
SUMMARY

This summary aims to give you an overview of the information contained in this Document. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this Document. You should read the entire document before you decide to [REDACTED] in the [REDACTED].

There are risks associated with any [REDACTED]. Some of the particular risks in [REDACTED] in the [REDACTED] are set out in the section headed “Risk Factors” in this Document. You should read that section carefully before you decide to [REDACTED] in the [REDACTED].

OVERVIEW

In 2008, we launched our first ChaPanda store in Chengdu. Since establishment, we have been dedicated to exploring combinations of natural ingredients with Chinese tea. We have been continuously developing diversified tea drink 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 benefits 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 to franchisees, (ii) royalty and franchising income from franchisees 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, people’s beverage preferences are evolving to encompass various dimensions. In the meantime, the rapid evolution of 5G networks and emerging technologies in China have enabled and driven the significant development of freshly-made tea shops in the key aspect of their business operation. For example, leveraging big data analytics, freshly-made tea shops optimize location planning and marketing strategies, targeting high-traffic areas and engaging consumers through diverse digital campaigns. Additionally, freshly-made tea shops leverage the convenience of online delivery services to reach a broader consumer base, enhancing accessibility and driving demand for freshly-made tea drinks. 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 15.4% from 2024 to 2028.

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Our rapid development is attributed to our dedication to product offering, consumer service and franchisee empowerment. 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.

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%.

BRAND AND PRODUCTS

As symbolized by our brand IP, “ChaCha,” we are dedicated to balancing tea flavor and fruit freshness. We provide a wide selection of fruit 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 consumers. 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.

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

- sale of goods and equipment, where we sold 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 were 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.

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The following table sets forth the breakdown of our revenue in an absolute amount and as a percentage of total revenue by the nature of products and services 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
Total	3,644,209	100.0	4,231,670	100.0	5,704,307	100.0

The following table sets forth the breakdown of our gross profit and gross profit margin by the nature of products and services for the periods indicated.

	For the year ended December 31,					
	2021		2022		2023	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Sale of goods and equipment	1,131,256	32.8	1,278,317	31.8	1,720,861	31.8
Royalty and franchising income	146,949	92.6	158,696	92.5	213,165	92.0
Others	22,835	59.1	19,176	47.3	29,756	56.4
Total	1,301,040	35.7	1,456,189	34.4	1,963,782	34.4

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. Our franchisees are individuals selected through strict onboarding process who operate franchised stores through their sole proprietors, partnerships and other legal forms. We require our franchisees to possess extensive experience in operating franchised stores and tea drink shops, such as in terms of industry knowledge, brand understanding, store location expertise, business development and expansion

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capabilities and other prior experiences. 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 involvement in the operation of franchised stores is comprehensive, such as participation in planning and location selection. We also provide 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. As of December 31, 2021, 2022 and 2023, we had 4,634, 5,396 and 5,538 franchisees, respectively, among which 129, 363 and 595 franchisees opened more than two stores, respectively.

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.

The following table sets forth the breakdown of our revenue in an absolute amount and as a percentage of total revenue by distribution channel for the periods indicated.

	For the year ended December 31,					
	2021		2022		2023	
	Revenue	% of total	Revenue	% of total	Revenue	% of total
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Franchised stores	3,625,182	99.5	4,197,111	99.2	5,659,300	99.2
Self-operated stores	19,027	0.5	24,938	0.6	25,840	0.5
Others	—	—	9,621	0.2	19,167	0.3
Total	3,644,209	100.0	4,231,670	100.0	5,704,307	100.0

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The following table sets forth the breakdown of our gross profit and gross profit margin by distribution channel for the periods indicated.

	For the year ended December 31,					
	2021		2022		2023	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Franchised stores	1,297,789	35.8	1,450,233	34.6	1,956,123	34.6
Self-operated stores	3,251	17.1	3,605	14.5	2,864	11.1
Others	—	—	2,351	24.4	4,795	25.0
Total	<u>1,301,040</u>	<u>35.7</u>	<u>1,456,189</u>	<u>34.4</u>	<u>1,963,782</u>	<u>34.4</u>

OUR CHAPANDA STORE NETWORK

ChaPanda stores are strategically dispersed across various tiers of cities in China. While maintaining our position in first-tier and new 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 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
Total	<u>5,077</u>	<u>100.0</u>	<u>6,361</u>	<u>100.0</u>	<u>7,801</u>	<u>100.0</u>

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The following table sets forth the breakdown of our revenue in an absolute amount and as a percentage of total revenue by city tiers for the periods indicated.

