internal management and financial management, to upgrade our centralized management and operation.

### **We will strengthen product development and expand product matrix.**

We will strengthen our product development. For our existing products, we will optimize and upgrade product formula, manufacturing process and product packaging. For our new products, we will explore healthy and quality flavors with more diverse consumer experience. We plan to develop products with specific local flavors based on fruits and other ingredients with local features.

We will continue to enhance the quality of ingredients to serve consumers’ growing demand. For tea leaves, we plan to carefully select tea varieties and production areas, upgrade processing techniques and product compositions. We intend to further expand our product range. For instance, we plan to offer freshly-made coffee under independent sub-brand. In January 2024, we launched our first self-operated coffee shop under the brand “Coffree” (咖灰) in Chengdu, China.

### **We will enhance brand image and strengthen our bond with consumers.**

We plan to launch a series of self-operated specialized ChaPanda stores in key cities across China to promote brand awareness and recognition, such as (i) flagship ChaPanda stores which offer special products and store decorations featuring local cultural elements and (ii) model-image stores featuring our latest brand images and styles, optimized store space design and premium store locations. We plan to hold a variety of interactive events in our specialized stores, allowing consumers to experience the integration of tea and local culture, taste our new products and give feedback.

Going forward, we plan to adopt diversified marketing strategies to expand our brand recognition, especially those catering to the young generation’s features, preferences and tastes. We plan to further develop our brand IP “ChaCha” to enhance our brand image and our connection with consumers. We also intend to commercialize our brand IP “ChaCha” by releasing themed merchandises, such as cultural products, lifestyle products, electronic accessories and souvenirs. We also plan to cooperate with other brands to create diversified and lively merchandises to further strengthen our brand image and establish a closer connection with consumers. We also plan to initiate online marketing programs to attract consumer traffic and increase consumer engagement.

## BUSINESS

### BRAND AND PRODUCTS

#### Our Brand

As symbolized by our brand IP, “ChaCha,” we are dedicated to achieving a perfect balance of tea flavor and fruit freshness. We provide a wide selection of freshly-made tea drinks to consumers, especially the young generations who value quality tea drinks. Our dedication to product quality and product development has allowed ChaPanda to become a leading player in the industry with a broad base of loyal consumers. According to Frost & Sullivan, we ranked third in China’s freshly-made tea shop market in terms of retail sales value in 2023 with a market share of 6.8%.

The following diagram illustrates the images of our brand IP, “ChaCha.”



During the Track Record Period, we generated our revenue from the following sources:

- sale of goods and equipment, where we sell to franchised ChaPanda stores materials and ingredients for the production of tea drinks, such as dairy products, tea leaves and fruits, as well as packaging materials and store equipment. We also sell packaging materials to third-party purchasers that are manufactured by Senmian New Materials, such as biodegradable straws and cups;
- royalty and franchising income, consisting of non-refundable upfront initial fees, royalty income and pre-opening training service fees; and
- other revenue, which are mainly derived from (i) our design services in relation to ChaPanda stores, (ii) our online operation and management services in relation to the collaboration with third-party online delivery platforms and (iii) incomes from our self-operated ChaPanda stores.

## BUSINESS

The following table sets forth the breakdown of our revenue for the periods indicated.

	For the year ended December 31,					
	2021		2022		2023	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Sale of goods and equipment. . . .	3,446,864	94.6	4,019,519	95.0	5,419,980	95.0
Royalty and franchising income. .	158,735	4.4	171,642	4.0	231,595	4.1
Others . . . . .	38,610	1.0	40,509	1.0	52,732	0.9
<b>Total . . . . .</b>	<b>3,644,209</b>	<b>100.0</b>	<b>4,231,670</b>	<b>100.0</b>	<b>5,704,307</b>	<b>100.0</b>

In 2021, 2022 and 2023, the retail sales value of all ChaPanda stores achieved RMB9,984.0 million, RMB13,331.7 million and RMB16,909.1 million, respectively. As of December 31, 2021, 2022 and 2023, there were 5,070, 6,352 and 7,795 franchised stores in our ChaPanda store network, respectively, each representing more than 99.0% of total ChaPanda stores under operation as of the respective dates.

### Our Product Matrix

Our product portfolio includes a wide range of classic tea drinks, seasonal tea drinks and regional tea drinks. In ChaPanda stores, our classic tea drinks are typically available throughout the year, whereas seasonal tea drinks and regional tea drinks are only sold in limited time periods or certain regions, primarily depending on accessibility of relevant seasonal fruits or local specialty fruits, consumer acceptance and sales and marketing considerations.

#### Classic Tea Drinks

Our classic tea drinks consist of a series of signature products. As illustrated by the following diagram, our top-selling classic tea drinks mainly include our Mango Pomelo Sago (楊枝甘露), Soy Cream Yu Qilin (豆乳玉麒麟), Taro Bubble Tea (招牌芋圓奶茶), Jasmine Milk Green Tea (茉莉奶綠) and Watermelon Bobo (西瓜啵啵). During the Track Record Period, the list price of the classic tea drinks on our menu ranged from RMB6.0 to RMB22.0. As of December 31, 2023, the average selling price for our classic tea drinks was RMB13.9. Our classic tea drinks are priced at a level aligning with market norms for similar tea drinks offered by other industry players, according to Frost & Sullivan.



## BUSINESS

In 2023, our classic tea drinks represented approximately 40.0% of the total SKU in ChaPanda stores. In 2023, our Mango Pomelo Sago achieved a retail sales value of approximately RMB1,794.6 million with approximately 92.4 million cups sold. In the same year, we sold approximately 68.7 million and 110.9 million cups of Taro Bubble Tea and Jasmine Milk Green Tea, bringing approximately RMB1,009.7 million and RMB1,344.5 million of retail sales value, respectively. In 2023, a total of approximately 42.8 million cups of our Soy Cream Yu Qilin were sold, generating a retail sales value of approximately RMB685.1 million. In the same year, our Watermelon Bobo achieved a retail sales value of RMB594.4 million with approximately 39.6 million cups sold.

### *Seasonal and Regional Tea Drinks*

We offer a diverse range of seasonal and regional tea drinks. As illustrated by the following diagram, our seasonal and regional tea drinks comprise various limited-time offerings catering to consumers’ changing preferences and allow us to stay ahead of emerging trends. During the Track Record Period, the list price of the seasonal and regional tea drinks on our menu ranged from RMB12.0 to RMB26.0. As of December 31, 2023, the average selling price for our seasonal and regional tea drinks was RMB16.6. Our seasonal and regional tea drinks are priced at a level aligning with market norms for similar tea drinks offered by other industry players, according to Frost & Sullivan.



Our seasonal tea drinks feature seasonal ingredients, flavors and themes, which are offered to consumers only for a limited available period each year. For example, our seasonal tea drink Wu Qi Ma Hei (烏漆嘛黑) appeals to consumers with its unique flavor, black appearance and catchy name. As a testament of its popularity, over one million cups of Wu Qi Ma Hei were sold within the first week of its available period in 2023. Green Grape Jasmine (青提茉莉), another of our well-accepted seasonal tea drink launched in 2023, achieved a total sales of nearly one million cups within the three days of its market debut. We also rolled out Strawberry Pudding Milk (草莓奶凍) with an average monthly sales of over five million cups in the first quarter of 2023.

Our regional tea drinks offer unique flavor of special local fruits. For instance, we launched Huangpi Lemon Smash (黃皮打了香檸) in 2022, our local specialty tea drink available in Guangdong, Guangxi and Fujian. In the same year, approximately 0.8 million cups of Huangpi Lemon Smash were sold within its two-month available period, generating a retail sales value of approximately RMB11.2 million.

---

## BUSINESS

---

### Product Development

Product development and innovation lie at the heart of our competitive advantages and are key factors that differentiate us from competitors in the market. Our product development philosophy prioritizes the creation of low-sugar, low-fat products that meet the needs of our health-conscious consumers. Rather than merely following popular market trends, we originate a diverse range of new products based on our deep understanding of consumer tastes and feedback. We draw inspiration from traditional Chinese tea drinks, global cuisines and ingredients, snacks and desserts. In 2023, we developed more than 250 products and launched 48 new products, highlighting our proactive approach to product development and innovation.

We remain committed to continuously optimizing our existing products. In 2023, we upgraded 13 products, illustrating our commitment to refining and enhancing our existing offerings to ensure they remain aligned with evolving consumer demands and trends. In addition, we offer regional tea drinks to cater to the distinct preferences of local consumers across China featuring fruits from local production areas. This approach enables us to offer unique regional flavors and cater to the diverse tastes of our consumers.

We believe that our in-house product development team and proprietary innovation capabilities set us apart and enable us to consistently deliver enhanced consumer experience. Our dedicated product development department, led by our experienced product development supervisor, Mr. Zhu Mingxing, consisted of 45 members as of December 31, 2023, all of whom possess relevant work experience in the catering and beverage industry. Our product development team is composed of specialists who focus on developing products with seasonal and other components, with respective personnel assigned to analyze different ingredients in tea drinks, such as tea, dairy products, sugar, toppings and more. This specialized approach ensures that each aspect of our tea products is carefully crafted to deliver the best possible flavor and experience. In addition, we carefully select supply sources and require our suppliers to process raw materials according to our specific demands and specifications. This attention to detail enables us to incorporate distinct elements into our new products, further differentiating our offerings from those of our competitors. By consistently prioritizing product development and innovation, we continue to create unique, quality tea drinks that delight our consumers and set us apart in the competitive catering and beverage industry.

Our product development is a comprehensive and meticulous process that ensures the highest quality and brings new tea drinks to our consumers. The key steps involved in this process are as follows:

- *Product Planning.* Our product development initiates with an in-depth analytical phase. We keenly observe the trending discussions among younger demographics, scrutinize the leading products across multiple brands and employ sophisticated big data methodologies to uncover and anticipate prevailing trends in tea drink flavors. Our team also prepares sample products, conducts blind testing and organizes demonstrations to gather valuable feedback.



---

## BUSINESS

---

- *Product Development.* After we decide the flavors, we begin to choose ingredients for the potential new products. In this process, we explore the taste of different combinations of ingredients and flavors based on various formulas and recipes. We determine the final recipes taking into account the feedback from consumers during sample testing. We work closely with our suppliers to ensure the supply of raw materials in our new products. We also hold internal testing sessions for new products before their official release.
- *Product Standardization.* Before new products are released, we take various measures to ensure the standardization and consistency in new products across ChaPanda network. For instance, we conduct specialized trainings for ChaPanda stores regarding the preparation, marketing strategies and quality requirements of our new products. We have store staff learn how to make new products and conduct tests on whether they make standardized products according to the product formula. We also conduct inspections on ChaPanda stores in relation to the quality and marketing efforts for new products.
- *Marketing Campaign.* To successfully launch our new products, we prepare targeted multi-channel marketing events and campaigns. We also conduct training sessions for our store staff on how to prepare and serve these new offerings.
- *Re-evaluation.* After the product launch, we place a strong emphasis on collecting consumer feedback to continuously refine and upgrade our offerings. This iterative process allows us to stay attuned to our consumers’ preferences and make any necessary adjustments to our products.

By following this detailed research and development process, we are able to consistently deliver exceptional tea drinks that not only meet but exceed our consumers’ expectations, while also remaining at the forefront of industry trends and innovation.

### **Product Pricing**

We generally take into account a number of factors to set the prices of our products, including local consumer purchasing power, cost of ingredients, market demands, purchasing channel and competition. Inherent in our product pricing is the influence of raw material costs. As such, when determining the price point for our tea drinks, we undertake a holistic evaluation, factoring in elements such as the annual average cost of fresh fruits and other raw materials, the pricing trends of comparable products from competitors, our own margin benchmarks and consumer analysis. We intend to apply reasonable prevailing market prices with consistent and high quality products. During the Track Record Period, the list price of the tea drinks on our menu ranged from RMB6.0 to RMB26.0. As of December 31, 2023, the average selling price of our tea drinks was RMB14.8.



---

## BUSINESS

---

We determine the price of ingredients sold to franchisees primarily with reference to our procurement costs of raw materials and the profit margins of both our franchisees and ourselves. The determination of ingredient pricing is also linked to our product pricing strategy as described in the foregoing. We continuously monitor procurement costs trends, analyze industry development, and engage with our franchisees to understand their specific needs. These efforts enable us to remain agile in optimizing our cost structure, adapting our sales strategies and refine our pricing mechanism, and provide our franchisees with a stable and sustainable foundation for profitability.

### OUR CHAPANDA STORE NETWORK

We operated our first ChaPanda store in 2008 in Chengdu, Sichuan. Since then, we have started our ChaPanda voyage and have been rapidly expanding our network across China. Our ChaPanda store network is a collection of stores located in different cities and regions across China, each offering a consistent and authentic consumer experience. Our ChaPanda store network is strategically designed to maximize brand visibility, enhance consumer experience and deliver a unique blend of traditional and contemporary tea culture.

We primarily operate our ChaPanda store network through franchise model. We provide standardized, uniformed guidance and supervision over the operation of franchised stores in terms of product selling and pricing, product display and storage, store maintenance and work processes, sales and marketing, food safety and staff training and our franchisees are in charge of the daily operation of the franchised stores.

During the Track Record Period, the GFA of most ChaPanda stores ranged between 30-100 square meters. As of December 31, 2023, 44.3% and 42.8% of ChaPanda stores had GFA between 30-49 square meters and 50-100 square meters, respectively. We also selectively open specialized stores with larger floor space in key cities across China to showcase our brand and provide consumers with immersive experience in social gathering occasions.

All of our ChaPanda stores offer offline purchase options, allowing consumers to purchase and enjoy our tea drinks in offline stores. We also encourage ChaPanda stores to take advantage of the increasing popularity of online delivery platforms to reach a wider consumer base without having to expand physical locations or employ additional staff. During the Track Record Period, we continued to increase the proportion of stores with online delivery channels. As of December 31, 2023, 95.9% of ChaPanda stores fulfilled online orders through collaboration with third-party online delivery platforms. Apart from our collaboration with third-party online delivery platforms, we also encourage our consumers to place orders on our Weixin or Alipay Mini Program and pick up their tea drinks in offline stores.

ChaPanda stores are strategically dispersed across various tiers of cities. While maintaining our position in first-tier cities to enhance our brand identity and keep up with the ever-changing market trend, we have been penetrating and will continue to penetrate into lower-tier cities with promising potential for consumption growth. This deliberate distribution

## BUSINESS

ensures that we reach a broad spectrum of consumers and establish brand visibility across all tiers of cities. The following table sets forth a breakdown of our store coverage by city tier as of December 31, 2021, 2022 and 2023.

	As of December 31.					
	2021		2022		2023	
	Number of stores	%	Number of stores	%	Number of stores	%
First-tier cities . . . . .	537	10.6	690	10.8	827	10.6
New first-tier cities . . . . .	1,571	30.9	1,848	29.1	2,098	26.9
Second-tier cities . . . . .	1,095	21.6	1,347	21.2	1,628	20.9
Third-tier cities . . . . .	929	18.3	1,221	19.2	1,516	19.4
Fourth-tier and below cities . . . . .	945	18.6	1,255	19.7	1,732	22.2
<b>Total . . . . .</b>	<b>5,077</b>	<b>100.0</b>	<b>6,361</b>	<b>100.0</b>	<b>7,801</b>	<b>100.0</b>

As of December 31, 2021, 2022 and 2023, the number of ChaPanda stores was 5,077, 6,361 and 7,801, respectively. As of December 31, 2023, our store network covered 31 provinces and municipalities in China. The following map illustrates our ChaPanda store network in China as of December 31, 2023.



## BUSINESS

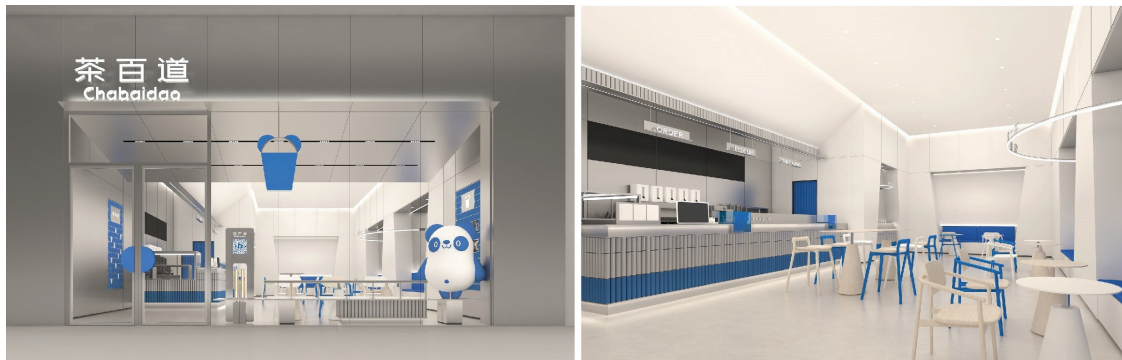
As of the Latest Practicable Date, the number of ChaPanda stores in China further increased to 7,927. In addition, the first ChaPanda store in overseas market was launched in January 2024 in Seoul, South Korea, which is operated under a specific brand license agreement with our third-party partner. Going forward, we aim to steadily grow our ChaPanda store network in both domestic and overseas markets.

We adopt consistent decoration style, in-store layout and service quality across the ChaPanda store network. Our store design is featured with simplicity, quality and unique brand image, such as by using the symbol of “ChaCha.” Through our carefully designed store style and decoration, ChaPanda stores offer consumers the venue to refresh themselves and explore new tastes and experiences. We design the interior plan for all of ChaPanda stores according to standardized decoration styles. The actual fit-out is implemented by third-party service providers who conduct work pursuant to our design plans. Our franchisees are required to purchase equipment for the stores from us.

The following diagrams illustrate the decoration style and images of ChaPanda stores.



*ChaPanda Store Design (2018 Version)*



*ChaPanda Store Design (2021 Version)*

## BUSINESS



*ChaPanda Store Design (2023 Version)*

### Store Location and Planning

Store location and planning is the first step in our expansion process. Our store location planning is precise and efficient. With our established nationwide network and proven business model, we have insights into a vast number of local market conditions. We also benefit from our advanced data analytics to enhance our modeling analysis and planning capabilities. We employ data analytics tools to perform geographic data analysis on our target markets. Our evaluation of potential store locations takes into account various factors, including but not limited to the business conditions, pedestrian traffic, rental costs, competitors in the vicinity, as well as the presence of ChaPanda stores in neighboring areas. The suitability of store locations are also subject to on-site visits and assessment. We provide recommendations for our franchisees to make choices regarding the most suitable store-opening location.

Our ChaPanda store network is strategically located in commercially vibrant areas, which we believe provide us with a more scalable and stable potential consumer base. When identifying business premises for our network expansion, we primarily focus on urban core areas and high-density communities, ensuring ChaPanda stores are optimally positioned to attract a high volume of consumers. We evaluate the business potential in a location, such as shopping centers' previous retail sales, to estimate whether a new store may thrive on a particular location. By doing so, we aim to achieve sufficient consumer visits for the profitable growth of a new store. Currently, the majority of ChaPanda stores are situated in high-traffic locations, such as commercial centers in residential neighborhoods and premium premises in shopping malls. This strategic placement enables us to access consumer traffic in these populated areas and enhance our consumer reach and revenue potential. By strategically positioning ChaPanda stores in prime locations and adjusting store layouts according to local demands, we effectively cater to a diverse and growing consumer base, driving the continued success and expansion of the ChaPanda brand.

For every potential ChaPanda store location, we seek locations where communities gather, often with characteristics such as well-designed business areas, favorable property conditions, excellent visibility and accessibility, high pedestrian traffic and a broad consumer base. To select the location for a new ChaPanda store, we generally require on-site evaluations of potential store locations by designated personnel at both headquarter level and regional

---

## BUSINESS

---

level. Through our data analytic tools, we also arrange online evaluations in areas which we do not have local teams for store locations. Our franchisees will propose location selection and we are entitled to approve the site selection for every ChaPanda store. For more information, see “—Our Store Operation Model—Our Franchise Model—Onboarding Process—Store Location Selection, Training and Store Decoration” in this section.

We take a prudent approach in site selection. Upon determining a suitable business area for store opening, we strive to secure the optimal location within that area. We conduct thorough research and analysis to determine optimal locations that support expansion goals and maximize return on investment. We also take into account local regulations and zoning requirements to ensure smooth operations and compliance with regional policies.

When vetting site selection proposals from our franchisees, we take several factors into consideration to ensure the optimal placement of ChaPanda stores. In addition to increasing commercial market potential, we believe these factors are important to help us reduce the risk of cannibalization between new and existing locations. These factors include:

- *Consumer traffic and characteristics of commercial areas:* To avoid potential cannibalization between new and existing ChaPanda stores, we closely analyze the consumer traffic in a given commercial area to determine its viability. We also assess the characteristics of commercial areas to determine if the environment is suitable for operating tea drink shops. Therefore, we help each of ChaPanda stores access equal or similar commercial resource to develop their business.
- *Protective distance:* We strategically establish physical distances ranging from 50m to 400m between new and existing stores based on market analysis and an assessment of our primary competitors. In certain locations with high demand for our products and services, additional ChaPanda stores may be opened in proximity to existing stores to better serve our consumers. Pursuant to the franchise agreement, new ChaPanda stores may be opened within the protective distance under certain conditions, such as the improvement of local commercial conditions or consumer traffic. In such circumstance, we shall give prior written notice to the franchisees who operate existing stores nearby so they have the right of first refusal for the new stores.
- *Standardized management:* We enable ChaPanda stores to receive equal resources to ensure a level playing field and uniform growth opportunities. We adopt unified measures regarding product development, supply chain, marketing and expansion to maintain consistency and cohesion across our entire network. These measures help ChaPanda stores grow their business without the need to compete for internal resources among themselves.

The fast-growing freshly-made tea shop market in China is faced with intense competition. With the growing number of freshly-made tea brands and tea shops in China, our strategy to expand our store network may lead to competition among ChaPanda stores and



---

## BUSINESS

---

competition against our competitors. It is possible that the existing ChaPanda stores or our competitors might have already taken up the desired locations for new ChaPanda stores, and our measures to minimize the risk of cannibalization within our network and against competitors might have limitations.

We actively develop and implement strategies to manage such limitations. These strategies involve, among others, our careful market analysis of areas for penetration, and innovative product development and diversification. In our nationwide analysis of areas for penetration, we diligently explore and identify potential locations for opening stores, creating an extensive reserve for new store placements. Our selection of new store locations are based on the store location and planning analysis as illustrated above, which in particular is grounded in a thorough analysis of local consumer demands and the existing competitive landscape of the tea shops in local areas. We take measures to mitigate the cannibalization effect on existing stores during our expansion of store network in areas where we have already established a presence. On the one hand, our decision to open a new store is closely related to the local consumer demands and we only consider new store opening in a specific area where we believe the local consumer needs can adequately support both new and existing stores. On the other hand, our commitment to innovative product development contributes to generating fresh demands. By continuously introducing new product offerings with distinct ingredients, we are able to further grow our market demand and consumer base.

The above strategies also apply to our competition against our competitors. Additionally, there are numerous brands engaging freshly-made tea shops business in China. Consumers have a broad array of choices that align with their preferences and budgetary considerations. These multi-faceted competition does not inherently results in cannibalization. In order to enhance the effectiveness of our strategies to avoid cannibalization and better compete with our competitors, we intend to further expand our presence in third- and fourth-tier cities. While we have made significant progress in our expansion in third- and fourth-tier cities over the past few years, our percentage of ChaPanda stores in these areas remains relatively low compared to our competitors. This strategic approach leaves us with ample untapped potential to expand our footprint into these markets, ensuring a more even distribution of our store network and a well-rounded market coverage that sets us apart from the competition.

### **Collaboration with Third-party Online Delivery Platforms**

To meet consumers’ need for online ordering and delivery services, ChaPanda stores collaborate with established third-party online delivery platforms, including Meituan and Ele.me, who deliver our products from ChaPanda stores to consumers’ homes or offices. For the foregoing online delivery, each of the ChaPanda stores would enter into separate standard agreement with the third-party online delivery platforms to use their services. Meanwhile, we provide online operation and management services, including launching preparations and ongoing support, to ChaPanda stores to ensure their smooth online operations.



## BUSINESS

Our online operation and management services comprise (i) platform management services, such as assisting in setting up account on the online delivery platforms, designing online store profile page and menu, conducting marketing and promotion activities, analyzing consumers’ feedback and implementing online sale promotions; and (ii) platform operation services, such as setting up and maintaining store accounts in the online delivery platforms, assisting in handling online coupon sales and negotiating other matters with the online delivery platform. We record the online operation and management services fees as our other revenue, which is a fixed amount provided in the agreements with our franchisees.

We believe collaboration with third-party online delivery platforms helps ChaPanda stores improve their sales and access enlarged consumer base. As of December 31, 2023, 95.9% of ChaPanda stores fulfilled online orders through collaboration with third-party online delivery platforms. In 2021, we began to introduce an online ordering function integrated in our official Weixin Mini Program, through which consumers may place orders online and pick up tea drinks at offline stores by themselves.

The following table sets forth a breakdown of the retail sales value and sales volume of ChaPanda stores by sales channels for the periods indicated.

	For the year ended December 31,					
	2021		2022		2023	
	Retail sales value	Sales volume	Retail sales value	Sales volume	Retail sales value	Sales volume
	(RMB in million)	(number of cups in million)	(RMB in million)	(number of cups in million)	(RMB in million)	(number of cups in million)
Non-delivery orders <sup>(1)</sup>	3,867.6	242.9	4,944.9	311.8	6,927.6	447.0
Delivery orders <sup>(2)</sup>	6,116.4	354.3	8,386.8	482.6	9,981.5	569.1
<b>Total</b>	<b>9,984.0</b>	<b>597.2</b>	<b>13,331.7</b>	<b>794.4</b>	<b>16,909.1</b>	<b>1,016.1</b>

*Notes:*

- (1) Represent consumer orders picked up on-site in ChaPanda stores, including those placed through our in-store cashier and our Weixin/Alipay Mini Program. As of the Latest Practicable Date, we did not offer delivery service on our Weixin/Alipay Mini Program and thus all orders placed through our Weixin/Alipay Mini Program, whether remotely or on-site, are picked up by consumers on-site in ChaPanda stores.
- (2) Represent consumers orders placed through third-party delivery platforms.

## BUSINESS

### Operation Performance

The following table sets forth the key performance indicators (“KPIs”) relating to ChaPanda stores during the Track Record Period.

	For the year ended December 31,		
	2021	2022	2023
Total retail sales value (RMB in million) . . . .	9,984.0	13,331.7	16,909.1
Total sales volume (number of cups in million). . . . .	597.2	794.4	1,016.1
Total number of orders (million). . . . .	345.4	465.9	618.2
Total number of stores <sup>(1)</sup> . . . . .	5,077	6,361	7,801
Total number of days of operation (thousand) <sup>(2)</sup> . . . . .	1,346.6	1,924.5	2,455.2
Average retail sales value per order (RMB). . .	28.9	28.6	27.4
Average retail sales value per store (RMB in thousand) <sup>(3)</sup> . . . . .	2,728.2	2,331.1	2,388.0
Average daily retail sales value per store (RMB) <sup>(4)</sup> . . . . .	7,414.1	6,927.3	6,887.2
Average sales volume per store (number of cups) <sup>(5)</sup> . . . . .	163,192.8	138,903.4	143,501.9
Average orders per store per day <sup>(6)</sup> . . . . .	256.5	242.1	251.8
Average store equipment expenditure per newly-opened franchised store <sup>(7)</sup> (RMB) . . .	140,294.3	152,020.3	153,804.7

*Notes:*

- (1) Calculated as the number of stores as of the last day of each period.
- (2) Calculated by totaling the number of days that ChaPanda stores open for business with recorded retail sales value in our system for a particular period.
- (3) Calculated by dividing the retail sales value for a particular period by the average of the total number of ChaPanda stores as of the first day and the last day of the same period.
- (4) Calculated by dividing the retail sales value for a particular period by the aggregate number of days of operation of ChaPanda stores during the same period.
- (5) Calculated by dividing the total sales volume for a particular period by the average of the total number of ChaPanda stores as of the first day and the last day of the same period.
- (6) Calculated by dividing the aggregate number of orders placed by consumers with ChaPanda stores for a particular period by the aggregate number of days of operation of ChaPanda stores during the same period.
- (7) Calculated by dividing our revenue generated from the sale of equipment for a particular period by the number of franchised stores opened during the same period. For the number of newly-opened franchised stores during the Track Record Period, see “Business—Our Store Operation Model—Our Franchise Model” for details.

## BUSINESS

The following table sets forth average daily retail sales value per ChaPanda store by years of opening during the Track Record Period.

	For the year ended December 31,		
	2021	2022	2023
	(RMB)		
<b>Average daily retail sales value per store<sup>(1)</sup></b>			
ChaPanda stores opened in 2021 and before . . .	7,414.1	7,036.4	7,150.9
ChaPanda stores opened in 2022 . . . . .	–	6,128.6	6,640.2
ChaPanda stores opened in 2023 . . . . .	–	–	5,984.7

*Note:*

- (1) Calculated by dividing the retail sales value generated from the relevant ChaPanda stores for a particular period by the aggregate number of days of operation of such ChaPanda stores during the same period.

To facilitate our network expansion and business growth, we have implemented a strategic approach that focuses on enhancing ChaPanda stores’ business performance, operation efficiency and consumer relations. To drive strong business performance, we employ a mix of online and in-store marketing campaigns tailored to our target consumers. These campaigns include attractive pricing discounts, online promotional activities and other incentives designed to encourage consumer engagement and loyalty. We recognize the importance of streamlined operations in ChaPanda stores, and as such, we have implemented unified store management policies to ensure a consistent consumer experience across our store network. Effective public relations are crucial to maintaining a positive brand image and ensuring long-term success. We have established internal public relation policies and procedures to address any negative publicity promptly and professionally. Furthermore, we conduct regular internal trainings on public relations to equip our employees with the necessary skills to manage potential issues and maintain our brand’s reputation.

By focusing on these key areas, we are well-positioned to accelerate our network expansion and drive sustainable growth, while continuing to provide enhanced consumer experience.

## BUSINESS

---

### Tutoring Period for New ChaPanda Stores

In order to ensure the successful launch and operation of new ChaPanda stores, we have implemented a comprehensive three-month tutoring period during which we provide a variety of support and tutoring services. These services are designed to help new stores seamlessly integrate into our brand's standards and maintain the exceptional consumer experience that we are known for. The key components of the tutoring period include:

- *New Store Opening Guidance:* We collaborate closely with new stores and provide various support during their trial operation and new store opening periods. For example, our regional operating centers deploy supervisors on-site to provide staff trainings and help with store equipment setup. We assist new stores in rapidly ramping up within two weeks to one month, and assess their performance based on our internal standards. This assessment includes evaluating inventory status and requirements, as well as ensuring product and service quality. Our guidance ensures that the new stores operate efficiently and uphold our brand's value.
- *Marketing and Promotion:* We collaborate with new stores to develop promotional plans tailored to their specific needs and target audience. We generally assist new stores in organizing a three-day store opening promotional period. This may include online and offline promotional measures, such as offering discounts, buy-one-get-one-free deals or other incentives to attract consumers and generate buzz around the store opening. We also deploy supervisors to help them with the events organization and staff arrangements to ensure the marketing effects.
- *Online Operation and Management Service:* We provide trainings, brand planning and other related preparation services for new stores prior to the official launch of their online ordering and delivery services. To facilitate their online operations, we render ongoing support services, including account opening, product categorization and layout guidance and optimization, introductory webpage and ordering interface management, customer traffic flow analysis and store performance evaluation, among others. We also help new stores collaborate with third-party online delivery platforms to organize online promotions for their store openings and enhance their presence and growth on such platforms.
- *Store Operation Support:* After the new stores are successfully opened, we offer daily store operational support for approximately two months to help new stores to grow their business stably. For example, our support includes frequent visits by supervisors to provide operational guidance and recommendations for marketing activities and guidance in various aspects, such as food safety, employment and new product launch. We also help new stores analyze their sales performance and provide recommendations to support smooth and stable store operation.

Through this structured tutoring period, we aim to equip new stores with the knowledge and resources necessary to thrive within our growing network and continue to improve consumer experience.

---

## BUSINESS

---

### OUR STORE OPERATION MODEL

We primarily operate our ChaPanda network through a franchise model. We believe our franchise model is key to our rapid business growth and our established success. On the one hand, by partnering with qualified franchisees, we efficiently scale up our business across China, which is evidenced by our industry-leading position. On the other hand, we ensure that consumers receive consistent, satisfactory products and services through our franchise model. As of December 31, 2021, 2022, 2023 and the Latest Practicable Date, there were 5,070, 6,352, 7,795 and 7,921 franchised stores in our ChaPanda store network, respectively, each representing more than 99.0% of total ChaPanda stores under operation as of the respective dates.

#### Our Franchise Model

During the Track Record Period, our ChaPanda store network primarily consisted of franchised stores. We maintain strong oversight of franchised stores, ensuring that every aspect of store operation is properly managed and optimized for success. Our involvement in the franchised store process is comprehensive, encompassing participation in planning and location selection, providing in-depth training to franchisees and in-store staff on various aspects such as procurement, staff recruitment, quality control and daily management. Additionally, we supply raw materials, equipment, and provide logistics, operation and marketing services to support our franchisees in their pursuit of success. Franchisees primarily focus on the day-to-day operation and maintenance of their stores, on-site staff management and customer service. By dividing responsibilities in this manner, we ensure that our franchisees receive the necessary support and guidance while maintaining their autonomy in managing their stores. This approach fosters a strong partnership between us and the franchisees, contributing to the overall success and growth of our ChaPanda brand.

The franchise model is a well-established and commonly used business model in the industry, offering several key benefits to our business. These benefits include: (i) providing us with an asset-lite and cost-effective way to expand our business and allocate our resources more efficiently to other critical business aspects, such as franchise support, product development, supply chain management and risk management, which enables us to better serve our franchisees and achieve a win-win situation; (ii) faster expansion, regional penetration and market share gains, as the franchise model allows us to grow our brand more rapidly and establish a strong presence in various regions; and (iii) effective utilization of the franchisees' entrepreneurial spirit, local expertise and business network through empowering them in various business aspects, which contributes to the overall success of our ChaPanda brand and helps us better understand and cater to local market needs. Overall, the franchise model helps us achieve robust growth and a strong market presence. According to Frost & Sullivan, the franchise model is a market norm in the freshly-made tea shop market in China.

As of December 31, 2021, 2022 and 2023, we had 4,634, 5,396 and 5,538 franchisees, among which 129, 363 and 595 franchisees opened more than two stores.

## BUSINESS

The following table sets forth the movement of number of our franchisees for the periods indicated.

	For the year ended December 31,		
	2021	2022	2023
Number of franchisees			
at the beginning of the period . . .	2,580	4,634	5,396
Number of franchisees enrolled			
during the period . . . . .	2,062	824	805
Number of franchisees terminated			
during the period . . . . .	(8)	(62)	(663) <sup>(1)</sup>
<b>Number of franchisees at the end of the period . . . . .</b>	<b>4,634</b>	<b>5,396</b>	<b>5,538</b>

The following table sets forth the movement of number of franchised stores for the periods indicated.

	For the year ended December 31,		
	2021	2022	2023
Number of franchised stores			
at the beginning of the period . . .	2,240	5,070	6,352
Number of franchised stores opened			
during the period . . . . .	2,843	1,358	1,663
Number of franchised stores closed			
during the period . . . . .	(13)	(76)	(220) <sup>(2)</sup>
<b>Number of franchised stores at the end of the period . . . . .</b>	<b>5,070</b>	<b>6,352</b>	<b>7,795</b>

*Notes:*

- (1) The 663 terminated franchisees in 2023 include (i) 397 franchisees who departed through transfer of stores to other franchisees, (ii) 150 franchisees who terminated collaboration with us for their own reasons or did not renew collaboration with us upon agreement expiration, (iii) 116 franchisees who were terminated by us.
- (2) The number of franchisees terminated in 2023 is greater than the number of closed franchised stores during the same period primarily because for 397 terminated franchisees in 2023, their stores were taken up by other franchisees for continuous operation. With respect to the 220 closed franchised stores during 2023, there were 150 closed franchised stores for which we also terminated relationships with the relevant franchisees, and there were 70 closed franchised stores for which we maintained relationships with the franchisees as they have one or more stores under operation despite the store closure.



---

## BUSINESS

---

During the Track Record Period, we experienced rapid increases in the number of franchisees and franchised stores resulting from the planned expansion of our ChaPanda store network. To expand our network, we typically encourage franchisees with good operation performance to open more franchised stores.

During our ordinary course of business, we terminate partnerships with franchisees mainly due to the expiration of franchise agreements, the termination of agreements by us and termination of agreements by franchisees. In particular, in 2021, 2022 and 2023, 13, 76 and 220 franchised stores were closed, respectively, and we terminated partnership with eight, 62 and 663 franchisees, respectively.

During the Track Record Period, the increase in the number of terminated franchisees was generally in line with the overall expansion of our franchisee network.

- In 2022, the number of terminated franchisees was 62, primarily due to the adverse effects of the COVID-19 pandemic, including regional travel restrictions and other anti-pandemic restrictive measures that had significantly impacted the operation of franchised stores in certain regions. Consequently, some franchisees elected to terminate their franchise agreements with us amid these challenges.
- In 2023, there were 663 terminated franchisees. (i) For 397 franchisees of the foregoing terminated franchisees, their franchised stores were transferred to other franchisees for continuous operation. (ii) For 150 of the foregoing terminated franchisees, they determined to terminate collaboration with us for their own reasons or did not renew collaboration with us upon agreement expiration. (iii) For 116 of the foregoing terminated franchisees, a majority of them was terminated by us primarily because we enhanced franchisee assessment from various aspects during the renewal process of franchise agreements, including with respect to franchised stores' operating performance, franchisees' adherence to our operational and food safety requirements and their attendance records in the relevant franchised stores.

To the best of our knowledge, during the Track Record Period and up to the Latest Practicable Date, there was no material dispute or litigation between us and the terminated franchisees.

## BUSINESS

The following table sets forth a breakdown of our revenue of the existing franchised stores and newly opened franchised stores in an absolute amount and as a percentage of total revenue generated from franchised stores for the periods indicated.

	For the year ended December 31,					
	2021		2022		2023	
	Revenue	% of revenue	Revenue	% of revenue	Revenue	% of revenue
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Existing franchised stores . . . . .	1,918,030	52.9	3,547,090	84.5	4,801,720	84.8
Newly opened franchised stores. . . . .	1,707,152	47.1	650,021	15.5	857,580	15.2
<b>Total franchised stores . . . . .</b>	<b><u>3,625,182</u></b>	<b><u>100.0</u></b>	<b><u>4,197,111</u></b>	<b><u>100.0</u></b>	<b><u>5,659,300</u></b>	<b><u>100.0</u></b>

The following table sets forth a breakdown of our gross profit and gross profit margin of the existing franchised stores and newly opened franchised stores for the periods indicated.

	For the year ended December 31,					
	2021		2022		2023	
	Gross profit	margin	Gross profit	margin	Gross profit	margin
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Existing franchised stores . . . . .	651,406	34.0	1,214,000	34.2	1,646,338	34.3
Newly opened franchised stores. . . . .	646,383	37.9	236,233	36.3	309,785	36.1
<b>Total franchised stores . . . . .</b>	<b><u>1,297,789</u></b>	<b><u>35.8</u></b>	<b><u>1,450,233</u></b>	<b><u>34.6</u></b>	<b><u>1,956,123</u></b>	<b><u>34.6</u></b>

During the Track Record Period, the financial performance of the existing and newly opened franchised stores were generally on an upward trend, which was in line with our business expansion. The decreases in the revenue and gross profit of the newly opened franchised stores from 2021 to 2022 were consistent with the decrease in the number of newly opened franchised ChaPanda stores from 2,843 to 1,358 over the same period due to the negative impact of COVID-19. The slight decrease in gross profit margin of the newly opened franchised stores from 2021 to 2022 was due to fluctuations in financial performance, which was also mainly attributable to the negative impact of COVID-19.

---

## BUSINESS

---

### *Onboarding Process*

We implement a stringent onboarding process for new franchisees, spanning from initial selection to new store opening. Each franchisee undergoes a thorough selection procedure, assessing them against a comprehensive set of criteria to ensure their alignment with our business values and have the necessary capabilities to operate a successful store. Generally, it takes approximately 60 to 100 days to complete the entire process from selecting new franchisees to opening new stores. Due to our rigid selection process, only approximately 7% of the franchisee candidates were able to pass our selection and eventually become our franchisees during the Track Record Period. We also oversee various aspects, encompassing store location selection, decoration, training and the store opening phase, to guarantee strict adherence to our standards and protocols prior to store launch. The franchisee onboarding procedure encompasses the subsequent stages:

- *Selection of Franchisees.* We select franchisees through multiple steps, including initial screening upon franchisee registration, online testing and interviews. Franchisee candidates are expected to showcase a profound understanding of the food and beverage industry and possess management capabilities to supervise store operations. It is imperative that they align with our vision, embrace our brand identity, and be dedicated to promoting and enhancing our brand. Furthermore, candidates should possess a strong entrepreneurial spirit and be highly motivated, while also having a deep understanding of our product offerings. We also consider any additional qualifications, experiences or skills that may contribute to the successful operation of a ChaPanda store.
- *Store Location Selection, Training and Store Decoration.* Upon passing initial onboarding, franchisee candidates proceed to select potential store locations, subject to our internal review. We reserve the right to decline if locations don't meet our standards. Before signing franchise agreements, we conduct a final background and contract inspection. The franchisees will then begin interior design and decoration process pursuant to our standards, which is subject to our inspection and approval upon completion. In the meantime, franchisees and franchised stores' employees attend trainings at our training centers. We require each store to have at least four training completion certificates.
- *Pre-store Opening Inspection.* We conduct comprehensive assessments of a new store, covering areas such as its business license, staffing arrangement, material procurement, equipment setup, hygiene standards and training progress. Upon successful completion of the inspection, the new store is eligible to commence a trial operation before its official launch.

---

## BUSINESS

---

### *Operation of the Franchised Stores*

Franchisees shall strictly follow our operational standards. We have implemented the following measures to ensure standardization across key aspects of our franchise business:

- *Standardized Operation.* We supply all franchised stores with the same equipment, materials, ingredients, internal IT systems and standard operating procedures (“SOP”) to maintain consistency in operations and consumer experience.
- *On-site Presence of Franchisees.* In order to ensure hands-on management and oversight of their store, franchisees are required to be on-site for a minimum of 130 hours per month.
- *Licensing Requirements.* Before the launch of new stores, our franchisees shall obtain required licenses and permits for store operation, such as those in relation to food safety and employees’ healthy conditions.
- *Centralized Control over Key Operational Aspects.* We maintain centralized control over key operational aspects, such as online ordering, product pricing, procurement, marketing campaigns and membership programs, to guarantee a consistent brand image and operational efficiency.

To ensure continuous supervision and support for our franchisees, as of December 31, 2023, we had established 16 regional operation centers strategically located in major cities, such as Changsha, Shanghai, Hangzhou, Guangzhou, Nanjing, Wuhan, Chongqing, Fujian and Chengdu. We believe that setting up regional operation centers in these cities significantly improves the efficiency of store operations and facilitates ongoing training for our franchisees. Our regional operation centers have a primary focus on monitoring crucial indicators, such as operation performance, food safety, consumer service, raw material management and consumer complaints. Each regional operation center may customize its specific indicators to align with the unique business conditions of each franchised store, allowing us to assess store performance in an accurate and flexible manner.