	For the year ended December 31,					
	2021		2022		2023	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
First-tier cities	585,705	16.1	674,891	15.9	965,409	16.9
New first-tier cities	1,245,481	34.2	1,330,613	31.4	1,647,961	28.9
Second-tier cities	706,720	19.4	851,822	20.1	1,117,587	19.6
Third-tier cities	549,515	15.1	689,794	16.3	923,337	16.2
Fourth-tier and below cities	556,788	15.3	684,550	16.3	1,050,013	18.4
Total	3,644,209	100.0	4,231,670	100.0	5,704,307	100.0

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 ⁽¹⁾	5,077	6,361	7,801
Total number of days of operation (thousand) ⁽²⁾	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) ⁽³⁾	2,728.2	2,331.1	2,388.0
Average daily retail sales value per store (RMB) ⁽⁴⁾	7,414.1	6,927.3	6,887.2
Average sales volume per store (number of cups) ⁽⁵⁾	163,192.8	138,903.4	143,501.9
Average orders per store per day ⁽⁶⁾	256.5	242.1	251.8
Average store equipment expenditure per newly-opened franchised store ⁽⁷⁾ (RMB)	140,294.3	152,020.3	153,804.7

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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.

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)		
Average daily retail sales value per store⁽¹⁾			
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.

OUR COMPETITIVE STRENGTHS AND GROWTH STRATEGIES

We believe the following strengths have contributed to our continuous growth and differentiated us from our competitors.

- We are a leading and fast-growing freshly-made tea drink company in China.
- Product development brings differentiated and consistent consumer experience.

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- Our brand is appealing to the young group.
- Our efficient and mutually beneficial business model enables us to realize rapid and sustainable development.
- We have an industry-leading franchise system and sustainable franchisee base.
- We have built advanced capabilities to manage our supply chain across China and a strict quality control system.
- Our corporate culture reflects our unwavering dedication to product offering, consumer service and franchisee empowerment and the commitment of our forward-looking management team.

Our growth strategies include growing our store network by deepening penetration in existing markets and expanding into new markets, improving our supply chain capabilities, increasing investment in technology to promote overall operating efficiency, strengthening product development and expanding product matrix, and enhancing brand image and strengthening our bond with consumers.

OUR CUSTOMERS AND SUPPLIERS

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. 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. See “Business—Supply Chain Management—Senmian Facility” for further details about our manufacturing facility. In 2021, 2022 and 2023, our five largest customers in each year 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 in each year 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 primarily include the suppliers of materials and ingredients used to make our tea drinks, such as dairy products, tea leaves, sugar, fresh fruits, fruit juices and packaging materials as well as the suppliers of store equipment. In 2021, 2022 and 2023, purchases from our five largest suppliers in each year 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 in each year accounted for 10.0%, 11.6% and 11.1% of our total purchases for the respective periods.

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SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following table sets forth summary financial data from our consolidated financial information for the Track Record Period, extracted from the Accountants’ Report set out in Appendix I to this Document. The summary financial data set forth below should be read together with, and is qualified in its entirety by reference to, the consolidated financial statements in this Document, including the related notes. Our consolidated financial information was prepared in accordance with IFRS.

Consolidated Statements of Profit or Loss and Other Comprehensive Income

The following table sets forth a summary of our consolidated statements of profit or loss and other comprehensive income for the periods indicated.

	For the year ended December 31,					
	2021		2022		2023	
	RMB	% of Revenue	RMB	% of Revenue	RMB	% of Revenue
	(in thousands, except percentages)					
Revenue	3,644,209	100.0	4,231,670	100.0	5,704,307	100.0
Cost of sales	(2,343,169)	(64.3)	(2,775,481)	(65.6)	(3,740,525)	(65.6)
Gross profit	1,301,040	35.7	1,456,189	34.4	1,963,782	34.4
Other income	3,587	0.1	39,221	0.9	65,495	1.1
Loss on fair value change of redeemable shares with other preferential rights	–	–	–	–	(75,838)	(1.3)
Other gains and losses, net . . .	10,897	0.3	19,380	0.4	28,483	0.5
Distribution and selling expenses	(19,125)	(0.5)	(60,684)	(1.4)	(130,996)	(2.3)
Administrative expenses	(358,435)	(9.8)	(291,846)	(6.9)	(420,454)	(7.4)
Research and development expenses	–	–	(3,581)	(0.1)	(16,417)	(0.3)
Other expenses	(7,432)	(0.2)	(1,323)	(0.0)	(13,580)	(0.2)
[REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Finance costs	(2,672)	(0.1)	(4,569)	(0.1)	(3,692)	(0.1)
Profit before taxation	921,668	25.3	1,150,745	27.2	1,365,848	23.9
Income tax expense	(143,151)	(3.9)	(185,986)	(4.4)	(215,068)	(3.7)
Profit for the year	778,517	21.4	964,759	22.8	1,150,780	20.2