To maintain close communication with our franchisees and ensure that their operations align with our standards, we generally conduct two to four site visits per store every month. Additionally, we request periodic reports from our franchisees to monitor their progress and identify areas for improvement. By maintaining a strong network of regional operation centers and providing continuous supervision and support, we aim to foster a thriving ecosystem of franchised stores that consistently deliver enhanced consumer experience.

---

## BUSINESS

---

### *Cooperation with Regional Service Providers*

During the Track Record Period, we also collaborated with ten regional service providers to facilitate our penetration into local markets and support the management of a small portion of franchised stores. The regional service providers are typically private companies operated by our franchisees who have successfully operated ChaPanda stores in the local markets. Given their prior collaboration with us, these regional service providers have developed operational expertise and capabilities that align seamlessly with our corporate culture and values, and are able to make valuable contribution to our expansion efforts in the local markets. We carefully select regional service providers that demonstrate strong expertise and resources within local markets, including but not limited to familiarity with local culture and business practices, experience in local franchise business development and administrative procedures, and insights into local consumer preferences.

Through such collaboration, we intend to capitalize on the local expertise of the regional service providers to recruit new qualified franchisees, and provide support and oversight to franchised stores within designated regions. We may also require such service providers to operate their own franchised stores within the same regions, which we believe enables us to secure optimal store locations and enhance our brand visibility.

The regional service providers are responsible for assisting us with onboarding new qualified franchisees and managing franchised stores in designated regions. For instance, the regional service providers may recruit potential franchisees in the designated regions and help them submit their applications for our final assessment and approval. The franchisees onboarded through the regional service providers must undergo an identical onboarding process and meet the same selection criteria as other franchisees. Once the potential franchisee candidates pass our onboarding process, they will enter into franchise agreements directly with us. There is no contractual relationship between the regional service providers and the franchisees. After we establish partnerships with these franchisees, the regional service providers shall be responsible for assisting us in the supervision, inspection, management and evaluation of key business aspects of the franchised stores operated by these franchisees, such as the store decoration and store evaluation. We have the regional service providers assemble professional teams who support and manage local franchised stores according to the same standards used in ChaPanda store network. If any material issue is identified in relation to the operation of franchised stores, such as with respect to the quality of store decoration or the business performance, the regional service providers shall report such issues to us for further processing.

We enter into collaboration agreement with the regional service providers. Pursuant to the collaboration agreement, the regional service providers are obligated to conduct regular inspections on the franchised stores within their designated regions, and ensure compliance with our unified operational procedures and standards. We conduct routine and ad-hoc inspections on franchised stores within these regions and if any unsatisfactory inspection result is identified, we may impose a fine on the relevant regional service providers. Specifically, we perform quarterly inspection visits in the designated regions of each regional service provider.

---

## BUSINESS

---

After identifying any issues, we engage with our regional operating centers to set up a timeline for rectification. Our regional operating centers then assist the regional service providers with the implementation of necessary improvements. This collaborative process ensures consistent adherence to our standards and procedures across all regions. The key terms of our collaboration agreement with the regional service providers are set forth as below.

- *Terms.* Typically one year with renewal option subject to our prior approval based on evaluation of certain criteria, such as compliance with contract terms and our internal guidelines, timely and full payment, among others.
- *Store Expansion.* The collaboration agreement provides the minimum number of new franchised stores to be opened within the designated region for each year during the contract term. It includes the respective number of stores to be opened by new franchisees onboarded through the regional service providers and the stores to be opened by the service providers themselves.
- *Store Management.* Any new franchised store managed or operated by the regional service providers shall only open after receiving our approval. The regional service providers shall conduct routine inspections of the franchised stores within the designated regions, and conduct store assessments across various operation aspects pursuant to our internal assessment standards and procedures. We also conduct inspections of the franchised stores within the designated regions and if any unsatisfactory inspection result is identified, we may impose a fine on the relevant regional service providers.
- *Sales and Operation.* The regional service providers shall ensure all necessary procedures as required by laws and regulations are completed before the franchised stores managed or operated by them are opened. They must strictly adhere to all of our unified operational procedures and marketing activities and provide monthly market feedback to us. The service providers are obligated to fully cooperate with our store inspections and provide all necessary information for our assessment of the store operation.
- *Service Fees and Sales Rebate.* We provide regional service providers with 60% of the non-refundable initial fees and pre-opening training service fees collected from franchised stores onboarded through them as service fees for their services provided to facilitate our store expansion and management. To further incentivize their performance, we also offer regional service providers sales rebate calculated as 6% of the procurement amount of the raw materials and packaging materials procured by the franchised stores onboarded through or operated by them from us and for the delivery of which we arranged the logistics and warehousing services, or 12% of such procurement amount if the regional service providers provide logistics and warehousing services for the delivery of the raw materials and packaging materials.
- *Termination.* The collaboration agreement may be terminated upon mutual consent or unilaterally in the event of a material breach by either party.



---

## BUSINESS

---

To secure optimal store locations and enhance our brand visibility, we may require regional service providers to open new franchised stores by themselves in designated regions under our collaboration agreements with them. The regional service providers may enter into franchise agreements with us, the key terms of which are in line with the ones set forth under the franchise agreement we enter into with other franchisees. As a result, the regional service providers engaged by us may also act as our franchisees, and our five largest customers during the Track Record Period included regional service providers who were our franchisees.

The service fees and sales rebate we provided to regional service providers are set forth in the key terms of collaboration agreement above. The fees we charged to the franchised stores managed or operated by the regional service providers follow the identical arrangement set forth in the franchise agreement that are applicable to other franchisees, except that the non-refundable initial fees and pre-opening training service fees are waived for the franchised stores operated by the regional service providers. Such waived fees amounted to RMB88,000/RMB90,000 per store during the Track Record Period, depending on the store opening time.

In 2021, 2022 and 2023, the total fees we paid to regional service providers, including the portion of non-refundable initial fees and pre-opening training service fees and sales rebate, amounted to RMB16.7 million, RMB10.1 million and RMB13.2 million, respectively. In 2021, 2022 and 2023, the revenue contribution of the franchised stores managed or operated by regional service providers as a percentage of our total revenue was 9.1%, 3.4% and 2.8%, respectively, and the store-level gross profit margin of the above franchised stores (before taking into account the portion of non-refundable initial fees and pre-opening training service fees and sales rebate we paid to the regional service providers as described above) was 36.8%, 37.9% and 37.2%, respectively, which is generally in line with that of other franchised stores.

As of the Latest Practicable Date, with the improvement of our proprietary operating capabilities, we had gradually reduced the abovementioned collaboration to two regional service providers, of which one is for our operation in Guizhou Province, and the other is for our operation in Yichang, Hubei Province. As of the Latest Practicable Date, there were 256 franchised ChaPanda stores under this collaboration model, including (i) 245 franchised stores whose franchisees were onboarded through the regional service providers and under their management and (ii) 11 franchised stores operated by the regional service providers as franchisees, which in aggregate represented 3.2% of the total number of franchised ChaPanda stores as of the same date. During the Track Record Period and up to the Latest Practicable Date, all of our regional service providers were Independent Third Parties. Going forward, as we have developed our proprietary capabilities to operate ChaPanda store network in China, we do not plan to expand our business through collaboration with regional service providers and will continue to supervise the operations of substantially all of ChaPanda stores directly by ourselves.

---

## BUSINESS

---

### *Evaluations*

To maintain a dynamic supervision of their performance, we conduct evaluation on the franchisees and their franchised ChaPanda stores on a quarterly basis. For our franchisees, our evaluation is mainly focused on their abilities to operate ChaPanda stores, cooperate with our businesses, cultivate and train store personnel as well as their loyalty to our brand. For the franchised ChaPanda stores, our evaluation is mainly focused on the store performance, the store staff’s service capability and quality, the consumer satisfaction and the ability to solve consumer complaints.

Based on our evaluation results, we categorize our franchisees and the franchised ChaPanda stores into three and four tiers, respectively. We offer various fee discounts or incentives to our top-performing franchisees and their franchised ChaPanda stores.

### *Training System*

We understand the importance of providing comprehensive training and guidelines to our franchisees for the smooth operation of franchised stores. As of December 31, 2023, our ChaPanda Professional Training School was supported by 16 training centers across China and approximately 140 designated professional tutors, aiming to provide effective guidance for our franchisees nationwide. In particular, to provide the best training experience for our franchisees, we have built a training center at our headquarters, which features over 1,000 square meters of space, five classrooms and two practice areas. The training sessions at our headquarters are conducted on a weekly basis, with 50 to 200 franchisees and franchised stores’ employees attending each session. We also offer an online training database with more than 300 courses and 2,000 questions. Our franchisees may also choose to receive training sessions at our regional operating centers that are near to them.

We provide comprehensive training programs throughout the initial onboarding process and the ongoing operational journey of our franchisees. In our commitment to upholding operational standards across the franchised stores, we deliver robust onboarding training programs that typically last for about three weeks and encompass both theoretical and practical elements for the franchisees and their personnel. These programs are designed to equip them with the necessary skills to run a successful franchise business. Our comprehensive curriculum includes live theoretical instruction which can be accessed either physically or through a live-streamed session. This is further supplemented with recorded lectures for more flexible learning. This theoretical foundation is then reinforced with an extensive hands-on practical training. After participants have fully engaged with the training and successfully passed the requisite theoretical and practical evaluations, they will receive our ChaPanda Vocational Skills Training Certificate. We require all of the new franchised stores and their employees to participate in these mandatory trainings. Before store opening, each store should hold no less than four training completion certificates. We also require new store employees who are recruited after the store opening to receive the foregoing mandatory training as well. This stringent requirement guarantees a consistent level of expertise across our entire network.

---

## BUSINESS

---

In addition to the foundational onboarding trainings, we also provide ongoing trainings for the day-to-day operations and specialized training programs. For example, we provide ongoing skill training for our franchisees, encompassing all aspects of franchised store operations. This comprehensive training covers various operational aspects, such as store management, marketing and promotions, food safety, employee management. In 2023, we conducted more than 900 skill training sessions, with over 470,000 participants cumulatively who were our franchisees and their employees. Additionally, we offer specialized training programs such as the Super Store Manager Training Camp and TOP Training Camp, tailored to enhance the operational expertise of our franchisees and their teams.

### *Our Agreements with Franchisees*

We enter into agreements with the franchisees to cover the key aspects of the operation of franchised stores, including (i) the franchise agreement, which provides the key terms with respect to the operation and management of franchised stores and (ii) the purchase agreement, which provides the key terms in relation to the purchase of goods from us by our franchisees. The renewal rate of our franchisees, calculated as the number of franchised stores for which the relevant franchisees renewed their franchise agreements with us divided by the total number of franchised stores for which the franchise agreements expired in the relevant period, was 99.5%, 99.4% and 96.9% in 2021, 2022 and 2023, respectively. The slight decrease in the renewal rate in 2023 was due to the increase in the number of closed franchised stores during the year. This, in turn, was primarily because we enhanced franchisee assessment from various aspects during the renewal process of franchise agreements and terminated collaboration with franchisees who fail to meet our enhanced assessment. The aforementioned assessment covers aspects such as franchised stores’ operating performance, franchisees’ adherence to our operational and food safety requirements and their attendance records in the relevant franchised stores. See also “—Our Franchisee Model.” During the Track Record Period and up to the Latest Practicable Date, we were not aware of any franchisee committing any breach of their franchise agreements that had a material adverse impact on our business operations.

### *Franchise Agreement*

The following table sets forth the salient terms in the franchise agreement between our franchisees and us.

- *Terms.* The franchise agreements are renewed on an annual basis, and we are entitled to terminate the agreements with franchisees who do not meet our internal standards in the previous year.

---

## BUSINESS

---

- *Franchise Fee and Deposit.* We charge the following fees to our franchisees according to the franchise agreement.
  - non-refundable upfront initial fees, including (i) brand licensing fees that we receive from franchised stores and (ii) comprehensive service fees for providing supervision, guidance and assistance in store location planning, the store opening process and the store design process.
  - royalty income, which we receive from franchised stores for offering ongoing support after the store opening with respect to store operation, technology support, marketing and promotion.
  - pre-opening training service fees, which we receive for providing trainings to the staff of franchised stores before the store opening.

Furthermore, our franchisees are typically required to pay a fixed franchise deposit at the beginning of the franchise period to ensure their full compliance with the terms set forth in the franchise agreement.

- *Store Location/Anti-cannibalization.* Each of our franchisees is required to operate the franchised store in the designated premise as specified under the relevant franchise agreement. We have the discretion to determine the proper distance between the stores based on our market analysis as well as commercial considerations to minimize unhealthy competition among stores. See “—Our ChaPanda Store Network—Store Location and Planning.”
- *Unified Product Catalog and Retail Price.* The products sold in the franchised stores must be within the scope of our unified product catalog. The franchisees are not allowed to adjust the types and names of the products to be sold without our authorization. The franchisees must sell the products at the unified retail price set by us and is not allowed to lower or raise the selling price by themselves.
- *Sales Target.* We generally do not set any sales target for our franchisees under the franchise agreement.
- *Intellectual Properties.* Our franchisees are authorized to use our brand, trademarks and other intellectual property rights within the designated premises. The franchisees are not allowed to expand the use of our brand beyond the permitted scope under the franchise agreement or authorize other third parties to use our brands, trademarks and other intellectually property rights. They shall protect our creditability and reputation and keep our corporate information, business know-how and trade secrets in strict confidentiality during business operation and marketing activities. The franchised stores are generally required to adopt our uniform store decorations, product display and other promotional designs.

---

## BUSINESS

---

- *Non-Competition.* Our franchisees shall not operate any business to sell products identical or similar to ours within the term of the franchise agreement on its own or through partnership with others.
- *Termination.* The franchise agreement may be terminated under the following circumstances, among others: (i) franchisees may unilaterally terminate the agreement within three days of signing; (ii) we may terminate the franchise agreement without refund of the franchise fee and deposit if there is a material breach of the agreement by franchisees; and (iii) the franchise agreement may also be terminated in advance upon mutual agreement.

Our franchisees are our customers, not our agents. Pursuant to our franchise agreements, our franchisees pay to us non-refundable upfront initial fees of RMB70,000 for each franchised store, upon entering into the franchise agreements with us. Our franchisees are also required to pay a monthly royalty fee, which is calculated in two charging methods: (i) a fixed portion paid to us of RMB10,000 per year after the store opening, the amount of which is recognized on a monthly basis, or (ii) an uncapped floating portion that represents 1% of monthly sales value received by franchised stores, provided that such amount reaches a certain threshold. We decide the charging methods of monthly royalty fee applicable to individual stores based on a variety of factors, such as the store locations, estimated store performance, number of store staff, number of stores operated by the relevant franchisees and the fee rate of other comparable franchised beverage stores in the market. We also receive pre-opening training fees of RMB5,000 per staff from franchisees for providing mandatory trainings to the staff of franchised stores and require each store to hold no less than four training completion certificates before the store opening. See also “—Training System.”

### *Purchase Agreement*

The following table sets forth the salient terms in the purchase agreement between our franchisees and us.

- *Order Placement.* Each of the franchisees shall submit orders via our proprietary order management system and is required to remit payment for the goods before completion of purchase. Upon receipt of the full payment from the franchisee, we shall initiate the shipment of the goods. In the event of stock unavailability, a restocking period of 15 days is permitted. If the restocking is not completed within this timeframe, the order will be deemed void, and neither party shall bear any breach liabilities.
- *Shipping and Delivery.* The ordered goods generally will be transported via third-party delivery service, with the carrier appointed at our discretion. The expenses for delivery shall be borne by the franchised stores.

---

## BUSINESS

---

- *Quality Assurance.* For consumable raw materials, returns are not accepted unless there are issues pertaining to quality. The warranty period and after-sales service for the goods are subject to the standards set by the corresponding manufacturers. The store staff shall inspect the quality of product upon receipt. In the event of quality-related issues arising during the warranty period, the franchisee shall immediately liaise with the manufacturer for necessary repairs.
- *Breach of Contract.* The franchisee is obligated to remit the contractually agreed payment within the stipulated timeframe. Failure to do so will grant us the right to demand a daily penalty from the franchisee equivalent to 0.05% of the contract value, and we may withhold approval for the franchisee’s store opening. In cases where the franchisee’s payment is overdue by more than three days, we reserve the unilateral right to terminate the contract. We, as the supplier, are required to deliver the goods within the contractually agreed timeframe, failing which we shall be liable to pay a daily penalty equivalent to 0.05% of the contract value. Exceptions apply to delays not attributable to us.

### *Connected/Related Franchised Stores*

During the Track Record Period, certain of our franchisees were our former or then employees, or connected persons (as defined in the Listing Rules). Among the foregoing franchisees, seven franchisees were our connected persons (as defined in the Listing Rules), including Ms. Liu Weihong (one of our Founders and a Supervisor), four family members of Mr. Wang Xiaokun and Ms. Liu Weihong, being their associates, Mr. Wang Hongxue (our executive Director) and Ms. Dai Li (our executive Director). As of December 31, 2021, 2022 and 2023, we had 21, five and nil franchisees that were our former or then employees, or connected persons (as defined in the Listing Rules), and 36, 11 and nil ChaPanda franchised stores were beneficially owned by such persons, respectively (together, the “connected/related franchised stores”). Retail sales value generated from the connected/related franchised stores accounted for approximately 0.3%, 0.04% and 0.1% of our total retail sales value in 2021, 2022 and 2023, respectively. During the Track Record Period, to the best of our knowledge, all of our franchisees were Independent Third Parties, except for the connected persons (as defined in the Listing Rules) as described above.

The relevant former or then employees, and connected persons became our franchisees as they recognized our brand and products based on their work experience or collaboration with us. We believe the collaboration with such franchisees was mutually beneficial due to the following reasons: (i) we had established trust with such persons and they are familiar with our business, and (ii) they are able to support our business expansion by opening stores more efficiently with a proven record of experience and competency. We applied the same selection criteria and procedures when onboarding these franchisees. The franchise agreements and purchase agreements that we entered into with these franchisees are entirely identical to those with any other independent franchisees.

## BUSINESS

The following table sets forth a breakdown of our revenue generated from the connected/related franchised stores and independent franchised stores in an absolute amount and as a percentage of total revenue generated from franchised stores for the periods indicated.

	For the year ended December 31,					
	2021		2022		2023	
	Revenue	% of revenue	Revenue	% of revenue	Revenue	% of revenue
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Connected/related franchised stores . . .	30,953	0.9	1,718	0.0	5,154	0.1
Independent franchised stores . . . . .	3,594,229	99.1	4,195,393	100.0	5,654,146	99.9
<b>Total franchised stores . . . . .</b>	<b>3,625,182</b>	<b>100.0</b>	<b>4,197,111</b>	<b>100.0</b>	<b>5,659,300</b>	<b>100.0</b>

The following table sets forth a breakdown of our gross profit and gross profit margin with respect to the connected/related franchised stores and independent franchised stores for the periods indicated.

	For the year ended December 31,					
	2021		2022		2023	
	Gross profit	margin	Gross profit	margin	Gross profit	margin
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Connected/related franchised stores . . .	11,069	35.8	622	36.2	1,858	36.1
Independent franchised stores . . . . .	1,286,720	35.8	1,449,611	34.6	1,954,265	34.6
<b>Total franchised stores . . . . .</b>	<b>1,297,789</b>	<b>35.8</b>	<b>1,450,233</b>	<b>34.6</b>	<b>1,956,123</b>	<b>34.6</b>



---

## BUSINESS

---

As of December 31, 2021, 2022 and 2023, our trade receivables from the connected/related franchised stores was RMB1.1 million, nil and nil, respectively. Our credit terms granted to the connected/related franchised stores were in line with the credit term granted to independent franchised stores, except that we granted a credit period of 30 days to connected/related franchised stores before 2022. Starting from 2022, the connected/related franchised stores are subject to the same credit period we grant to other franchised stores.

As we accumulate more experience and continuously expand our business, we attract more franchisees and had reduced such collaborations with relevant former or then employees and connected persons. As of the Latest Practicable Date, to the best of our knowledge, all of our franchisees are Independent Third Parties and we do not have any franchisee who are our current employees.

### *Franchisee Committee*

Our franchisee committee is an autonomous organization of our franchisees that helps them improve their store operation and management. In each of the regions where we operate, we establish a franchisee committee comprising a chairperson, three group leaders, along with numerous franchisee representatives. As of December 31, 2023, there were 16 franchisee committees in our store network, and 16 chairpersons, 48 group leaders and 240 franchisee representatives within such franchisee committees.

The chairperson of the franchisee committee in each region is assumed by our employees, namely the head of our regional operating center, and is responsible for organizing the wide-ranging activities of the franchisee committee. The group leaders are elected from franchisees who operate ChaPanda stores in the relevant regions and are our Independent Third Parties. Each of the three group leaders will be responsible for sharing experience, promoting strategies and providing supports in terms of food safety, store performance and store operation, respectively. The group leaders are elected from our franchisees in each region based on a number of factors, such as the length of operation in local market, the absence of recent food safety issue, their assessment in our internal system and the review of their stores on third-party food delivery platforms. Once elected, the group leaders have a six-month term. In the last month of their terms, the committee will hold a general election to re-appoint existing group leaders or select new ones according to the committee’s internal evaluation standards, such as the candidates’ monthly assessment results, store operation and management and application materials.

The group leaders do not receive any payment or compensation from us for assuming the roles in the franchisee committee, except that they may receive reward for their outstanding performance in committee activities, such as a small amount of coupons that can be used in purchasing goods from us. We assess the group leaders’ performance in committee activities in various aspects, such as whether they promote effective strategies to enhance the operational efficiency of local stores, whether their strategies serve the actual business needs of local stores, and whether their strategies lead to the improvement in the operating results of local

---

## BUSINESS

---

stores or address the challenges faced by local stores. As of December 31, 2023, there were 48 group leaders in the franchise committees operating 123 franchised stores, and such stores’ revenue contribution was RMB45.7 million in 2023, representing 0.8% of our total revenue for the same period.

The franchisee committee assists us in operating the store network in various ways. For example, committee members can take the initiative to host seminars to discuss operational challenges or difficulties they may encounter and share experience among themselves. They may also report to us the major issues or difficulties they found during store operation. They also contribute their insights and suggestions to our growth strategy, such as proposing optimal store locations and offering recommendations for business development, thereby enhancing a synergistic partnership for mutual prosperity. As an advisory body to provide opinion of the franchisees, the franchisee committee in each region helps us improve the operation and management of franchised stores. Each franchisee committee is independent from our Board in terms of appointment, performance assessment and decision, and does not have influence over the Board in any respect during our ordinary course of business.

### **Our Self-operated Model**

We also strategically maintain a limited number of self-operated stores in selected cities to create immersive consumer experience and to serve as a prominent representation of our brand. Our self-operated stores followed the same standards we set for the franchised stores. As of December 31, 2021, 2022, 2023 and as of the Latest Practicable Date, we had seven, nine, six and six self-operated ChaPanda stores, respectively. As of the Latest Practicable Date, within our ChaPanda store network, we had five self-operated stores in Chengdu and one self-operated store in Shanghai, and had two self-operated stores with GFA below 30 square meters, two self-operated stores with GFA between 30-50 square meters, and two self-operated stores with GFA over 50 square meters. In 2021, 2022 and 2023, the revenue generated from our self-operated stores amounted to RMB19.0 million, RMB24.9 million and RMB25.8 million, respectively.

### **SUPPLY CHAIN MANAGEMENT**

We had established a supply chain center with 335 employees as of December 31, 2023, covering the management of each key step in our supply chain management from the product development, procurement, logistics to the after-sale service and quality control.

We are committed to procuring quality and stable raw materials while also expanding our sourcing locations for key raw materials used in our production of tea drinks. We are actively exploring more efficient cold-chain transportation processes to ensure our products maintain optimal freshness throughout the supply chain.

---

## BUSINESS

---

### Supplier Selection and Management

Our stringent supplier selection standards and comprehensive procurement system further reinforce our commitment to product quality and food safety. We maintain a list of qualified suppliers for raw materials and an abundant pool of alternative suppliers to ensure the stability and quality of our supply chain. As of the Latest Practicable Date, we collaborated with 333 suppliers and maintained a reserve of 124 alternative suppliers to serve as backups. During the Track Record Period, we did not experience any material incidents of supply interruption, early termination of contractual arrangements with our suppliers or failure to secure sufficient quantities of raw materials.

We require new suppliers to register with our supplier relationship management ("SRM") system and go through multiple stringent evaluations before they can be admitted as qualified suppliers. We implement rigorous entry criteria and pre-screen the supplier candidates based on, among others, their certificates and qualifications, product sample testing and on-site inspection results. After suppliers pass initial entry evaluations, we assess the performance of new suppliers for a period of three months and they can only be qualified if they meet our criteria continuously over this duration. Depending on the evaluation outcomes and subject to the final approval of our quality control department, qualified supplier candidates will be offered the opportunity to enter into long-term collaborations with us. The entire screening process is recorded by our internal SRM system, which could be traced and inspected to avoid potential fraud risks. The SRM system is a system we purchased from external sources used for supplier management. The system links all suppliers without involving any personal information of consumers. To ensure the data security of this system, we have deployed the SRM system on cloud servers with high security levels and uses security firewall to prevent malicious attacks such as intrusion. Additionally, we take technical measures such as regular vulnerability scanning, vulnerability repair, and access control to ensure data security.

We implement a stringent monthly performance review of our suppliers utilizing our SRM system. Any significant discrepancies in adherence to our standards could potentially result in supplier disqualification. The assessment encompasses various aspects, including quality and price of the raw materials, timeliness and stability of the supplies, attitudes towards collaboration, among others. The performance indicators are gathered from diverse sections of our supply chain, including quality management, planning, logistics and consumer service departments. Our procurement department meticulously consolidates this data on a monthly basis, and if a supplier's performance is unsatisfactory, we provide targeted coaching to support them in improving their performance.

We classify suppliers into three tiers, i.e., A, B and C, based on the grading of the above performance review. Grade A and B suppliers are qualified and meet our essential standards in quality, quantity, delivery, pricing and service assurances. Grade A suppliers demonstrate exceptional long-term supply capabilities and strategic advantages, while Grade B suppliers provide potential value-added services. If a supplier falls at Grade C over two consecutive years, we will terminate our collaboration with such supplier, and remove it from our suppliers' pool, and the procurement department will actively seek alternatives. Additionally, any supplier failing to address quality issues, or engaging in fraudulent or unlawful activities such as contract violation, deception or bribery, which results in severe negative consequences and remains unrectified, will be removed from our suppliers' pool.

---

## BUSINESS

---

### Procurement of Raw Materials

Our supply chain investment primarily centers on raw material procurement. The main raw materials that we procure encompass a variety of items, mainly including dairy products, tea leaves, sugar, fresh fruits, fruit juices and packaging materials. Our procurement cycle typically takes around 15 days from order placement to receipt. We implement a procurement strategy where we enter into agreements with our suppliers in advance depending on the producing seasons of different areas. Based on the then-existing and estimated market conditions, we pre-determine the required quantity and price of relevant raw materials. Therefore, we secure abundant supply of those raw materials used for products to be launched for next year. Such arrangement ensures the supply of our product offerings to consumers and our control over the procurement costs by minimizing the risks of unexpected fluctuation in raw material prices, also making it difficult for competitors to replicate our recipes with the same ingredients in a short term.

We implement careful selection and strict quality control for our raw materials. Through continuously discovering and selecting production areas and tea varieties, we have developed a wide range of quality tea bases with unique flavor. For dairy products, we carefully use premium dairy products from quality sources. Our market leading production process is designed to preserve a superior flavor with butterfat, protein and other nutrients to the most extent. We use frozen fresh juice to ensure the stability and standardization of product flavor. Most of the frozen fresh juice used in our tea drinks are developed based on our proprietary formula which utilizes the latest HPP method for sterilization. This method effectively retains the enriched flavor and freshness of the juice. To ensure the product quality, we started to purchase fruits at headquarter level rather than store level since 2022. As of December 31, 2023, we had achieved centralized procurement and delivery of most frequently used fruits for most stores. When selecting fruits, we purposely procure premium fresh fruits from quality production areas and make pre-orders for the required amount of fruits to ensure a stable supply. Meanwhile, we actively explore the unique fruits from various regions to provide differentiated product experience with regional features. For fruits procured by franchisees, we implemented stringent procurement criteria to uphold quality standards. These criteria encompass factors such as the appearance, freshness, sugar content, size, taste of the fruits. Additionally, we established strict storage requirements to ensure that the fruits remain in optimal condition. This approach allows us to maintain high-quality standards across our store network.

---

## BUSINESS

---

To improve the quality control throughout our supply chain, our dedicated quality control specialists conduct on-site inspection to ensure the raw materials we purchase meet the applicable standards, such as for agricultural residues, sugar content and other critical parameters. This approach allows us to maintain superior quality control right from the beginning of the procurement process. For instance, we send sample of fruits to our product development team for stringent testing on whether their flavor meets our requirements. We emphasize cultivating long-term relationships with farmers and estates committed to sustainable farming practices and ethical labor standards. This approach ensures the quality of raw materials while championing environmentally friendly and socially responsible initiatives.

### Supply Agreements

Our procurement agreement with suppliers typically contains the following key terms.

- *Terms.* Typically one year with renewal term.
- *Product Specification.* We usually specify the product brands, manufacturers, specifications, models and other detailed requirements in the agreement. The quantity, delivery location and delivery time of the products to be purchased will be specified in the purchase order issued by us. The product quality standards shall comply with national standards, industry standards and our own standards.
- *Price.* If the product price increases or decreases, the supplier shall inform us in writing in advance and obtain our consent before implementing the new price.
- *Ordering.* We send purchase orders to the supplier via our SRM system. The supplier shall adopt packaging that is conducive to product storage and transportation requirements, deliver the products to our designated delivery location on time and in good quality, all costs and risks before the products are delivered to us for acceptance and storage shall be borne by the supplier.
- *Quality.* The supplier shall ensure it has valid qualification of food operation and the quality of products meets food-related laws and regulations, national standards, industry standards and our corporate standards, and if each standard is inconsistent, the higher standard shall prevail. We also have specific requirements for the shelf life of products. To ensure the product quality, we started to purchase fruits at headquarter level rather than store level, and collect quality deposit from our fruit suppliers since 2022, which equaled a fixed amount of RMB20 thousand for each fruits supplier. As of December 31, 2022 and 2023, the balance of such quality deposit from fruit suppliers amounted to RMB0.3 million and RMB1.6 million, respectively. According to Frost & Sullivan, it is not uncommon for the suppliers of goods with short shelf life, such as fruits, to pay the quality deposit to the purchasers due to the perishable nature of their products. The quality deposit will be refunded to the fruit suppliers following the performance of the supply agreements.
- *Settlement.* Monthly settlement based on actual purchase orders.

---

## BUSINESS

---

- *Anti-corruption.* The supplier is prohibited from offering any unauthorized payment, such as bribes and kickbacks, to our employees in order to secure or reward an improper benefit.
- *Default.* In certain cases of default, including breach of the best price terms, late delivery and product quality issues, etc., the supplier is liable to compensate us for our losses and pay liquidated damages.
- *Termination.* We and the supplier will negotiate whether to renew the agreement 30 calendar days before the expiration, and if not, the agreement will be terminated. We shall notify the supplier in writing 30 calendar days in advance if we decide to terminate the agreement.

### Logistics and Warehousing

As of December 31, 2023, our comprehensive cold chain warehousing and distribution network included 21 multi-temperature warehouses, comprising 20 central hubs (中心倉) and one pre-positioned hub (前置倉), which together encompassed an area of approximately 80,000 square meters. Our warehouses as of the same date included six warehouses operated by us and 15 warehouses leased from third parties and co-managed by us. We take a variety of measures to enhance the management of goods in those co-managed third-party warehouses. For instance, we set up wire fences to separate our goods from those of other parties. Meanwhile, we install surveillance cameras in the third-party warehouses to monitor the storage and security of goods, and require the warehousing staff to carry out on-site inspections on inventory management. To prevent commingled inventory, our goods in the third-party warehouses are clearly labeled for easy identification. In addition, pursuant to the management policies of the co-managed third-party warehouses, the warehousing staff shall clearly recognize the areas exclusively designated to us, and keep physical distances between our inventories and other parties' to maintain inventory segregation. To ensure prompt responses and meet timely delivery requirements, we set up pre-positioned hubs as a complement to our central hubs in situations where the distance between ChaPanda stores and central hubs exceeds 300 km and the sales volume of the relevant stores justifies the additional costs involved.

Our warehousing management primarily consists of the storage of raw materials. We adopt a dynamic, centralized management model for our warehousing process. Our order planning department decides the purchasing plan for raw materials based on the latest market demand, logistic conditions and sales volume. Once purchased, raw materials are delivered to our warehouses pursuant to the actual delivery needs of each warehouse. In particular, for our fruit supply chain, we are actively supplying fruits to warehouses across the country, each equipped with professional quality control personnel. These specialists meticulously scrutinize every batch of fruits arriving at the warehouse, assessing parameters such as appearance and net weight. Additionally, each batch is accompanied by a certificate of compliance, serving as a guarantee of quality. As part of our commitment to quality, our staff carry out rigorous visual inspections on each outgoing batch of fruits, ensuring that the fruits delivered to ChaPanda stores are of a high quality and freshness. In terms of fresh fruit storage, we adhere to best-practice guidelines, segregating fruits based on their ideal storage temperatures. This careful temperature control measure ensures optimal freshness and quality of our products.



## BUSINESS

The following diagram illustrates the distribution of our warehouses across China as of December 31, 2023.



We have implemented our order management, warehousing management and transportation management (“OWT”) system. Through our OWT system, we possess the capability to centrally handle, manage and track orders. Additionally, we intelligently oversee warehouse operations and efficiently plan, execute and optimize the transportation of goods, while maintaining accurate documentation records. Currently, we command a fleet of approximately 300 multi-temperature delivery vehicles owned by and sourced from third-party mobility providers, enabling delivery of fresh materials to thousands of stores on a daily basis. We had also introduced 41 night-time delivery routes across Beijing, Chengdu and Chongqing as of December 31, 2023. As of the same date, we had the capability to arrange deliveries of two or more times a week for approximately 97.0% of ChaPanda stores, reducing material losses during transportation and ensuring that ChaPanda stores receive fresh and quality raw materials.

### Senmian Facility

We have a manufacturing facility located in Chengdu, Sichuan under Senmian New Materials (“Senmian Facility”) with an aggregate area of approximately 11,120 square meters. It primarily focuses on the production of packaging materials used in our own tea drinks and sold to external purchasers, such as biodegradable straws made from PLA, PBS and mineral powder pursuant to the standard of GB/T 41008-2021 and biodegradable bags made from

## BUSINESS

PBAT, PLA and mineral powder pursuant to the standard of GB/T 38082-2019. The biodegradable packaging materials manufactured by Senmian Facility are able to be decomposed into small molecules in a short period of time and be disposed in a harmless manner. Generally, biodegradable packaging materials manufactured by Senmian Facility will degrade within 180 days under the medium- or high-temperature condition (approximately 58°C) through industry composting processing. Biodegradable packaging materials manufactured by Senmian Facility will also degrade within a year in the open environment. Senmian Facility commenced production in 2021 and started to supply packing materials to ChaPanda franchised store and self-operated stores since September 2021. In 2021, 2022 and 2023, 3.0%, 30.7% and 26.7% of the packaging materials supplied by us to ChaPanda stores in terms of sales value was supplied by Senmian Facility. Senmian Facility started to generate revenue from the sales of packaging materials to external customers since 2022. In 2022 and 2023, 6.0% and 11.0% of the packaging materials supplied by Senmian Facility in terms of sales volume was sold to external purchasers, respectively, contributing RMB9.6 million and RMB19.2 million, respectively, to our revenue for the same periods.

Senmian New Materials is jointly owned by us as to 67% and by Yibin Senqian Enterprise Management Co., Ltd. (“Yibin Senqian”) as to 33%. We implement strategical collaboration with Yibin Senqian with respect to Senmian Facility, which drives a number of compelling value propositions to us. Especially, we enhance our supply chain strength and secure our raw material procurement through the joint efforts with Yibin Senqian, a supply chain partner with established capabilities and profound industry knowledge. Going forward, we plan to procure the majority of packaging materials supplied by Senmian Facility, while sourcing the rest from third-party suppliers in the open market. We believe such integrated procurement model will help us maintain our existing competitive strength and tap into potential market opportunities.

The following table sets forth the production capacity, production volume and utilization rate of Senmian Facility for the periods indicated.

For the year ended December 31,								
2021			2022			2023		
Production capacity	Production volume	Utilization rate <sup>(1)</sup>	Production capacity	Production volume	Utilization rate <sup>(1)</sup>	Production capacity	Production volume	Utilization rate <sup>(1)</sup>
<i>(tons, except percentages)</i>								
2,276.8	939.9	41.3%	10,587.9	7,239.2	68.4%	13,952.5	9,157.3	65.6%

*Note:*

- (1) Calculated by dividing production volume for a particular period by production capacity during the same period.

---

## BUSINESS

---

### DIGITALIZATION

A reliable, streamlined digital infrastructure has played and will continue to play a key role in enhancing our operational efficiency, managing our business and achieving sustainable growth. Our digital infrastructure encompasses integrated digital management systems designed to support various key aspects of our businesses, including supply chain, store operations, product development and financial management, among others.

#### Supply Chain Digitalization

We implement a supply chain management system, consisting mainly of order management system (“OMS”), transportation management system (“TMS”) and supplier relationship management (“SRM”).

- *OMS.* With the advanced data analytics capabilities of OMS, we analyze historical sales data to develop effective purchasing plans to optimize inventory management and align purchase amount with expected consumer demand. With real-time visibility of inventory levels and automated order alerts, we strive to eliminate the risk of product shortage or backlog.
- *TMS.* Digital features embedded in the TMS, such as routing algorithms, real-time traffic analysis and GPS tracking, enable us to select the best delivery routes to minimize transportation costs and shorten delivery times. In addition, we monitor the storage temperature and condition of transportation vehicles through the TMS to ensure the quality of our logistics.
- *SRM.* We also use a centralized SRM to streamline supplier selection, performance monitoring, evaluation and billing processes. The digital SRM provides us with the insights to make informed decisions on supplier management and build long-term partnerships with reliable suppliers.

#### Operational Digitalization

Through the seamless integration of payment, logistics and warehousing systems, we build an integrated order fulfillment system that empowers our franchisees and ourselves throughout the sales process. Our system streamlines the key tasks in order fulfillment, including inventory, product selection, ordering, payment and delivery. This holistic sales management ensures a smooth and hassle-free experience for our franchisees and us, optimizing the efficiency of the entire order fulfillment process.

To ensure accuracy and validity, our order fulfillment system implements intelligent inventory management based on different transaction types and scenarios. By categorizing and organizing inventory information according to specific use cases, the system ensures that orders are fulfilled correctly without any discrepancies or product shortage. The system also provides delivery calculation tools, allowing us to make flexible payment arrangement for product delivery.

## **BUSINESS**

---

In addition, our order fulfillment system is connected with multiple payment channels to ensure that the payment process is safe and secure. It also provides additional payment security by verifying the identity of the payors. Our order fulfillment system also enables us to offer specific promoting activities for different products.

### **Product Development Digitalization**

We actively promote the digitalization of our product development process to explore new market opportunities with efficiency. We build comprehensive databases for fruit products and special agricultural products with information from authoritative resources, including a geographic database of fruit production in China, thereby enabling us to locate necessary fruit resources quickly and accurately.

We manage our product recipes through digitalized methods. We analyze market trends to offer products with popular flavors, allowing us to align our product development efforts with market demand. We record the characterization of sample products to manage the flavor database to drive efficiency in future product development.

We use digitized methods to manage product pricing throughout the product lifecycle. We integrate the product pricing in our product development by categorizing our product information into three key components, namely, product profiles, raw materials and product formulas. Once these product profiles and relevant raw materials data are entered into our system, it automatically calculates costs based on our product formulas, which will be used as foundation for our product pricing. This digitized process facilitates our standardized cost management and streamlines our pricing workflow. By analyzing production costs and market pricing dynamics, we determine the optimal price range for our products.

### **Financial Management Digitalization**

We have developed a digitalization framework for financial management. This integrated system brings together various financial functions such as sales, procurement, asset management, budgeting, financial analysis, expense control and accounting, ensuring efficient management of financial resources. The system also includes proprietary systems for subscription and service fee payments, real-time data integration between sales and finance and direct connectivity with banks for enhanced financial account management.

## **BRANDING AND MARKETING**

Utilizing our digitalization capabilities, we adopt flexible and diversified marketing strategies to access our consumer base. Leveraging innovative marketing methods, we enhance our brand awareness, reach new consumers and improve the stickiness of existing consumers through both online and offline channels, especially our target consumer base aged between 18 to 35 years old. We utilize a data-driven approach to implement our marketing strategies. For instance, we rely on in-depth consumer insights to personalize our marketing messages and enhance consumer engagement. In addition, we are committed to continuously optimizing our marketing campaigns based on market trends and consumer feedback, enabling us to cater to evolving market dynamics and driving sustainable business growth.

## BUSINESS

We implement comprehensive branding and marketing efforts to quickly and cost-effectively promote “ChaPanda” brand, including but not limited to the following.

- *Digitalized marketing.* We build a full-coverage, robust online presence with our digitalized marketing. We gain access to consumer base through well-known mainstream social media platforms such as Weibo, Weixin, Xiaohongshu, Douyin, Bilibili and Kuaishou. In particular, we use the social media network, such as Douyin, to attract consumers through live-streaming and brand marketing. Our Douyin live-streaming group purchase program ranked first on a number of Douyin’s official lists, such as “Nationwide Group Purchase List,” “Tea Drinks Live-streamed Retail Sales Value List” and “Brand Conversion Rate List.” On March 10, 2023, our single-day retail sales value through Douyin live-streaming group purchase program surpassed RMB100.0 million, setting the retail sales value record in the life and service category on Douyin. On the same day, the number of followers of our official Douyin account increased by approximately 230,000 in a single day.

We initiate marketing campaigns for our tea drinks on social networking platforms. Through a series of innovative online marketing, Wu Qi Ma Hei quickly amassed huge popularity among consumers after its launch in April 2022 with its unique name and refreshing taste. It had become one of our bestselling products in 2022. During the promotion period, Wu Qi Ma Hei amassed over 100 million views on Weibo topic and over 670 million exposure online.



- *IP Marketing.* We leverage our brand IP, “ChaCha,” to promote our brand image. For instance, we design and launch a series of virtual images of “ChaCha,” such as emojis, which can be sent and shared on social networking platforms. By sharing these visual contents, we effectively increase our brand awareness and engage with target audience. We also launch creative merchandise, such as lifestyle products, featuring “ChaCha.” We promote our brand IP by sponsoring offline interactive activities, such as the Strawberry Music Festival in Chengdu. We also collaborate with key opinion leaders (“KOLs”) and influencers within the food, beverage, and lifestyle industries to increase the brand awareness.