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For the year ended December 31,						
2021		2022		2023		
RMB	% of Revenue	RMB	% of Revenue	RMB	% of Revenue	
(in thousands, except percentages)						
Profit and total comprehensive						
income for the year						
attributable to:						
– Owners of the Company . . .	755,816	20.8	954,316	22.6	1,139,211	20.0
– Non-controlling interests . . .	22,701	0.6	10,443	0.2	11,569	0.2
	778,517	21.4	964,759	22.8	1,150,780	20.2

Non-IFRS Measures

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use certain non-IFRS measures, namely, adjusted EBITDA, adjusted EBITDA margin, adjusted net profit and adjusted net profit margin, as additional financial metrics. These non-IFRS measures are not required by or presented in accordance with IFRS. We believe that non-IFRS measures facilitate comparisons of our operating performance by eliminating potential impacts of certain items. We also believe that such non-IFRS measures present useful information in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of such non-IFRS measures may not be comparable to similarly titled measures presented by other companies. The use of these non-IFRS measures has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under IFRS.

The following table reconciles our EBITDA (non-IFRS measure), adjusted EBITDA (non-IFRS measure) and our adjusted net profit (non-IFRS measure) to our profit for the years presented in accordance with IFRS, for the years indicated.

For the year ended December 31,			
	2021	2022	2023
(RMB in thousands)			
Reconciliation of profit for the year,			
EBITDA (non-IFRS measure) and			
adjusted EBITDA (non-IFRS			
measure)			
Profit for the year	778,517	964,759	1,150,780
Add:			
Income tax expense	143,151	185,986	215,068
Depreciation and amortization ⁽¹⁾	25,848	47,883	67,007

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	For the year ended December 31,		
	2021	2022	2023
	(RMB in thousands)		
Finance costs	2,672	4,569	3,692
Less:			
Interest income on bank deposits	1,353	1,602	6,954
EBITDA (non-IFRS measure)	948,835	1,201,595	1,429,593
Add:			
[REDACTED] expenses charged in profit or loss ⁽²⁾	[REDACTED]	[REDACTED]	[REDACTED]
Equity-settled share-based payment expenses ⁽³⁾	114,876	–	–
Loss on fair value change of redeemable shares with other preferential rights ⁽⁴⁾	–	–	75,838
Adjusted EBITDA (non-IFRS measure)	1,069,903	1,203,637	1,536,366
Adjusted EBITDA margin (non-IFRS measure)⁽⁵⁾	29.4%	28.4%	26.9%
Reconciliation of profit for the year and adjusted net profit (non-IFRS measure)			
Profit for the year	778,517	964,759	1,150,780
Add:			
[REDACTED] expenses charged in profit or loss ⁽²⁾	[REDACTED]	[REDACTED]	[REDACTED]
Equity-settled share-based payment expenses ⁽³⁾	114,876	–	–
Loss on fair value change of redeemable shares with other preferential rights ⁽⁴⁾	–	–	75,838
Adjusted net profit (non-IFRS measure)	899,585	966,801	1,257,553
Adjusted net profit margin (non-IFRS measure)⁽⁶⁾	24.7%	22.8%	22.0%

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Note:

- (1) Depreciation and amortization equals the sum of depreciation of property, plant and equipment, amortization of right-of-use assets and amortization of intangible assets.
- (2) [REDACTED] expenses charged in profit or loss relate to the [REDACTED].
- (3) Equity-settled share-based payment expenses represent the fair value of the shares granted at the date of grant with taking into account the consideration for subscription of the equity interests. See Note 31 to the Accountants’ Report included in Appendix I to this Document for details. The item is adjusted as it is non-cash and is not expected to result in our future cash payments.
- (4) Loss on fair value change of redeemable shares with other preferential rights represents the fair value change of redeemable shares with other preferential rights. See Note 26 to the Accountants’ Report included in Appendix I to this Document for details. The item is adjusted as it is non-cash and is not expected to result in our future cash payments.
- (5) Calculated using adjusted EBITDA (non-IFRS measure) divided by revenue for a given period.
- (6) Calculated using adjusted net profit (non-IFRS measure) divided by revenue for a given period.

We recorded gross profit of RMB1,301.0 million, RMB1,456.2 million and RMB1,963.8 million in 2021, 2022 and 2023, respectively, representing gross profit margin of 35.7%, 34.4% and 34.4%, respectively, during the same periods. For the fluctuations of key financial items set forth in our consolidated statements of profit or loss and other comprehensive income during the Track Record Period, see “Financial Information—Period-to-period Comparison of Results of Operations” for details.

Consolidated Statements of Financial Position

The table below sets forth the selected information from our consolidated statements of financial position as of the dates indicated, which have been extracted from our audited consolidated financial statements included in Appendix I to this Document.

	As of December 31,		
	2021	2022	2023
	(RMB in thousands)		
Total non-current assets	200,299	333,631	483,650
Total current assets	848,041	1,349,273	2,601,848
Total assets	1,048,340	1,682,904	3,085,498
Total non-current liabilities	215,371	192,408	1,212,399
Total current liabilities	531,944	827,880	1,026,453
Total liabilities	747,315	1,020,288	2,238,852
Net current assets	316,097	521,393	1,575,395
Net assets	301,025	662,616	846,646

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	As of December 31,		
	2021	2022	2023
(RMB in thousands)			
Paid up capital/share capital	100,000	100,000	125,639
Reserves	196,299	550,615	697,437
Equity attributable to owners of the			
Company	296,299	650,615	823,076
Non-controlling interests	4,726	12,001	23,570
Total equity	301,025	662,616	846,646

Our net current assets increased from RMB521.4 million as of December 31, 2022 to RMB1,575.4 million as of December 31, 2023, primarily due to (i) the increase in cash and cash equivalents of RMB490.0 million primarily in relation to the Pre-[REDACTED] Investments, and (ii) the increase in financial assets at FVTPL of RMB618.8 million, attributable to increased investments in financial instruments with our improved cash position. The increase in our net current assets was partially offset by the increase in trade and other payables of RMB165.0 million, primarily attributable to increased procurement in line with our business expansion. For further details of the identity and background of the Pre-[REDACTED] Investors and the principal terms of the Pre-[REDACTED] Investments, see “History, Reorganization and Corporate Structure—Pre-[REDACTED] Investments.”

For the fluctuations of key financial items set forth in our consolidated statements of financial position during the Track Record Period, see “Financial Information—Discussion of Certain Key Items from Our Consolidated Statements of Financial Position” for details.

Consolidated Statements of Cash Flows

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

	For the year ended December 31,		
	2021	2022	2023
(RMB in thousands)			
Operating cash flows before movements			
in working capital	1,052,772	1,182,338	1,476,535
Changes in working capital	441,006	173,625	132,739
Income taxes paid	(223,685)	(170,024)	(221,309)

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	For the year ended December 31,		
	2021	2022	2023
	(RMB in thousands)		
Net cash generated from operating activities	1,270,093	1,185,939	1,387,965
Net cash used in investing activities	(691,141)	(415,523)	(922,544)
Net cash (used in) from financing activities	(579,052)	(672,523)	24,537
Net (decrease) increase in cash and cash equivalents	(100)	97,893	489,958
Cash and cash equivalents at the beginning of the year	128,238	128,138	226,031
Cash and cash equivalents at the end of the year	<u>128,138</u>	<u>226,031</u>	<u>715,989</u>
Represented by			
Cash and cash equivalents	128,138	226,031	715,989
Term deposits	–	–	230,000
Total bank balances and cash	<u>128,138</u>	<u>226,031</u>	<u>945,989</u>

Net cash generated from operating activities decreased from RMB1,270.1 million in 2021 to RMB1,185.9 million in 2022, mainly attributable to the increase in inventories of RMB79.4 million, as we continued to expand our business.

Net cash generated from operating activities in 2023 was RMB1,388.0 million, which primarily consists of profit before taxation of RMB1,365.8 million, adjusted for certain non-cash and non-operating items. Adjustments for such non-cash and non-operating items primarily include (i) loss on fair value change of redeemable shares with other preferential rights of RMB75.8 million due to an increase in the valuation of our company, (ii) amortization of right-of-use assets of RMB47.2 million primarily due to the accrued depreciation of existing leased properties, and (iii) gain on fair value change of financial assets at FVTPL of RMB29.1 million primarily attributable to the purchase of financial instruments. The amount was further adjusted by changes in working capital in the same year, primarily due to the increase in trade and other payables of RMB126.2 million.