## BUSINESS

- *Crossover Collaborations.* We actively pursue crossover collaborations to broaden our reach and appeal to a diverse audience, effectively boosting our brand visibility and driving our product sales. For example, we collaborated with Dunhuang Museum to offer the exquisite Feitian Seeking Tea (飛天覓茶) hot drinks series in 2022. This collection features the artistic elements of Dunhuang celestial beings with traditional tea culture. Using Osmanthus Mao Feng, Longjing and Dahongpao as tea bases, the Feitian Seeking Tea series invites consumers to savor the elegance of national trend aesthetics. We also strategically explore crossover collaborations that align with the interests, latest trends and preferences of younger generations. For example, we work with the development team of Tear of Themis (未定事件簿), a popular mobile game in China, to launch themed product packages. Consumers may purchase themed product packages including cup sleeves, paper bags, stickers and postcards. We also add themed decoration in ChaPanda stores in 17 cities in China. Below are pictures of our representative crossover collaborations.



### How We Protect Our Brand IP

We take the following measures to protect our brand IP, among others.

- *Proactive Protection Measures.* We strategically apply for trademarks, copyrights and patents based on our brand strategies and business needs. Various internal teams, such as the brand marketing team, digitalization team and research and development team, actively collaborate to identify valuable creative works for intellectual property application. This effort has resulted in the establishment of a rich



---

## BUSINESS

---

repository of intellectual property rights, providing a solid foundation for our future business requirements. We have registered core trademarks in mainland China and Hong Kong, and have applied for registrations in countries like Thailand, South Korea and Australia. We have registered both domestic trademarks and international trademarks for our brand. In addition, we have also obtained copyrights for artworks and computer software works and have filed patent applications for inventions, utility model and design patents.

- *Passive Protection Measures.* We conduct regular monitoring of similar trademarks globally. We act against similar trademarks that meet certain criteria, such as filing objections, invalidating registrations and issuing notices of withdrawal. We closely monitor malicious trademark registrants and defend against registration attempts that infringe on our rights. We actively investigate infringement on our intellectual property rights and take appropriate legal actions, including administrative complaints, civil lawsuits, and criminal prosecutions. To ensure we do not infringe on competitors’ intellectual property rights, we conduct intellectual property monitoring of major competing brands globally.

### **ChaPanda Membership Program**

To better understand and cater to our consumers’ needs, we launched the ChaPanda membership program in February 2021. We refer to members of this program as our “tea fans.” We reward our dedicated clients through loyalty programs and incentivized referrals, fostering brand advocacy and solidifying consumer relationships. In particular, we grant a variety of rewards to our tea fans, such as birthday gifts, purchase discounts, personalized creative products and priority participation in our online and offline activities. This program allows us to continuously engage our loyal consumers, encourage repeat purchases and strengthen the bond between our brand and tea fans. Members can register for our program through various channels, including our Mini Program on Weixin, Ele.me, Meituan, DianPing and Alipay. As of the Latest Practicable Date, we had over 98.5 million registered members. Based on the age information voluntarily submitted by consumers when they register as members of our membership program, approximately 80.5% of such registered members are aged between 18 to 35 years old.

## BUSINESS

Our membership program comprises two major rewarding programs, i.e. the Panda Point Rewarding Program and the User-based Rewarding Program. The costs associated with the incentives and discounts offered through our membership program are borne by the franchised stores where consumers utilize these incentives and discounts when purchasing their tea drinks. Through each of these programs, we offer a variety of engaging, tailor-made member events to create a sense of community.

- *Panda Point Rewarding Program.* Our Panda Point Rewarding Program provides tea fans with a string of special events to increase their fondness, interaction and stickiness towards our brand. Tea fans may redeem their Panda Points for special birthday discounts, member rewards and incentives.
- *User-based Rewarding Program.* Through innovative member events, our User-based Rewarding Program enables us to enhance member engagement. Our tea fans are divided into a seven-layer system, each with differentiated incentives and events. On each Thursday, we host a special Tea Fans’ Day when our members enjoy discounts on designated products and customized toppings. We also give notification to our tea fans when we release new products.

Our membership had grown rapidly since we launched the ChaPanda Membership Program in February 2021. We had over 98.5 million registered members as of the Latest Practicable Date. In the three months ended March 31, 2023, June 30, 2023, September 30, 2023 and December 31, 2023, we had approximately 16.1 million, 16.7 million, 20.4 million and 20.4 million active members, respectively, representing members that purchased our products through our Weixin Mini Program during the relevant periods. In the three months ended March 31, 2023, June 30, 2023 and September 30, 2023, 32.4%, 34.7% and 32.9% active members remained to be our active members in the next quarter, respectively. 35.0% of our active members made repeat purchases through our Weixin Mini Program in the fourth quarter of 2023.



---

## BUSINESS

---

### Consumer Opinions

We highly value our consumers’ opinions and actively encourage them to provide feedback. We meticulously analyze such feedback, which allows us to identify any causes of consumer dissatisfaction and make necessary improvements to our products and services.

To capture a wide array of consumer feedback, we use various channels. These include distributing concise consumer surveys in-store to collect immediate feedback on our products and services. We also use online consumer surveys across various social media platforms such as Weixin, Weibo and Dianping. By incorporating our consumers’ opinions and feedback, we continuously refine our existing products and innovate new ones, ensuring our offerings are always in line with our consumers’ evolving preferences. We are committed to improving consumer satisfaction through quality customer service. We formulated ChaPanda Consumer Complaint System in 2021 that improves our consumer complaint mechanism with detailed process. Our efforts enable us to efficiently resolve consumer complaints and enhance consumer experience.

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any material consumer complaints or other claims which may cause a material and adverse effect on business and results of operations. We believe this demonstrates our ongoing commitment to delivering superior quality and service to our consumers.

### OUR CUSTOMERS

Our customers primarily include the franchisees who operate franchised ChaPanda stores pursuant to the franchise agreements with us. We generated substantially all of our revenue from the sale of goods and equipment to franchised stores as well as the royalty and franchising income charged to our franchisees. In our ordinary course of business, we also sell packaging materials to external customers. Our five largest customers during the Track Record Period comprised our franchisees, including certain franchisees who also acted as regional service providers and external customers who purchased packaging materials from us. In 2021, 2022 and 2023, revenue from our five largest customers accounted for 3.7%, 1.0% and 0.8% of our total revenue for the respective periods. During the Track Record Period, we were not subject to any material customer concentration risk.

### OUR SUPPLIERS

Our suppliers primarily include the suppliers of raw materials used to make our tea drinks, such as dairy products, tea leaves, sugar, fresh fruits, fruit juices and packaging materials. In 2021, 2022 and 2023, purchases from our five largest suppliers accounted for 29.5%, 37.4% and 36.6% of our total purchases for the respective periods. In 2021, 2022 and 2023, purchases from our largest supplier accounted for 10.0%, 11.6% and 11.1% of our total purchases for the respective periods.

## BUSINESS

The following tables set out the details of our five largest suppliers in each year based on purchases from them during the Track Record Period.

Rank	Supplier	Type of products purchased	Background	Year of commencement of business relationship	Purchase amount (RMB'000)	Percentage of total purchase
<i>For the year ended December 31, 2021</i>						
1 . . .	Supplier A	Dairy products, ingredients	A listed company headquartered in Jiangsu that engages in the production of food materials	2019	225,644	10.0%
2 . . .	Supplier B	Dairy products	A privately-owned company headquartered in Ningxia that engages in the production and sales of food materials and beverage	2020	136,267	6.1%
3 . . .	Supplier C	Fruit juices	A privately-owned company headquartered in Hubei that engages in the production and sales of food materials and beverage	2019	105,181	4.7%
4 . . .	Supplier D	Packaging materials	A privately-owned company headquartered in Zhejiang that engages in the production of packaging materials	2021	99,413	4.4%
5 . . .	Supplier E	Tea leaves	A privately-owned company headquartered in Guangdong that engages in the sales of agricultural products	2019	96,311	4.3%

**BUSINESS**

<u>Rank</u>	<u>Supplier</u>	<u>Type of products purchased</u>	<u>Background</u>	<u>Year of commencement of business relationship</u>	<u>Purchase amount</u>	<u>Percentage of total purchase</u>
					(RMB'000)	
<i>For the year ended December 31, 2022</i>						
1 . . .	Supplier B	Dairy products	A privately-owned company headquartered in Ningxia that engages in the production and sales of food materials and beverage	2020	302,401	11.6%
2 . . .	Supplier A	Dairy products, ingredients	A listed company headquartered in Jiangsu that engages in the production of food materials	2019	258,992	9.9%
3 . . .	Supplier F	Sugar, fruit juices, ingredients	A privately-owned company headquartered in Guangdong that engages in the production and sales of food materials and agricultural products	2021	191,302	7.3%
4 . . .	Supplier D	Packaging materials	A privately-owned company headquartered in Zhejiang that engages in the production of packaging materials	2021	121,436	4.6%
5 . . .	Supplier C	Fruit juices	A privately-owned company headquartered in Hubei that engages in the production and sales of food materials and beverage	2019	105,440	4.0%

**BUSINESS**

<u>Rank</u>	<u>Supplier</u>	<u>Type of products purchased</u>	<u>Background</u>	<u>Year of commencement of business relationship</u>	<u>Purchase amount</u>	<u>Percentage of total purchase</u>
					(RMB'000)	
<i>For the year ended December 31, 2023</i>						
1 . . .	Supplier F	Sugar, fruit juices, ingredients	A privately-owned company headquartered in Guangdong that engages in the production and sales of food materials and agricultural products	2021	382,413	11.1%
2 . . .	Supplier B	Dairy products	A privately-owned company headquartered in Ningxia that engages in the production and sales of food materials and beverage	2020	356,832	10.4%
3 . . .	Supplier A	Dairy products, ingredients	A listed company headquartered in Jiangsu that engages in the production of food materials	2019	226,559	6.6%
4 . . .	Supplier D	Packaging materials	A privately-owned company headquartered in Zhejiang that engages in the production of packaging materials	2021	146,465	4.3%
5 . . .	Supplier G	Fruit juices	A listed company that engages in the development and production of fruits and vegetable products	2021	144,263	4.2%

During the Track Record Period and up to the Latest Practicable Date, to the knowledge of our Directors, none of our Directors and their respective associates or any of our Shareholders who held more than 5% of our issued share capital had any interest in our five largest suppliers.



---

## BUSINESS

---

### USER PRIVACY AND DATA SECURITY

In the ordinary course of business, we from time to time collect, store and use certain personal information of consumers and franchisees. For example, (i) for consumers to place online orders through our online applications, such as Weixin and Alipay Mini Program, we may collect their account names, phone numbers and address, (ii) as for franchisees, during the franchisee onboarding process, we collect their basic information, such as their names, ID numbers or bank account information.

#### Cybersecurity review

There are various laws and regulations, such as the Cyber Security Law of the PRC and the Personal Information Protection Law of the PRC, which govern the collection, use, retention, sharing and security of the personal data. See also “Regulatory Overview—Regulations on Cyber Security, Information Security, Privacy and Data Protection” for details. On January 4, 2022, the CAC published the Revised CAC Measures on its website, which became effective on February 15, 2022. The Revised CAC Measures provide that a critical information infrastructure operator purchasing network products and services, and platform operators carrying out data processing activities which affect or may affect national security, must apply for cybersecurity review. The Revised CAC Measures also provide that a platform operator with more than one million users’ personal information aiming to list abroad must apply for cybersecurity review. As of the Latest Practicable Date, (i) we have not received any notice or determination from competent PRC government authorities identifying us as a critical information infrastructure operator; (ii) although we have possessed approximately 98.8 million users’ personal information, including approximately 98.5 million from registered members and approximately 0.3 million from franchisees, which is over one million users’ personal information, we intend to be [REDACTED] in Hong Kong, not “[REDACTED] abroad” (國外[REDACTED]), which is confirmed by the China Cybersecurity Review Technology and Certification Center (the “CCRC”); (iii) we had not received any notification that the data we currently process has been determined to be important data or core data, nor had we received any notification from any regulatory authority regarding the identification of important data or core data; and (iv) we have not been involved in any investigation on data processing activities that affects or may affect national security, nor have we been involved in any investigation on cybersecurity review made by the PRC government authorities or received any inquiry, notice, warning or sanctions from the PRC government authorities. According to our phone consultation with CCRC, an institution authorized by the CAC to conduct cybersecurity review, the CCRC verbally confirmed that “[REDACTED] abroad” (國外[REDACTED]) stipulated in the Revised CAC Measures does not include “[REDACTED] in Hong Kong,” and further confirmed that we does not need to apply for a cybersecurity review for [REDACTED] in Hong Kong.

As advised by our PRC Legal Advisor and to the best knowledge of our Company, we do not need to apply for cybersecurity review under the current regulatory regime, but it cannot be ruled out that the competent PRC government authorities may initiate cybersecurity review on us in the future. Considering the data categories and data process activities of our Company, the risk of us being required to undertake cybersecurity review is remote. We will focus on ongoing legislative and regulatory developments in the field of personal information protection and data security, while maintaining continuous communication with regulatory authorities regarding the latest updates in laws and regulations to ensure compliance with current legal requirements.

---

## BUSINESS

---

On November 14, 2021, the CAC published the Draft Cyber Data Security Regulations, which apply to activities relating to the use of networks to carry out data processing activities within the territory of the PRC. Our PRC Legal Advisor advises that the Draft Cyber Data Security Regulations are applicable to the data processing activities of certain of our subsidiaries in the PRC, if the draft regulations were to be implemented in their current form. It stipulates that a data processor who processes more than one million persons' personal information aiming to list abroad or a data processor who seeks to complete a listing in Hong Kong which affects or may affect national security is required to apply for cybersecurity review pursuant to relevant rules and regulations. As of the Latest Practicable Date, we had not been subject to any material administrative penalties, mandatory rectifications, or other sanctions by any competent regulatory authorities in relation to cybersecurity and data protection, nor had there been material cybersecurity and data protection incidents or infringement upon any third parties, or other legal proceedings, administrative or governmental proceedings, pending or, to the best of our knowledge, threatened against or relating to us. Additionally, as of the Latest Practicable Date, the Draft Cyber Data Security Regulations is still a draft and its anticipated adoption or effective date remains unclear. We cannot assure that we will not be deemed as "affect or may affect national security" in the future, and then be subject to a cybersecurity review initiated by the regulatory authorities.

If the Draft Cyber Data Security Regulations were to be implemented in its current form, based on the foregoing and a detailed analysis of its provisions by our PRC Legal Advisor, we and our PRC Legal Advisor do not foresee any impediment for us to comply with the Revised CAC Measures and the Draft Cyber Data Security Regulations in any material aspect, particularly in light of the comprehensive set of internal policies, procedures and measures we implemented to ensure our compliance practice as disclosed in this subsection. We will closely monitor the legislative and regulatory development in connection with cybersecurity and data protection, including the Draft Cyber Data Security Regulations and the interpretation or implementation rules of laws and regulations of cybersecurity and data protection, if any, and we will adjust and enhance our data practices in a timely manner to ensure compliance once the regulations come into effect.

We adhere paramount importance to the data privacy and protection with respect to this information. To maintain compliance with the applicable laws and regulations in relation to user privacy and data security, we have adopted policies, procedures and guidelines to protect the personal privacy of consumers and franchisees and the security of their data, including but not limited to the following:

- We set down internal data security and protection protocols, which provide for data management responsibilities, data classification, data protection and confidentiality procedures. We also continually update our policies and internal control measures for data protection based on evolving regulatory requirements and industry standards.

---

## BUSINESS

---

- We establish an internal structure to lead the implementation and review of internal data privacy protection policies and practice. Our Board of Directors has general oversight power over cybersecurity issues and delegates the daily supervision responsibility to our chief executive officer. The head of our IT department directly reports cybersecurity status to our chief executive officer, and in case of a cybersecurity incident, the head of our IT department will report the incident to our Board of Directors to take appropriate and timely measures in response to the incident.
- Our in-house legal team provides our Directors, senior management and other employees with training and regulatory updates as well as analysis on the applicability of new laws, regulations, policies and industry standards to our business, to proactively identify any potential risks including those with respect to privacy and data protection.
- We implemented several detailed measures with respect to cybersecurity and personal data protection. For example, we notify consumers and obtain consents from them about how we collect and use their personal data. Data regarding our consumers’ online purchases made through third-party platforms are managed subject to those third-party platforms’ data governance policies.

During the Track Record Period and as of the Latest Practicable Date, we had complied with applicable laws and regulations relating to data security and privacy in material aspects. Given that legislation and law enforcement in the PRC on data privacy and security are still evolving, we will closely monitor further regulatory developments and take appropriate measures in a timely manner.

See “Risk Factors—Risks Relating to Our Business and Industry—Any failure to comply with data privacy, protection and information security laws could damage our reputation and we could suffer a loss of revenue, incur substantial additional costs and become subject to litigation and regulatory scrutiny.”

## FOOD SAFETY AND QUALITY CONTROL

We have set down a series of food safety and quality control procedures, covering all of the key steps in our business and the operation of ChaPanda stores. We had established a food safety and quality control department comprising 49 members as of December 31, 2023 with an average of five to six years of food safety management and quality assurance related experience.

We closely follow the applicable laws and regulations in relation to food safety in China. We have formulated a well-rounded control system, consisting of, among others, (i) a series of internal policies and procedures, such as our Quality Handbook, Food Safety Responsibility Management System, Food Safety Risk Management and Control System and Product Recall System, and (ii) a full cycle management system, including inspecting product compliance and quality, quality control in warehousing and delivery, in-store management and inspection, and quality analysis and improvement.

---

## BUSINESS

---

### Internal Food Safety Control Measures and Procedures

Our internal control measures for food safety primarily include the following.

- *Supply Chain Management.* During the supplier selection process, we inspect qualifications upon supplier onboarding and review their qualifications regularly. We terminate collaborations with the suppliers who fail to meet food safety standards. Upon receiving the raw materials from our suppliers, we inspect the raw material quality and reject defective products. To guarantee the food safety, we set up laboratories at our headquarters and manufacturing facilities to test the quality of raw materials. We also work with third-party laboratories accredited by China National Accreditation Service for Conformity Assessment (“CNAS”), China Metrology Accreditation (“CMA”), ILAC Mutual Recognition Arrangement (“ILAC-MRA”) and China Accredited Laboratory (“CAL”) to conduct quality testing.
- *Warehousing and Delivery.* We follow a Hazard Analysis and Critical Control Points (“HACCP”) system in the warehousing process. During product delivery, we install GPS devices and temperatures probes to automatically measure temperature of the vehicles every ten minutes. In-vehicle temperature are uploaded to our central system through GPS devices to avoid malfunction. We also conduct quarterly quality control inspection to ensure food safety in warehousing and delivery.

### Store-Level Food Safety Control

We promulgate standardized, consistent food safety and quality control measures to be strictly followed by ChaPanda stores.

- *Franchise Agreement.* In the franchise agreement, we provide specific food safety measures during the store operation. For instance, our franchisees must purchase product from us and adopt our standardized product requirements. We require our franchisees to strictly follow the applicable rules, regulations and procedures for food safety control established by relevant PRC governmental authorities and us. In the event that any franchisee breaches the foregoing requirements, we may terminate the franchise agreement and seek compensation from breaching franchisees. Our franchisees shall be responsible for the breach of these food safety measures and standards. Moreover, if the franchisees reduce the product quality or there are issues related to food, hygiene, product quality, and consumer rights protection, such as being exposed to media criticism or consumer complaints, which damages our brand, corporate image, or reputation, or results in administrative or criminal penalties, we have the right to unilaterally terminate the franchise agreement without refund of the franchise fee and deposit and demand the franchisees to compensate us for the loss incurred.

---

## BUSINESS

---

- *Internal Training.* Our franchisees shall undertake to strengthen the training programs for store staff for food safety controls and improve their awareness in this regard. We hold training sessions for our franchisees during the onboarding process and their operation process, which covers the applicable laws, regulations, industry standards, internal policies, among others. In 2023, we held 189 training sessions of approximately 360 hours related to food safety and cashiering practice, which were attended by approximately 3,650 franchisees and store staff.
- *Operation Procedures.* We adopt a set of self-developed food safety and quality control standards in ChaPanda stores. Pursuant to such standards, store staff are required to strictly adhere to the procedures and protocols in connection with storage of ingredients, shelf life monitoring, store sanitation, staff health and personal hygiene, record keeping and documentation management, among others. If any food safety incidents occur during the store operation, the franchisees shall promptly inform us of such incidents and cooperate with us to investigate the incidents. After we conclude the food safety investigation, our franchisees shall follow our decisions and bear the related fees, expenses and/or liabilities.
- *Inspection System.* Food safety is one of the key inspection areas in our store inspection procedure. We regularly conduct internal inspections over the operation of franchised stores regarding food safety issues. The franchisee committee will also join the inspection and help us supervise food safety issues. Our store inspection covers key food safety aspects such as the storage of raw materials, the store staff's personal hygiene and health conditions, the food safety qualifications, the store hygiene conditions and if there is any negative publicities about the stores' food safety control. We take various rectifying measures for ChaPanda stores with food safety issues, ranging from written warning to store closure.

Additionally, we have established a stringent policy for handling non-conforming products at stores, which regulates, among others, defects or quality issues caused by improper storage or handling of raw materials at the store. According to such policy, if a store's environment is unsuitable for storage, or if it is infested by pests, or if the raw materials are contaminated during the process of use, such as falling on the ground, the store should dispose such raw materials, semi-finished products or finished products, to prevent unintended usage.

### **Quality Warranty and Recall Policies**

Pursuant to the franchise agreements between our franchisees and us, as independent business entities, franchised ChaPanda stores shall be responsible for and deal with consumer complaints in relation to product quality issues and product recall during the store operation, including but not limited to the issues regarding food safety, hygiene, product quality, consumer right protection. For issues with low or medium risks and negative impacts, such as slow delivery, franchised ChaPanda stores are required to actively respond to consumers' demands and properly settle the disputes with consumers. For issues with high risks and negative impacts, such as food safety issues, franchised ChaPanda stores shall cooperate with

---

## BUSINESS

---

our investigation, make rectifications according to our official views and guidance and carry out the official decisions made by us. Furthermore, if consumers make complaints about the product quality or food safety, ChaPanda stores will make refunds to the consumers. If, upon our investigation, the product defects are caused by the raw material supplies, we will require the raw material suppliers to compensate the refund amount directly to the accounts of relevant ChaPanda stores. If there are any product recalls due to product defect, we will demand the raw material suppliers to make compensation to us with respect to the recalled products.

Pursuant to the procurement agreements between our suppliers and us, we shall typically inform the suppliers within three days upon the discovery of any product defects in raw materials, and the relevant suppliers shall bear costs, expenses or damages associated with product defects. Furthermore, the procurement arrangements provide that the suppliers shall be responsible for any issues caused by food safety defects in raw materials without any limitation on the time of discovery, including compensating us for the relevant losses we suffer. In case of other food defects, the suppliers shall pay us monetary damages the amount of which is subject to the percentage of defected products within the entire shipment. As confirmed by Frost & Sullivan, such quality warranty policies are in line with industry practice.

In line with the industry practice, we established a three-tier food recall system based on the severity and urgency of food safety risks. For tier 1, where severe health damage or even death has already been caused or may potentially be caused, the recall must commence within 24 hours after we become aware of the food safety issue and be completed within 10 business days. For tier 2, where general health concerns are involved, the recall must commence within 48 hours after we become aware of the food safety issue and be completed within 20 business days. For tier 3, where any food is falsely labeled or marked, the recall must commence within 72 hours after we become aware of the food safety issue and be completed within 30 business days.

During the Track Record Period and up to the Latest Practicable Date, we had not encountered any material product recall or experienced any material consumer complaints with respect to our product quality, and had not experienced any material food safety incidents.

### **OUR INVENTORY MANAGEMENT**

Our inventories primarily consist of materials and ingredients used to produce tea drinks, packaging materials and other materials.

Our procurement department is responsible for supervising our inventory management. For instance, our inventory planning is determined by our procurement department by taking into account the mid- to long-term business forecast and our expectation of the market demands. Once the inventory planning is determined, we purchase the materials and ingredients through a centralized procurement model. For details, see “—Supply Chain Management—Procurement of Raw Materials.” Once purchased, the raw material shall be inspected, processed and stored in our warehousing facilities pursuant to our internal inventory management policies. We also conduct periodic auditing and inspection with respect to our inventories.



---

## BUSINESS

---

We maintain a reasonable level of inventory to manage the risks related to raw material supply chains and increase our bargaining power to mitigate market fluctuations. We monitor and adjust our inventory level for different raw materials. We generally maintain higher levels of raw materials that are subject to seasonality, such as certain types of fruits. In addition, we routinely monitor our inventory turnover ratios to assess the efficiency of our inventory management, according to which we are able to eliminate excess and obsolete inventory, as well as improving our decision making. To mitigate the risk of channel stuffing at the franchisee level, we have implemented, among others, the following measures.

Firstly, we closely monitor the amount of raw materials sold to franchised stores by calculating the percentage of these sales in relation to the retail sales value of the relevant stores for the same month. We then compare this percentage with the corresponding percentage from the previous month as well as the same month in the previous year to see if there is any irregular fluctuation. This helps prevent inventory overstocking.

Secondly, when introducing new products, we establish specific limits on the quantity of raw materials that franchisees may order within a prescribed period. This proactive measure serves to ensure the initial demand for raw materials associated with the new products across our store network can be met and effectively prevents unnecessary inventory accumulation.

Additionally, we maintain a consistent delivery frequency of raw material to our franchisees. Depending on location and transportation conditions, our franchisees across China generally place orders every 2.6 to 3.8 days in December 2023, and we deliver raw materials to most ChaPanda stores at least twice a week. This consistent delivery schedule ensures that franchisees receive timely delivery of raw materials according to their operation needs and reasonable inventory level.

## SETTLEMENT AND CASH MANAGEMENT

ChaPanda stores offer various payment options for consumers, including cash and mobile payment tools such as Alipay, Weixin Pay and Union Pay. Currently, the majority of consumers use mobile payment tools. Consumers may also purchase coupons from Douyin, Meituan and Dianping to be redeemed in ChaPanda stores. For online orders, payment on third-party delivery platforms and our Weixin Mini Program are processed by certified online payment service providers who are entirely independent from us.

In relation to cash management, we have set down stringent, detailed policies applicable to our internal procedures and to ChaPanda stores.

- *Internal cash management policies.* We promulgate internal policies governing the cash management, security and processing at both headquarter level and subsidiary level. For instance, we require our cash to be managed by specifically designated teams, each with different duties and responsibilities to ensure cash safety. Handling cash payment, deposit, transfer and settlement require explicit and proper internal authorization and record. We also require regular planning, inspection and supervision with respect to our cash.

---

## BUSINESS

---

- *Cash management policies for ChaPanda stores.* We set down policies with respect to cash collection, safekeeping and deposit at ChaPanda stores. In particular, for franchised ChaPanda stores, we require the franchisees to provide their financial records, such as bank account, when they enter into franchise agreements with us. When receiving payments from franchisees, we compare the payment information with the data in our internal system to ensure payment authenticity. We do not receive or otherwise process payments made by end-consumers in franchised stores. Our franchisees generally settle payments, fees and other expenses with us through bank transfer to our designated bank accounts. We typically require pre-payments from franchisees before arranging delivery.

## INSURANCE

We have purchased property insurance policies which comprehensively covered major business interruptions and accidental loss, such as fire, water and malicious damage. See “Risk Factors—Risks Relating to Our Business and the Industry—Our limited insurance coverage may expose us to losses, which may have a material adverse effect on our reputation, business, financial condition and results of operations” for more details. Our Directors believe that our insurance coverage is in line with industry practice and standard business practices of relevant countries. As of the Latest Practicable Date, we had not received any material insurance claims against us.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE

We have been taking and will continue to take effective measures to embrace ESG into every aspect of our business operations on an ongoing basis. We have implemented a set of ESG policies based on the applicable laws and regulations, which set forth our internal policies and measures in respect of, among other things, environmental protection, labor protection, food safety, corporate governance and code of ethics upon [REDACTED].

We will comply with the ESG reporting requirements after [REDACTED] and the responsibility to publish ESG report on an annual basis in accordance with Appendix C2 to the Listing Rules. We will focus on each of the areas as specified in Appendix C2 to the Listing Rules to analyze and disclose important ESG matters, including but not limited to the following.

- ESG governance structure and its responsibilities and rights;
- ESG strategy development;
- ESG risk management and monitoring, including climate-related risks and opportunities;
- Identification of key stakeholders and the communication channels;
- Emissions, use of resources and waste management;

---

## BUSINESS

---

- Employment, employee development and training, safety management, labor standards;
- Supply chain management, product responsibility, anti-corruption, community investment; and
- Corporate governance and other aspects that could have a material impact on the sustainability of our operations and that are of interest to our Shareholders.

### ESG Governance

We establish an ESG management structure, set down ESG duties at each level of our Company, and enhance our ESG management level and execution capabilities on an ongoing basis.

The Board is responsible for identifying, evaluating and supervising key ESG-related issues, as well as reviewing and assessing ESG reports. We also set up an ESG panel who acts as decision maker for our ESG matters, and is devoted to promoting ESG into our decision-making and day-to-day operation:

- *Composition.* The members of the ESG panel comprise members of the Board with ESG-related risk identification and management capabilities.
- *Responsibilities.* The ESG panel strictly comply with the Stock Exchange’s Environmental, Social and Governance Reporting Guidelines and related guidelines. The ESG panel is responsible for setting specific ESG-related goals and targets under the supervision of the Board, evaluate ESG risks and opportunities in accordance with our ESG-related policies, review the specific progress and performance for ESG matters on a regular basis, and regularly report to the Board on the ESG management status.

To further strengthen our ESG governance, we have engaged an independent ESG consultant to advise the Board and management to ensure that we are aware of and comply with the latest ESG requirements of the regulatory authorities and to meet our ESG-related responsibilities. Our engagement with the ESG consultant started from July 2023, and our ESG consultant has long-term experience in the ESG field and it provides ESG consulting services to a number of listed companies.

We are committed to complying with PRC regulatory requirements, preventing and reducing hazards and risks associated with our operation, and ensuring the health and safety of our employees and surrounding communities. Additionally, we value the stakeholders’ expectations and requirements in terms of ESG matters. Hence, we proactively communicate with our stakeholders to address their concerns.

---

## BUSINESS

---

### Risks and Opportunities Assessment

We believe that the identification and management of environmental, social, and climate-related risks are crucial for our sustainable development. We conduct materiality assessment for ESG matters in light of national policy trends, industry development and requirements under applicable ESG standards. In considering the materiality of ESG matters, we evaluate the performance and measures of comparable market players and assess impact of these matters to us and our stakeholders.

Currently, we consider product quality and safety, consumer service, risk control, employee protection, business ethics and franchisee management as key ESG issues in our business. Additionally, we have attached great importance to the impact brought by climate change on our financial operations and sustainable development.

We have identified several climate change-related risks that may adversely affect our business operations by reviewing our internal policies, understanding current situations in business operations, and studying relevant government policies, and list out the potential impacts and responses correspondingly.

- *Physical Risks.* In the medium to long term, typhoons, extreme rainfall, floods, hailstorms, and other extreme weather conditions can potentially cause damage to product materials and impact the supply of raw materials. Additionally, extreme weather can also affect store operations and logistics distribution. In response to this, we have developed contingency plans and preventive measures for severe weather conditions. We proactively adjust store operations and logistics distribution based on weather alerts to mitigate the impacts caused by climate-related issues.
- *Transition Risks.* We have also identified the changes in policies and regulations as transition risks that may adversely affect our business, strategy, and financial risks in the short and medium term. Such short- and medium-term transition risks mainly arise from regulatory restrictions on the use of plastic materials, and an increasing emphasis on sustainable, low-carbon consumption. In recent years, consumers may pay greater attention to product quality and have a broader demand for green and healthy products. Environmental policies such as plastic reduction regulations may bring about increased focus on environmentally friendly and low-carbon packaging, affecting our daily operations. Therefore, we are required to diversify our products and services, ensure food quality and safety, and implement carbon reduction measures to meet regulatory requirements and consumer expectations.
- *Potential Opportunities.* With the growing popularity of the concept of sustainable production and consumption, we make efforts to advance the development of green, low-carbon business and operation model. We explore the promotion and use of environmental-friendly products and packaging materials, which we believe will earn us more opportunities to receive consumers’ recognition and acceptance, build our image as a socially responsible company, and enable us to have more market opportunities.

## BUSINESS

As of the Latest Practicable Date, we were not subject to any penalties for violating health, safety, social, or environmental regulations, and we had not experienced any actual impacts or anticipate any potential material impacts caused by environmental, social, and climate-related risks on our business, strategy, and financial performance. After the [REDACTED], we will continue improving our risk identification and assessment procedures, enhance risk management capabilities and disclose ESG reports on a regular basis.

### Environment

We are an environmental-friendly company as demonstrated by the following efforts and measures.

#### *Metrics and Targets*

We advocate for energy conservation and emission reduction among employees and actively promotes green office practices in our ordinary course of business. Furthermore, we integrate the concept of low-carbon environmental protection into our daily business operations and production activities.

The following table sets forth the metrics of the resources consumption at our office spaces for the periods indicated.

#### *Electricity and Water Consumption*

		For the year ended December 31,		
	Unit	2021	2022	2023
<b>Electricity</b> <sup>(1)</sup>	<i>kWh</i>	318,688	484,266	934,903
<b>Water</b>	<i>m<sup>3</sup></i>	4,388	6,138	11,038

*Notes:*

- (1) Represents the electricity consumption in our existing office spaces (e.g., lights, air-conditioners and office equipment) in the corresponding period, except for the electricity consumption in certain regional offices where the electricity consumption cannot be separately calculated as it is included in the packaged property management fee charged by the lessors. During the Track Record Period, the increase in the electricity and water consumption is driven by the growth of the offices spaces we occupy, which, in turn, is due to the expansion of our business in China.

#### *Greenhouse Gas Emission*

We identify the range of greenhouse gas emissions that we mainly generate as Scope 1 and Scope 2 emissions according to the Greenhouse Gas Accounting System - Enterprise Accounting and Reporting Standard. Scope 1 emissions refer to direct greenhouse gas emissions primarily from the consumption of direct energy in our operations, namely the fuel consumed by our company-owned vehicles. Scope 2 emissions refer to indirect greenhouse gas emissions primarily from the consumption of electricity at our office spaces.

## BUSINESS

The following table sets forth the greenhouse gas emission for the periods indicated.

	For the year ended December 31,		
	2021	2022	2023
<b>Total Greenhouse Gas</b>			
<b>Emission (tCO<sub>2</sub>e)</b>	184.7	288.8	549.2
Scope 1 (tCO <sub>2</sub> e)	3.0	12.6	16.0
Scope 2 (tCO <sub>2</sub> e)	181.8	276.2	533.2

During the Track Record Period, the annual fuel consumption was 1,334 liters, 5,667 liters and 7,196 liters, respectively, representing the amount of fuel used by the company-owned vehicles of our regional offices. The increase in the fuel consumption is due to the enlarged number of offices and the increased usage and amount of vehicles with our business development. We plan to initiate the assessment of our Scope 3 greenhouse gas emissions in 2024 and set down specific targets for reducing Scope 3 greenhouse gas emissions in 2025.

With the expansion of our business in the near future, we expect the resource consumption will continue to fluctuate. For instance, as our office spaces are expected to further grow in the near future with our business expansion, we expect the overall electricity consumption may continue to grow. Once our business development becomes more stabilized, we will set down specific quantitative ESG targets with the reference to the actual business conditions and requirements as well as our aspiration to achieve ESG objectives. Based on the resource consumption data in 2023, we plan to reduce the per capita usage of electricity and water by approximately 5% by 2025, as measured by the cubic meter of water and kilowatt-hour of electricity consumed per capita. Based on the greenhouse gas emission data in 2023, we plan to reduce the per capital greenhouse gas emission by approximately 5% by 2025, as measured by the tCO<sub>2</sub>e of greenhouse gas emission per capita. To this end, we implement various measures to reduce the resource consumption and stay compliant with respect to ESG matters.

- *Electricity Consumption.* We will continue to optimize the office space per capita to reduce the use of electrical appliances and save electricity by using energy-saving equipment and improving electricity management. We will make efforts in saving electricity during daily operations, such as managing the use of lighting in office areas, controlling the temperature in office areas, using voice-activated lights in production areas and cultivating and raising employees’ awareness of energy conservation. We also promote environmental-friendly equipment and facilities in stores, such as energy-saving air conditioners.
  
- *Water Consumption.* We will further reduce the consumption of water in the office spaces during daily operation and advocate water conservation in stores. To avoid excessive water consumption, we have increased the number of drinking water purification equipment with sensor faucet and used recycling water in our



---

## BUSINESS

---

air-conditioners. We discharge sewage from the production areas after it meets the discharge standards and recycle the rainwater in the production areas for secondary use. The store employees shall regularly inspect store equipment to prevent water leakage.

- *Emission of Greenhouse Gas.* We promote the concept of low carbon and environment protection into daily business operations and advocate emission reduction among employees. We aim to take environmental-friendly measures in our business trip arrangement and minimize the use of company-owned vehicles, as well as decrease the consumption of electricity at our headquarter and in our stores. We set down the Notice on Advocating Green and Energy-saving Office as our internal guideline and improve the management of wastes and resources recycling in terms of office materials, electricity, water consumption and vehicle use.

During the Track Record Period, we incurred expenses of approximately RMB2.1 million in relation to our compliance with applicable environment protection laws and regulations, including the expenses of approximately RMB1.5 million in relation to ESG efforts for Senmian Facility.

We adopt a dynamic approach in our ESG matters. We may further adjust our ESG targets according to our business operation from time to time, and if the effect is found to be unsatisfactory, we will review the relevant policies and measures and make achievements to achieve relevant objectives.

### ***Environmental Protection Initiatives***

We advocate for green and energy-efficient office practices, and actively monitor energy consumption as well as waste emissions. We take the following reduction and offsetting environmental-friendly measures in our daily operations.

- *Office Supplies.* (i) seeking electronic, paperless office operation, such as using electronic contracts and electronic document transmission, (ii) using double-sided, black and white printing, (iii) setting up a recycled paper storage center for secondary use of wastepaper, (iv) sharing non-consumable office supplies in the office and use refillable pens and (v) adopting trash classification to separate recyclable and non-recyclable trash.
- *Electricity.* (i) using lighting-condition management in office space based on weather conditions and working hours, (ii) room temperature control to reduce energy consumption and (iii) automatic light control in our facilities.
- *Water.* (i) installing sensor-activated faucets to avoid water overuse, (ii) using recycling use of condensation water in cleaning and (iii) recycling rainwater for plant irrigation.

---

## BUSINESS

---

Furthermore, we also work intensively in the following aspects to protect the environment during store operations, with joint efforts by our franchisees and other partners.

- *Energy Saving Measures.* During the Track Record Period, we have been progressively optimizing the design of ChaPanda stores to maximize the use of natural lighting and minimize electricity consumption. We also put into use environmentally friendly equipment and facilities in ChaPanda stores, such as energy-efficient air conditioning systems. In addition, we require regular inspections of equipment such as ice-making machines in stores to prevent water leakage.
- *Green Materials.* We make every effort to promote, use and manufacture sustainable, environmental-friendly materials, such as the launch, introduction and use of biodegradable straws, bags and cutlery as well as PLA-coated paper cups, paper cup lids and sealing films in ChaPanda stores.
- *Other Joint Efforts.* In our franchisee evaluation process, we consider franchisees’ ESG efforts as a key factor in assessing their performance. Meanwhile, pursuant to the collaboration with Alipay, consumers may enjoy discounts in ChaPanda stores if they show the record of their participation in environment protection activities on Alipay. We also collaborate with Baby Kangaroo Charity to make social charity donations and promote consumers’ awareness for environment protection.

In addition, at our Senmian Facility and warehousing facilities, we have implemented a range of ESG measures to promote sustainability throughout our operations.

- *Policy and regulations.* We have established a comprehensive set of policies and regulations that prioritize green production and sustainable practices. These guidelines outline the environmental protection standards and requirements to be followed in both the production process and warehousing operations. They encompass reducing waste and pollutant emissions, enhancing resource efficiency and implementing sustainable practices across the board.
- *Environmental management system.* We have implemented an advanced environmental management system, including ISO 14001 certification, to effectively monitor and manage the environmental impact of our operations. Through regular assessments and monitoring, we ensure that any environmental issues arising from both the production and warehousing processes are promptly identified and addressed.
- *Energy efficiency and emissions reduction.* We are committed to optimizing energy efficiency and minimizing emissions in both our production process and warehousing operations. This involves the adoption of energy-saving technologies, equipment, and practices. We continuously evaluate and implement initiatives to reduce energy consumption and carbon emissions, such as upgrading machinery and utilizing energy-efficient lighting.

---

## BUSINESS

---

- *Waste management and recycling.* We prioritize waste reduction and recycling efforts in both our production process and warehousing facilities. This includes implementing proper waste segregation practices, promoting recycling programs, and collaborating with certified waste management partners to ensure responsible disposal of waste materials. We strive to minimize waste generation and maximize recycling rates wherever possible.
- *Environmental training and education.* We actively provide environmental training and educational programs to our employees in both the production and warehousing teams. These initiatives focus on increasing awareness, fostering a culture of sustainability, and encouraging environmentally conscious behavior. By equipping our staff with knowledge about sustainable practices, we empower them to actively contribute to our ESG goals in their day-to-day activities.

By implementing these ESG measures in both the production process at the Senmian Facility and our warehousing facilities, we are dedicated to minimizing our environmental impact, conserving resources, and promoting sustainable practices across our entire operation.

### **Governance**

We are committed to promoting a sustainable enterprise governance and integrate it into all major aspects of our business operations, particularly the franchisee management and assurance of food safety. Additionally, we cultivate the culture of integrity, and promote a series of strict internal rules regarding anti-money laundering, anti-bribery and anti-corruption to uphold business integrity.

#### ***Franchisee Management***

We consider franchisees as our crucial partners and continuously improve our franchisee management system. We have established management policies such as the Franchised Store Partner Management Policy and ChaPanda Store Evaluation and Franchisee Rating Management Policy as well as integrity, confidentiality, and ethical business operation systems.

Through our store operation management, supervision over public reviews and customer complaints on food delivery and other third-party platforms, and on-site inspections, we closely monitor the performance of franchised stores in terms of product quality, safety, and customer service. We evaluate and score franchised stores from multiple dimensions, including store hygiene, food safety, and operational cooperation, and provide appropriate incentives to encourage sustainable development for franchisees who perform well.

We continuously improve the franchisee management system and support franchisees in improving their ESG management level and performance through management assessments, training and empowerment. As of December 31, 2023, our ChaPanda Professional Training School was supported by 16 training centers across China and over 140 designated professional

---

## BUSINESS

---

tutors, aiming to provide effective guidance for our franchisees nationwide. Additionally, we established franchisee committees to provide professional assistance and guidance to local stores. Moreover, we also proactively introduce intelligent and efficient equipment for franchisees nationwide to reduce the burden of cumbersome manual operations for store employees.

### *Supply Chain*

We maintain a list of qualified suppliers for raw materials and an abundant pool of alternative suppliers to ensure the stability and quality of our supply chain. As of December 31, 2023, we collaborated with over 240 suppliers, many of whom are located in eastern and southern provinces in China. In addition, we maintained a reserve of over 210 alternative suppliers to serve as backups.

We have adopted strict mechanisms and policies to identify, evaluate and manage environmental and social risks along the supply chain. Our internal procurement management system provides, among others:

- *Internal Management Structure.* We establish a designated procurement department to oversee the supply chain, consisting of specialized teams for food, packaging and other disposable materials and equipment. Each of these specialized teams is responsible for the selection and assessment of suppliers, procurement planning and budget, contract management and procurement team development and training. Before the procurement of materials, our staff is required to submit procurement applications to specify the quantity, price and other specifications of the goods to be purchased. Before the order placement, we conduct a quality check on the sample products to inspect their quality standards.
- *Strict Admission Standards.* We implement strict admission mechanisms for our suppliers. They are required to complete sample testing, qualification document verification, and on-site audits to be qualified for trial. Only when their performance assessment during the trial period is satisfactory for three consecutive months can they eventually become a qualified supplier.
- *Ongoing Compliance.* During the regular supply process, our suppliers are required to undergo a pesticide residue testing for each batch of supplies and obtain a compliance certificate.
- *Periodic Assessment.* We perform monthly performance assessments of suppliers and will categorize our suppliers into three tiers, i.e. A, B and C, based on assessment over the quality of their supply, among others. We will also provide improvement guidance for suppliers who failed to meet our standards and keep records of their improvement process. We terminate relationships with the suppliers who are categorized as Grade C for two consecutive years, have repetitive quality issues, or have other material issues such as fraud.

---

## BUSINESS

---

- *Product Management.* To discharge our social responsibility in terms of product quality and food safety, we categorize the purchased goods and equipment based on their individualized requirements for storage conditions and safety standards. For instance, we label the products with high food safety risks, such as tea leaves and sugar, as the high-risk products to be stored in appropriate conditions.
- *Staff Integrity.* We hold high standard for our employees in the supply chain management system. We require our supply chain management team to observe the principles of openness, fairness and justness in dealing with external suppliers and with internal matters. We evaluate the performance of these staff on a monthly basis and provide periodic trainings to improve their skills.

Furthermore, to engage our suppliers in our environmental protection endeavors, and to source environmental-friendly materials:

- We encourage our suppliers to establish sound quality management systems and obtain professional system certifications in ESG areas; and
- We encourage our suppliers to use environmental-friendly packaging materials and collaborate with partners to conduct research and development work, aiming to promote innovation and environmental-friendliness in packaging.

### *Food Safety*

We strictly adhere to the applicable food safety laws and regulations in China, including but not limited to Food Safety Law of the People’s Republic of China and the Regulations for the Implementation of Food Safety Responsibility, and have developed a comprehensive set of food safety management policies, including Quality Handbook, Food Safety Responsibility Management System, Food Safety Risk Management and Control System and Product Recall System. Through these policies, we implement a differentiated management across the following four stages, enabling us to achieve a full-chain management of food safety and quality.

(1) *Compliance and food quality confirmation:*

- review the qualification of new suppliers to ensure compliance with applicable requirements; conduct sample testing by product development personnel and quality control specialists to ensure that the quality of supplies has met applicable national regulations and standards;
- conduct on-site inspection by quality control specialists to assess comprehensive capabilities of our suppliers in production, quality control and management;
- conduct product risk assessment and prevention; and
- conduct periodic product quality inspections through (i) on-site review, (ii) sample testing and (iii) testing of key indicators by independent third parties.

## BUSINESS

---

(2) *Guarantee of warehouse acceptance and delivery:*

- conduct inspection of incoming shipments by dedicated quality control personnel in accordance with our internal procedures;
- conduct daily inspection of cold-chain transportation and deliveries to ChaPanda stores;
- conduct random inspections of inventories and warehouse by quality control personnel at warehouse; and
- monitor the storage temperature of warehouses nationwide, the records of which are reported automatically to our headquarters for inspection by designated personnel.

(3) *Store management and inspection:*

- establish inspection procedures and standards upon receipt at stores;
- specify standards for the storage, expiration date upon opening, duration of use and proper methods of use;
- establish standards for store staff and their operations in accordance with Standardized Sanitation Operating Procedures (“SSOP”);
- perform online and offline inspections as well as internal and external reviews, and make subsequent improvements; and
- perform sample testing at ChaPanda stores and testing of key indicators by independent third parties.

(4) *Quality analysis and improvement:*

- trace product flow in the full supply chain and handle food safety incidents in accordance with our specific policies and procedures for handling food safety incidents; and
- analyze and review customer complaints, proactively respond and make subsequent improvements.



---

## BUSINESS

---

### *Food Waste Management*

We promulgated a comprehensive food safety manual to regulate the food safety issue. ChaPanda stores are required to have sufficient number of garbage cans, each of which should be appropriately placed and labeled according to the requirements of local regulatory authorities. During the store operation process, all of the food waste shall be categorized and disposed according to the labels on the garbage cans. To ensure the in-store hygiene, we require the food waste to be timely disposed within the same day of waste production, and we prohibit stores from piling up garbages overnight. We also provide detailed control measures relating to food usage and expired food and ingredients. For instance, ChaPanda stores adopt a "first-in, first-out" principle for the purchased food, according to which the food purchased first shall be used firstly to avoid expiration. Once purchased, food and other ingredients shall be properly stored based on their respective conditions and shelf life, which ensures food safety and prevents waste of food and ingredients due to food spoilage. We strictly prohibit the use of expired food and ingredients and request store employees to immediately dispose the food and ingredients once expired. We have implemented specific measures to promote effective recycling management. Store employees are trained to identify and separate different types of recyclables during the waste management process, such as plastic bottles, paper and other recyclable items. We collect these recyclables and send them to recycling facilities for processing. We prioritize the importance of educating store employees and customers about recycling practices to ensure the success of our recycling efforts. We display informational materials like posters and brochures in visible areas to raise awareness and provide guidance on proper recycling procedures. Additionally, store employees receive regular training sessions to stay updated on the latest recycling guidelines and best practices.

Our food safety manual also sets down the detailed requirements for in-store food disposal. We use touchless garbage can which are sealed with lids to prevent leakage of harmful organisms, bad odor or sewage overflow. The store staff shall clean up the garbage cans in the guest area in a timely manner to maintain cleanliness before the waste storage exceeds 3/4 capacity of the garbage can. For food materials that have exceeded the shelf life, our staff promptly dispose them and keep track of the disposed food in the store inventory record.

### *Anti-money Laundering, Anti-bribery and Anti-corruption*

We have established a series of policies such as Anti-fraud and Anti-bribery Management Regulations, Integrity and Honesty System and Employee Code of Conduct, and take firm measures against activities in violation of business ethics with systematical supervision and standardized operation. We improve the complaint and reporting system through a variety of reporting channels, such as reporting hotline and e-mail addresses that are open to both internal personnel and the public. Our legal team and internal control team accept the reports of fraud and bribery and hold special investigations against such incidents. We maintain strict confidentiality of all whistleblower information.

---

## BUSINESS

---

We make our internal integrity policies to our suppliers, franchisees and other partners. We require our suppliers to sign integrity agreements in which they make written commitment to comply with our anti-corruption, anti-bribery and anti-money laundering requirements. For instance, the integrity agreement prohibits our suppliers from giving and taking any bribes, as well as making or receiving any improper payment in our business collaboration. In addition, our suppliers shall not make any payment to us out of the ordinary scope of our collaboration. In the event that we found our suppliers are in breach of the foregoing arrangements, we are entitled to report the illegal acts to applicable authorities or terminate the supply agreement. As of the Latest Practicable Date, we had not been involved in any legal proceedings in relation to fraud or bribery.

### **Social Responsibilities**

Corporate social responsibility is viewed as part of our core growth philosophy that will be pivotal to our ability to create sustainable value for our Shareholders by embracing diversity and public interests.

### ***Employee Caring Initiatives***

Our human resource department is in charge of implementing and supervising our employee caring systems. We set down a series of internal guidelines regarding the remuneration and incentive mechanism, which help us carry out our employee remuneration and rewarding. We promote comprehensive employee welfare systems to care for the employees' wellbeing, such as regular medical examinations, holiday and birthday benefits, internal team building events. We encourage our employees to participate in product development. From time to time, we hold monthly inter-company competition through which we motivate our employees to innovate and develop specialty beverages that meet the diverse needs of our consumers.

We purchase workplace injury insurance for employees and proactively carry out trainings for workplace injury prevention. We hold health and safety training to improve employees' health and safety awareness and skills. For example, we invite the Sichuan Red Cross Emergency Rescue and Ambulance Center to give emergency rescue training to improve employees' first-aid skills. In the case of work-related accidents, our internal policies require us to offer emergency treatment to employees, cooperate with competent authorities to conduct investigations, help injured employees handle the insurances and offer other necessary assistance.

We are committed to creating an equal, diverse and non-discriminatory workplace. We provide equal career opportunities for employees of different ethnicities, ages, genders and beliefs. As of December 31, 2023, we had 81 ethnic minority employees from 18 ethnic minorities in China, such as Tujia, Yi, Zhuang and Tibetan. As of the same date, we had 989 female employees which represented 48% of our total employees.

---

## BUSINESS

---

### *Social Charitable Efforts*

We are committed to philanthropy and actively contributed to charitable causes since inception, demonstrating our corporate social responsibility and dedication to stable employment and community empowerment.

Over the years, we have carried out numerous initiative and programs in relation to social responsibility, including but not limited to the following.

#### *Our efforts to support local tea industry and rural revitalization*

In recent years, we have actively responded to Chinese governments’ proposal to help revitalize the economy of underdeveloped regions, and helped local fruit farmers increase their income.

In 2021, we procured more than 80,000 tons of agricultural products from the underdeveloped areas in China. Since 2022, we began to purchase large number of mulberries and strawberries from Liangshan, Sichuan Province. In particular, with a series of mulberries-based products such as “Wu Qi Ma Hei,” we introduced quality agricultural products from Liangshan to a much wider consumer base.

We also had a number of similar projects that enhance local economy and increase the income of local residents in China’s underdeveloped regions, such as the procurement initiatives in Meizhou, Guangdong Province and the jasmine industrial park in Hengzhou, Guangxi Province.

In May 2022, we unveiled at the Yunnan Fengqing Dianhong Tea Garden to pioneer a novel approach to “Revitalize Agriculture and Empower Tea Farmers.” We chose Fengqing as supply base for the black tea in our signature tea drinks. We entered into a strategic partnership with the Fengqing Dianhong Tea Industry Alliance and Shenzhen Xinrongyang Food Technology Co., Ltd., where we jointly established the “Dianhong Tea Garden” production facility to boost local tea industry and expand income opportunities for tea farmers. This project spans 27,000 acres of tea gardens, providing employment opportunities for nearly 26,000 local farmers.

Meanwhile, to promote our social responsibility initiatives in Yunnan, we launched a series of marketing campaigns upon the construction completion of Yunnan Fengqing Dianhong Tea Garden. For instance, we offered discounts on certain products that used Fengqing Dianhong and gave consumers customized cup stickers in selected cities. We believe our Yunnan Fengqing Dianhong Tea Garden enables a wider recognition for Fengqing Dianhong, improve the income of local farmers and promote the Chinese tea culture.

---

## BUSINESS

---

### *Our efforts to relieve the impact of natural disasters and pandemics*

We are deeply rooted in the local communities. Throughout years of operation, we always bear in mind our social responsibility. In times of natural disasters, we lend a helping hand to the society and local communities with various forms of donations and charitable programs. In doing so, we give back to the society and people who enable us to make our success.

We have made the following charitable initiatives in times of natural disasters in China, among others:

- In 2021, we donated RMB2.7 million to local communities in Shanxi and Shaanxi Provinces to fight against local flood disasters.
- In 2022, we partnered with the Sichuan Youth Development Foundation and established ChaPanda Special Public Welfare Fund for which we have made the RMB1.0 million initial capital contribution. Following the earthquake in Luding, Sichuan, we donated RMB100 thousand to help local families survive the winter season with the necessities provided by us. We converted the local ChaPanda store in Luding as a rescue station where we provided free drinks, beds, charging services and local guide services to local police, firefighters, medical personnel, news reporters and rescue volunteers.
- During the COVID-19 pandemic, we distributed free drinks and epidemic prevention materials to medical personnel and volunteers in dozens of regions across China, including Sichuan, Hubei and Guangxi. We reduced or waived management fees and packaging materials expenses for a number of ChaPanda stores for an amount of approximately RMB20.0 million.
- In 2023, we donated RMB10.0 million to the official charitable foundations in Beijing and Hebei Province to aid the emergency rescue, purchase rescue equipment and reconstruct local households after a severe rainfall and flood took place in August. In addition, we entered into a donation agreement with China Rural Area Development Fund in August 2023, pursuant to which we agreed to donate a total of RMB5.0 million to support social charity programs.

### *Our efforts to advance public welfare activities*

We initiated a caring program for food delivery workers during the hot summer season in August 2022, where we gave cold drinks to food delivery workers to bring relief from high temperatures. In Tianfu district, Chengdu, we sent out approximately 300 cups cold drinks to outdoor workers amid the summer heat.

In 2023, we partnered with the reputable charitable organizations, such as Green Mountain Project (“青山計劃”) and the One Foundation (“壹基金”), to launch a number of social welfare programs for children.

---

## BUSINESS

---

- *Green Mountain Project.* With the vision of “Better Life, Beautiful Nature,” initiated by Meituan on August 31, 2017, the project is launched to promoting environmental protection in the food delivery industry. It was the first action plan in the industry to focus on environmental protection.
- *One Foundation.* In April 2007, Mr. Jet Lianjie Li founded the One Foundation, which is one of the earliest privately-funded public foundations established in China. The One Foundation is a 5A-level social organization and has held an outstanding rating in terms of information transparency for eleven consecutive years. Since its inception until the end of 2021, the One Foundation has received donations and material contributions exceeding RMB3.2 billion from over 7.1 billion individuals and organizations.

By partnering with these charitable organizations, we made donation for the construction of children’s playgrounds in China’s rural areas to help local youngsters have a healthy and happy childhood. In June 2023, the development of the first children’s playground donated by us had been completed in Liangshan.

## PROPERTIES

### Owned Properties

We occupy certain properties in China in connection with our business operations. As of the Latest Practicable Date, we owned one land parcel with a site area of approximately 44,123 sq.m. which is primarily used for manufacturing, processing and as a supply chain management center.

As of December 31, 2023, we had no single property with a carrying amount of 15% or more of our total assets, and on this basis, we are not required by Rule 5.01A of the Listing Rules to include in this Document any valuation report. Pursuant 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 requires a valuation report with respect to all of our interests in land or buildings.

### Leased Properties

As of the Latest Practicable Date, we had entered into 62 lease agreements to lease properties with an aggregate floor area of approximately 71,663 sq.m. from third parties, mainly for our warehousing spaces, office spaces and self-operated ChaPanda stores. The leases generally have a term ranging from two to five years. We will consider renewing the leases upon their expiry.

---

## BUSINESS

---

### *Leased Properties with Title Defects*

Certain of the properties leased by us have title defects due to various reasons. As of the Latest Practicable Date, such leased properties with title defects included one leased property used for office spaces with an aggregate floor area of approximately 100 sq.m. For this property, the lessor with whom we entered into lease agreement failed to provide the ownership certificate, hence we cannot ensure that it has the right or authorization to lease such property to us.

As advised by our PRC Legal Advisor, it is the relevant lessors' responsibility to comply with the relevant requirements, such as to obtain the relevant ownership certificates and to ensure the actual usage of the property shall comply with the planned usage of the property and the land. Any failure to remain compliant with the foregoing may subject the relevant lessors to penalties imposed by the land administrative authorities, construction administrative authorities or planning authorities, and the lease agreement may be deemed invalid and unenforceable in accordance with the relevant laws and regulations. As a tenant, we are not subject to any administrative punishment or penalties under relevant laws and regulations. However, our use of the leased properties with title defects may be affected by third parties' claims or challenges against the lease. Also, the relevant lease agreements may be deemed invalid, and we may be required to vacate from such properties.

Our leases for the leased properties with title defects were not challenged by third parties or relevant authorities that had resulted or involved us as the defendant in disputes, lawsuits or claims in connection with the rights to lease and use such properties occupied by us during the Track Record Period and up to the Latest Practicable Date. Upon expiry of these lease agreements, we will assess the legal risk when renewing the relevant lease agreements. Considering the nature of the above mentioned title defects, if we are not able to continue to use such leased properties due to such title defects, we expect to be able to identify alternative places for relocation in a timely manner without incurring material related loss due to the limited number of leased properties with title defects, which will not cause a material interruption to our operations. Our Directors believe that these title defects would not cause a material adverse impact on our business, operations and financial results.

### *Lease Registration*

As of the Latest Practicable Date, 54 lease agreements had not been registered and filed with the relevant land and real estate administration bureaus in the PRC because the relevant lessors failed to provide necessary documents for us to register the leases with the local government authorities.



---

## BUSINESS

---

As advised by our PRC Legal Advisor, failure to complete the registration and filing of lease agreements will not affect the validity of such leases or result in us being required to vacate the leased properties. However, the relevant government authorities may impose a fine ranging from RMB1,000 to RMB10,000 on each lease agreement that is not registered and filed. The aggregate amount of the maximum fine will be approximately RMB0.5 million. Based on the number of these properties and the cities where they are located, we believe the likelihood that we will be punished due to failure to register and file all the relevant lease agreements at the same time is very remote.

Pursuant to our franchise agreements, franchisees are obliged to enter into lease agreements with the respective property owners at the store address previously confirmed with us and furnish a copy of the executed lease agreements to us. In circumstances beyond the control of the franchisees, such as defaults by property owners, rendering the leased premises unavailable, franchisees are mandated to notify us promptly. Subsequently, within a six-month window from the occurrence of such incident, franchisees may initiate efforts to identify an alternative store location for the purpose of continuing store operations under the franchise agreement and the new store location is subject to our review and approval. We have the right to terminate the franchise agreement if the franchisees fail to secure a suitable location for continued operation within the stipulated six-month period. Moreover, franchisees bear the responsibility to ensure the legality and validity of self-owned or leased properties utilized for store operation throughout their collaboration with us. In circumstances where franchisees lose ownership or leasehold rights to the designated store premises for reasons attributable to their own actions, we have the right to demand that franchisees assume liability for breach of contract and terminate the relevant franchise agreements. During the Track Record Period and up to the Latest Practicable Date, as far as the Company is aware, no franchise agreement was terminated as a result of franchisees failing to comply with applicable property laws and regulations in China.

## INTELLECTUAL PROPERTY

We currently operate our retail network under the ChaPanda brand. As of the Latest Practicable Date, we had registered 26 patents, 458 trademarks, 41 copyrights and six software copyrights in China. For details, see “Appendix VI—Statutory and General Information—2. Further Information about Our Business—B. Our Intellectual Property Rights.”

A number of know-how and trade secrets are also vital to our operations. We have not applied for patents on know-how and trade secrets to avoid possible information leakage during the application process. We rely on protection provided by applicable trademark laws, implementation of intellectual property management policies, installation of secure information technology systems and confidentiality arrangements with employees who can obtain relevant information and third parties who can obtain our exclusive know-how and trade secrets to protect relevant intellectual property rights.

## BUSINESS

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain, use and imitate our brand names, trademarks, copyrights and other intellectual properties. It is difficult to monitor unauthorized use of such intellectual properties. In addition, our competitors may independently develop technology and/or know-how similar to ours. Our precautions may not prevent misappropriation or infringement of our intellectual property. See “Risk Factors—Risks Relating to Our Business and the Industry—We may not be able to adequately protect our intellectual property, which could adversely affect our business and operations” for details. During the Track Record Period and as of the Latest Practicable Date, to the best of our knowledge, we had not been subject to any material intellectual property claims which could have a material adverse effect on our business or operations.

### OUR EMPLOYEES

As of December 31, 2021, 2022 and 2023, we had a total number of 1,180, 1,649 and 2,052 full-time employees, respectively. All of our employees were located in China. The following table sets forth our full-time employees by functions as of December 31, 2023.

<u>Function</u>	<u>Number of Employees</u>	<u>%</u>
Operation and store management . . . . .	1,145	55.8
Branding and marketing . . . . .	169	8.2
General and administration . . . . .	236	11.5
Digitalization . . . . .	118	5.8
Supply chain management . . . . .	154	7.5
Production and logistics . . . . .	230	11.2
<b>Total . . . . .</b>	<b><u>2,052</u></b>	<b><u>100.0</u></b>

Our success, to a considerable extent, depends upon our ability to attract, motivate and retain a sufficient number of qualified employees. Therefore, we design and offer various training programs for employees of different departments and positions, covering subjects from operation, digitalization, research and development, branding and marketing, career advancement, as well as general management, in order to enhance their professional skill sets and understanding of our company and the industry.

We enter into employment contracts and confidentiality agreements with all of our employees. We have developed a performance evaluation system to assess the performance of our employees annually, which forms the basis for determining the salary levels, bonuses and promotions an employee may receive. Save as disclosed in “—Legal Proceedings and Non-compliance” below, we believe that we have complied with the relevant national and local labor and social welfare laws and regulations in China in all material respects.

---

## BUSINESS

---

We have not experienced any significant labor disputes which have adversely affected or are likely to have adverse effects on our business operations. We believe we have maintained a good relationship with our employees and we did not have any material labor disputes during the Track Record Period.

### COMPETITION

The freshly-made tea shops industry in China is highly competitive. In 2023, the market size of China’s freshly-made tea shop market was RMB247.3 billion, with the top five players collectively accounting for approximately 40.0% of the market share in terms of retail sales value, according to Frost & Sullivan. Our ChaPanda brand ranked third with a market share of approximately 6.8%. We are faced with increasingly intense competition with other leading players in various aspects of our business, including product innovation, product quality, consumer experience as well as consumer acquisition and retention.

In particular, our competitors include market players who operate on national scale and regional scale, respectively. We are a freshly-made tea drink company with national presence in China, and ChaPanda stores are more evenly distributed across different city tiers compared to our competitors. In first-tier, new first-tier, and second-tier cities, we have not only established a strong presence but have also outpaced most of our competitors in terms of the number of stores, solidifying our market leadership. Furthermore, while we have made significant progress in our expansion in third- and fourth-tier cities over the past few years, our percentage of ChaPanda stores in these areas remains relatively low compared to our competitors. This strategic approach leaves us with ample untapped potential to expand our footprint into these markets, ensuring a more even distribution of our store network and a well-rounded market coverage that sets us apart from the competition. With our competitive advantages in nationwide supply chain capabilities, differentiated classic tea drinks and seasonal and regional tea drinks as well as our robust product development, we are well positioned to serve diversified consumer demand in different markets in China, making us outperform other players in the market.

If we fail to effectively compete against, or are out-competed by, the other leading players, we may experience a material adverse impact on our results of operations, financial condition and business prospects. See “Risk Factors—Risks relating to Our Business and Industry—The industry in which we operate is highly competitive. We are faced with increasingly intense competition with other leading players within China’s freshly-made tea shop industry.”

### LEGAL PROCEEDINGS AND NON-COMPLIANCE

We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business involving employment, copyrights, contract disputes and other matters. Our Directors, as advised by our PRC Legal Advisor, confirm that during the Track Record Period and as of the Latest Practicable Date, we had not been and were not a party to any material legal, arbitral, administrative proceedings or

---

## BUSINESS

---

non-compliance incidents that led to fines, enforcement actions or other penalties, which could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations. Our Directors are of the view that, we had complied, in all material respects, with all relevant laws and regulations in the PRC during the Track Record Period and up to the Latest Practicable Date.

### **Social Insurance and Housing Provident Funds**

#### ***Background and Reasons for Noncompliance***

During the Track Record Period, we had not made social insurance and housing provident funds for some of our employees in full in accordance with the relevant PRC laws and regulations. In 2021, 2022 and 2023, we made provisions of approximately RMB11.9 million, RMB14.4 million and RMB20.0 million, respectively. We were unable to make full social insurance and housing provident funds for the relevant employees primarily because consistent with the industry norm, our labor force is highly mobile, which has made it impracticable for us to make such contributions in time for the relevant employees that left our Group shortly after onboarding. In addition, we engaged a third-party human resources agency to pay social insurance and housing provident funds for some of our employees during the Track Record Period primarily due to the preference of such employees to participate in local social insurance and housing fund schemes in their place of residency. The third-party human resources agency has confirmed in writing that it has paid such contribution in full in compliance with applicable PRC laws and regulations.

#### ***Potential Legal Consequences***

For the shortfall of social insurance, we may be subject to the following legal consequences: (i) to compensate for the shortfall within a prescribed period and to pay a daily overdue charge of 0.05% of the delayed payment amount, and (ii) to pay a fine of one to three times of the overdue amount if such payment is not made within the stipulated period. For the shortfall of housing provident funds, we may be subject to the following legal consequences: (i) to compensate for the shortfall within a prescribed period, and (ii) an application may be made to the PRC courts for compulsory enforcement if the payment is not made within such time limit.

We might be subject to additional contribution, late payment fee and/or penalties imposed by the relevant PRC authorities if the third-party human resource agency failed to pay the social insurance or housing provident funds for the relevant employees in full amount and/or in a timely manner, or if the validity of such arrangements are challenged by competent PRC authorities. We might also be subject to potential labor disputes arising from such arrangements with the relevant employees.

---

## BUSINESS

---

### *Latest Status and Remedial Measures*

As of the Latest Practicable Date, no administrative action or penalty had been imposed by the relevant regulatory authorities with respect to our social insurance and housing provident fund contributions, nor had we received any order to settle the deficit amount. As of the Latest Practicable Date, we were not aware of any material complaint filed by any of our employees regarding our social insurance and housing provident fund policy.

We have reviewed our practice and adopted or plan to adopt remedial measures, including:

- We have enhanced our compliance policy with respect to social insurance and housing provident fund contribution in accordance with the PRC laws and regulations;
- We have designated our human resources department to review and monitor the reporting and contributions of social insurance and housing provident fund on a monthly basis;
- We will keep abreast of the latest developments in PRC laws and regulations in relation to social insurance and housing provident funds; and
- We will consult our PRC counsel on a regular basis for advice on relevant PRC laws and regulations to keep us abreast of relevant regulatory developments.

We have obtained the written confirmations from competent local governmental authorities in charge of social insurance and housing provident funds providing that during the Track Record Period, (i) no administrative penalties had been imposed in connection with the shortfall for the social insurance and housing provident funds, and (ii) they would not initiate any regulatory action to compel us to make supplementary contributions or impose any penalty on us in connection with the shortfall. The maximum potential penalties that we may be subject to for the shortfall for social insurance during the Track Record Period would be approximately RMB102.9 million. As advised by our PRC Legal Advisor, based on the interviews with the relevant competent local governmental authorities, in accordance with the existing applicable laws, regulations, policies, the likelihood that we would be subject to administrative penalties for the shortfall of social insurance and housing provident funds is remote.

We have been actively communicating with the relevant local government authorities. We will be making contributions for our employees in a manner as required as soon as practicable once we receive the notification from the relevant government authorities, if any, to require us to make contribution for the outstanding amounts or to amend our policies or practice in this regard, so that we will not receive administrative punishment from the relevant government authorities due to the failure of making the contributions in time.

---

## BUSINESS

---

Based on the foregoing, our Directors believe that such noncompliance would not have a material adverse effect on our business, results of operations or financial condition or the [REDACTED], considering that: (i) we had not been subject to any administrative penalties during the Track Record Period and up to the Latest Practicable Date regarding our social insurance and housing provident fund policy, (ii) we were neither aware of any material employee complaints filed against us nor involved in any material labor disputes with our employees with respect to social insurance and housing provident funds during the Track Record Period and up to the Latest Practicable Date, (iii) as of the Latest Practicable Date, we had not received any notification from the relevant PRC authorities requiring us to pay for the shortfalls or any overdue charges with respect to social insurance and housing provident funds.

### **Compliance Status of Franchised Stores and Self-operated Stores**

As of December 31, 2023, out of the 7,795 franchised stores and six self-operated stores, five franchised stores failed to obtain all necessary permits and licenses for business operations. The revenue attributable to the five franchised stores in 2023 amounted to approximately RMB1.0 million, representing 0.02% of our total revenue for the same year.

The non-compliance of four out of the five franchised stores is that they failed to obtain the food business license, and the non-compliance of the rest one franchised store is that it failed to include self-produced beverages in the scope of its food business license registration or filing, subject to the specific requirements of the competent authorities of the city where it operates. These may be due to their lack of familiarity with the requirements of the relevant regulations. As of the Latest Practicable Date, there was one franchised store that failed to obtain the food business license, which had been rectified as of February 23, 2024.

According to the franchise agreement, the franchisees shall obtain required licenses and permits for store operation before the launch of new stores and shall be liable for any violation of applicable laws and regulations. Franchisees shall be responsible for covering economic losses resulting from penalties imposed by the relevant government authority due to their violation of relevant laws and regulations. In addition, if (i) any franchisee is penalized due to any breach of contract, such as failure to comply with our inspection standards, or (ii) any food, hygiene, product quality and consumer right protection issue takes place, we shall have the right to terminate our franchise agreements with such franchisee.

To better monitor the franchised stores to comply with the relevant laws or regulations, we have established food safety risk management policy effective from November 2022, which specifies the inspection scopes, standards and responsibilities relevant to the franchisees' licenses and certificates. We require our franchisees to strictly follow our control measures in terms of license and certificate requirements. Pursuant to the updated terms set forth in the franchise agreements, franchisees shall submit the hard copies or photocopies of licenses and certificates required by the applicable laws and regulations to us for review and record within three days after they obtain such documents. We also conduct or appoint third-party inspection companies to conduct on-site inspection to check the compliance status of franchised stores. We undertake that all new stores to be opened in the future will not commence operations unless all necessary permits and licenses for business operations have been obtained.



---

## BUSINESS

---

### RISK MANAGEMENT AND INTERNAL CONTROL

We have developed and implemented risk management policies and internal control measures in relation to our business operations, financial reporting and general compliance.

- For our risk management, we design a comprehensive set of policies to identify, analyze, categorize, mitigate and monitor various risks. We periodically assess and update our risk management policies. Our risk management policies also set forth the reporting hierarchy of risks identified in our operations. Our Board is responsible for overseeing the overall risk management.
- For our internal control system, we carry out regular internal evaluation and training to ensure that our employees are equipped with sufficient knowledge on our internal control measures and relevant laws and regulations.

In April 2023, we engaged an independent consulting firm (“Internal Control Consultant”) to perform a review over our internal control from January 2022 to March 2023.

The Internal Control Consultant has identified certain deficiencies with respect to our internal control matters based on the works and procedures it implemented during the review process. The key areas of inspection of the Internal Control Consultant concern entity level controls, financial reporting and disclosure controls, research and development management, sales, accounts receivable and collection management, procurement, accounts payable and payment management, channel management (including franchisee management), food safety management, inventory management (including delivery management), fixed asset management, intangible asset management (including intellectual property rights protection), human resources and payroll management, treasury management, tax management, insurance management, contracts management and information system general control (including data and privacy protection).

The material findings of the Internal Control Consultant’s review primarily include the following:

- (i) we did not have sufficient policies and procedures in financial management and control;
- (ii) we did not complete the appointment of board members and senior management members according to the Listing Rules; and
- (iii) we did not have sufficient internal control measures in relation to the Third Party Payment Arrangement.

To follow the suggestions made by the Internal Control Consultant, we have adopted a set of procedures and measures to further ensure the effectiveness of our internal controls and corporate governance practice.

---

## BUSINESS

---

To address the foregoing issues, we adopted appropriate remedial measures, such as:

- *Financial management.* We updated the “Baicha Baidao Financial Management Policy” to set forth management procedures and responsibilities in financial reporting, fund management and tax management.
- *Appointment of directors and senior management members.* We completed the appointment of directors and senior management members in accordance with the requirements of the Listing Rules.
- *Third-party Payment Arrangement.* We adopted several internal control measures to manage the risks associated with Third-party Payment Arrangement, which was ceased by April 30, 2023. See “—Third-party Payment Arrangement”.

The Internal Control Consultant also performed follow-up procedures on our system of internal controls with regard to the remedial actions taken by us, and it did not have further recommendation in the follow-up review.

Going forward, we will also implement the following internal control measures:

- We will promulgate well-rounded policies and procedures to enhance our internal control and risk management, especially in the key areas of corporate governance as a [REDACTED] company on the Stock Exchange. For instance, we plan to establish policies and procedures in relation to conflict of interests, securities [REDACTED] activities by our Directors and employees, major transactions reviewal and approvals, key accounting matters and compliance supervision, among others.
- We plan to provide trainings to our Directors, management and employees to continuously raise their awareness of the importance of internal controls and legal compliance. We intend to continue to provide trainings for Directors and management with respect to the Listing Rules and duties of Directors of a [REDACTED] company on the Stock Exchange; and
- We will improve other key aspects with respect to general internal control, such as improve our internal corporate structures to implement operating efficiency, setting down engagement and management procedures for independent directors, company secretaries and accounting personnel, conducting group-wide periodic internal control and risk management assessment, developing anti-bribery, anti-fraud and anti-money laundering procedures, launching trade secret protection systems, enhancing product quality management, improving compliance management procedures, among others.

---

## BUSINESS

---

### **Third-party Payment Arrangement**

#### ***Background***

During the Track Record Period, a total of 3,418 franchisees (individual or collectively, the “Relevant Customer(s)”) settled their payments with our Group’s certain entities (“our Third-party Payment Entities”) through the accounts of third parties designated by these Relevant Customers (the “Third-party Payment Arrangement”). Our Group had ceased the Third-party Payment Arrangement by April 30, 2023.

In 2021, 2022 and the four months ended April 30, 2023, the aggregate amount of payment from designated third parties to our Group was RMB1,384.3 million, RMB1,507.1 million and RMB520.6 million, respectively, representing approximately 32.2%, 31.4% and 27.2% of the total payments received from all customers, respectively. During the Track Record Period, no individual Relevant Customer had made material contribution to our Group’s revenue.

During the Track Record Period, the third parties designated by the Relevant Customers primarily consisted of their employees, family members and controlling entities. Our Directors have confirmed that none of the designated third parties of any Relevant Customers during the Track Record Period is a connected person of our Group and such designated third parties are independent from each of our Group’s Directors, senior management and Shareholders, except for certain family members of our connected persons. To the best knowledge of us, during the Track Record Period, there were two third-party payors who were family members of our connected persons and made payments for certain franchised stores owned by the relevant connected persons. See “—Our Store Operation Model—Our Franchise Model—Our Agreements with Franchisees.” To the best knowledge of us, the aggregate third-party payments made by such persons were approximately RMB1.6 million, nil and nil, in 2021, 2022 and the four months ended April 30, 2023, accounting for less than 0.2% of the total payments received from all customers in each period.

Our Directors confirm that, during the Track Record Period, (i) our Group had not proactively initiated any Third-party Payment Arrangement or participated in other forms in any of such arrangement; (ii) our Group had not provided any discount, commission, rebate or other benefit to any of the Relevant Customers to facilitate or incentivize the Third-party Payment Arrangement; and (iii) the pricing and payment terms of the agreements we entered into with the Relevant Customers were in line with franchisees not involved in the Third-party Payment Arrangement.

---

## BUSINESS

---

### *Reasons for Utilizing Third-party Payment Arrangement*

The Relevant Customers requested to utilize Third-party Payment Arrangement to settle their payments with us primarily due to the following reasons:

- *Industry norm.* As confirmed by Frost & Sullivan, it is not uncommon for franchisees to settle their corporate transactions through third-party payors, including but not limited to their employees and family members, to their suppliers as many franchisees operate their stores as small-sized private businesses and it's more convenient and flexible for them to settle payments through third-party payors.
- *Payment convenience.* Franchised stores are generally small-sized private businesses. To avoid the complexity of setting up and using corporate bank accounts, some franchisees have arrangements with third-party payors relating to settlements for their payments, such as using bank accounts of their financial staff or store managers. For convenience, some franchisees also settle their corporate transactions through accounts of their family members.
- *Operation flexibility.* At the early stage of a small-sized business, some franchisees may prefer informal financial arrangement of payment through third-party payors, which is sufficient for their current needs and may offer more flexibility in terms of handling transactions.

We verify the authenticity of payments made under the Third-party Payment Arrangement through the implementation of our internal procedures. As part of our initial onboarding process for franchisees, we require franchisees to provide the name and bank account information of the payors for settlement of transactions with us. The relevant franchisees can only pay through third-party payors after we confirm and verify the account provided by the third-party payors and change the bank account of such franchisees recorded in our system. For each payment transfer, we require payors to specify the names of the relevant franchised stores. Our finance department subsequently review the payment particulars and seeks confirmation from the respective franchisees. We deploy our order management system to establish and validate the correlation between store orders, the stores designated for payment, and the accompanying payment records. This cross-checking together with the foregoing verification ensures the authenticity of each received payment. Once the payment is verified, we then process the transaction data to arrange product dispatch and delivery.

---

## BUSINESS

---

### *Termination and Implication of Third-party Payment Arrangement*

Our Group had ceased all Third-party Payment Arrangement by April 30, 2023. We consider that the termination of the Third-party Payment Arrangement did not have, nor will have, any material adverse effect on the liquidity, business operation and financial performance of our Group as (i) all Relevant Customers have provided their own bank account information for settlement with us pursuant to our internal control procedures, and continue to be our franchisees, except those who had already ceased to be our franchisees before the rectification of Third-party Payment Arrangement was initiated; (ii) our business continues to grow before and after the cessation of the Third-party Payment Arrangement as evidenced by the increase in the monthly retail sales value from RMB1,332.9 million in April 2023 to RMB1,411.0 million in May 2023, and further to RMB1,471.3 million in June 2023; (iii) the cessation of Third-party Payment Arrangement did not affect the payment settlement from our Relevant Customers to us, because we typically require franchisees to settle payments for the sale of goods and equipment (i.e. our primary revenue source) before we provided to franchisees the goods and equipment, and (iv) we continued to generate positive net cash from our operating activities before and after the cessation of Third-party Payment Arrangement from April 2023 to December 2023.

We communicated with Relevant Customers and their designated third-party payors involved in the Third-party Payment Arrangement during the Track Record Period and has obtained confirmations (the “Confirmation Letters”) from relevant parties whose payments under Third-party Payment Arrangement represent approximately 74.1%, 78.9% and 83.0% of total payments we received under Third-party Payment Arrangement in 2021, 2022 and the four months ended April 30, 2023, respectively. The Confirmation Letters include among others:

- (i) the Relevant Customers delegated their payment obligation under the terms of the original agreement with our Group to their respective designated third-party payors, which undertake to pay the transaction amount directly to our Group under the same terms;
- (ii) the Relevant Customers and their designated third parties did not receive any financial aid from our Group or its Directors, Shareholders or employees. Funds involved in the third-party payment delegation were from legal source of funds in origin and would not be used for illegal activities such as money laundering or tax evasion;
- (iii) the risks arising from the Third-party Payment Arrangement shall be borne by the Relevant Customers and their designated third-party payors and not our Group;
- (iv) the payment obligation of the Relevant Customers shall be deemed to be fully performed after the designated third-party payors paid the amount due to our Group;

---

## BUSINESS

---

- (v) our Group is entitled to seek payment from the Relevant Customers in the event that the designated third-party payors fail to perform the payment obligation in full or in part; and
- (vi) our Group shall not be involved in any risks or disputes arising from the payment arrangement between the Relevant Customers and their designated third-party payors, and is not obligated to return the payment it received from the designated third-party payors regardless of any disputes between the Relevant Customers and their designated third-party payors.

As confirmed by the Company, (i) the Third-party Payment Arrangement was initiated by the Relevant Customers and was not an arrangement by the Company to circumvent applicable tax laws and regulations or other applicable laws and regulations in China. All the customer payments previously received under the Third-party Payment Arrangement were duly booked according to the accounting procedures and policies, (ii) our Third-party Payment Entities had not been identified for violating any applicable tax laws as a result of the Third-party Payment Arrangement during the Track Record Period, (iii) our Third-party Payment Entities had not been subject to any disputes or administrative penalties by the relevant government authorities with respect to the Third-party Payment Arrangement as of the Latest Practicable Date. Based on (i) the facts mentioned above, (ii) the Confirmation Letters obtained, (iii) the consultation with Sichuan Branch of the People's Bank of China and the interview with the major commercial bank involved in our Third-party Payment Arrangement, our PRC Legal Advisor is of view that (i) the likelihood that our Third-party Payment Arrangement would be deemed as constituting the crime of money laundering and subject to the relevant criminal liability pursuant to the relevant PRC law and regulations is remote; (ii) based on the Company's internal procedures and as confirmed by the Company, all payments under the Third-party Payment Arrangement are based on actual transactions and the Company has no intention nor incentive to, and did not, cover up or conceal the source and nature of funds used for the Third-party Payment Arrangement, and (iii) the Third-party Payment Arrangement is not in breach of applicable mandatory requirements of PRC laws and regulations. As further advised by our PRC Legal Advisor, the Third-party Payment Arrangement is valid under the applicable laws or regulations in China as (i) according to the Civil Code of the PRC, a civil legal act can be established based on the unanimous expression of intent by two or more parties, or based on the expression of intent by one party, and a civil legal act takes effect upon its establishment, and (ii) the Company has obtained Confirmation Letters for the majority of the Relevant Customers and their designated third-party payors.



---

## BUSINESS

---

### *Internal Control Measures*

We are subject to various risks in relation to the Third-party Payment Arrangement. For details, see “Risk Factors—Risks relating to Our Business and Industry—We are subject to various risks relating to Third-party Payment Arrangement.” We have adopted internal control measures to mitigate related risks and prevent future occurrences of the Third-party Payment Arrangement, including but not limited to the following:

- (i) *Account Verification.* We require franchisees to provide their bank account information for transactions with us in the relevant franchise agreements. The bank accounts provided must belong to the relevant franchisees. In the cases where an individual franchisee utilizes his/her sole proprietorship’s bank account, the sole proprietorship must be the operating entity of the relevant franchised store. The bank account information of each franchisee is recorded in our internal system for further scrutiny.
- (ii) *Pre-Approval.* We have implemented a list of approved accounts, known as the whitelist. We collaborate with financial institutions, such as banks, to verify key elements of the bank account information, including account owners’ names, ID numbers, cell phone numbers and bank card numbers. Each bank account provided in the franchise agreements must undergo our verification process before being added to the whitelist. If franchisees need to update their bank accounts used for transactions with us, they must submit information of the new bank accounts for account verification and pre-approval before we can add such bank accounts in the whitelist.
- (iii) *Transaction Control.* When a transaction request is initiated by a franchisee, we will utilize our whitelist system to check whether the payment account used for the transaction is the pre-approved bank account for such franchisee on the whitelist. A transaction is allowed to proceed only if the payment account is consistent with the pre-approved bank account of such franchisee on the whitelist. Otherwise, the transaction request will be rejected.

We regularly check the effectiveness of our internal control measures in relation to the Third-party Payment Arrangement and promptly address any abnormalities and malfunctions. Our internal teams are responsible for providing incident reports and corresponding solutions within 72 hours of the occurrence. Our Directors are of the view that the foregoing internal control measures are effective and adequate in preventing Third-party Payment Arrangement and associated risks, and our Directors will oversee the effectiveness of the aforementioned internal controls on the Third-party Payment Arrangement in the future.