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KEY FINANCIAL RATIOS

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

	For the year ended December 31,		
	2021	2022	2023
Net profit margin ⁽¹⁾	21.4%	22.8%	20.2%
Adjusted net profit margin (non-IFRS measure) ⁽²⁾	24.7%	22.8%	22.0%
Adjusted EBITDA margin (non-IFRS measure) ⁽³⁾	29.4%	28.4%	26.9%
Return on assets ⁽⁴⁾	90.2%	70.6%	48.3%
Current ratio	1.59	1.63	2.53
Quick ratio	1.38	1.40	2.34

Notes:

- (1) Calculated using net profit divided by revenue for a given period.
- (2) Calculated using adjusted net profit (non-IFRS measure) divided by revenue for a given period. For details, see “—Summary of Historical Financial Information—Non-IFRS Measures.”
- (3) Calculated using adjusted EBITDA (non-IFRS measure) divided by revenue for a given period. For details, see “—Summary of Historical Financial Information—Non-IFRS Measures.”
- (4) Calculated using net profit divided by the average of the beginning and ending total assets for a given period and multiplied by 100%.

RISK FACTORS

Our business and the [REDACTED] involve certain risks, including risks relating to (i) our business and industry; (ii) doing business in the PRC; and (iii) the [REDACTED]. Some of the major risks we face include, but are not limited to, the following:

- Failure to maintain, protect and enhance our ChaPanda brand would limit our ability to expand or retain our consumer base, which would materially and adversely affect our business, financial condition and results of operations.
- Our business is highly dependent on consumer taste, preferences and perceptions, as well as consumers’ discretionary spending. We may not be able to respond to market dynamics and consumer preferences effectively, or at all.
- 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.

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- Our recent rapid growth may not be indicative of our future growth, and we may not be able to sustain our growth rate the future.
- Our ChaPanda store network consists primarily of franchised stores that are operated by third parties. Our results of operations are significantly subject to the performance of the franchised stores. We cannot control and may not be able to effectively monitor the operations of these stores or maintain our current relationships with the franchisees.
- Failure to maintain the quality, safety and hygiene standards of our products could have a material and adverse effect on our reputation, financial condition and results of operations.

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 40.2% 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. The competition may be increasingly intense in the future due to the growing number of freshly-made tea shop brands and the lack of clear differentiation in product offerings, pricing and other key aspects among these brands. The proximity of freshly-made tea shops under different brands in adjacent areas also contributes to heightened competition.

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

During the Track Record Period, we had certain non-compliance incidents with respect to leased properties and social insurance and housing provident funds. For details, see “Business—Properties—Leased Properties.” 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 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.

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[REDACTED]

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[REDACTED]

OUR SHAREHOLDING STRUCTURE

Our Controlling Shareholders

Immediately prior to the [REDACTED], our Company is owned directly as to (i) approximately 67.6758% by Hengsheng Herui, (ii) approximately 18.0167% by Mr. Wang, (iii) approximately 5.7449% by Ms. Liu and (iv) approximately 0.4802% by Tongchuang Gongjin, the Pre-[REDACTED] Employee Incentive Platform. Mr. Wang and Ms. Liu are spouses. Hengsheng Herui is a company directly owned as to 84.888% by Chengdu Jinboson, which in turn is wholly owned by Mr. Wang and Ms. Liu collectively. Tongchuang Gongjin, our Pre-[REDACTED] Employee Incentive Platform is controlled by Mr. Wang as its sole general partner. Accordingly, Mr. Wang, Ms. Liu, Chengdu Jinboson, Hengsheng Herui and Tongchuang Gongjin constitute a group of Controlling Shareholders before the [REDACTED].

Immediately following the completion the [REDACTED], the group of the Controlling Shareholders will be, in aggregate, entitled to control the exercise of approximately [REDACTED]% of the voting rights (assuming the [REDACTED] is not exercised) or approximately [REDACTED]% of the voting rights (assuming the [REDACTED] is exercised in full) and thus remain as a group of Controlling Shareholders.

Pre-[REDACTED] Investments

We conducted the Pre-[REDACTED] Investments with the Pre-[REDACTED] Investors, namely, Tower Quality, LVC Tanying, Suzhou Yuexiang, Xinjin Shengwang, Yellow Tomato LP and CICC Tongfu. Immediately following the completion of the [REDACTED], assuming that the [REDACTED] is not exercised, the Pre-[REDACTED] Investors will hold approximately [REDACTED]% of the issued Shares. For further details of the identity and background of the Pre-[REDACTED] Investors and the principal terms of the Pre-[REDACTED] Investments, see “History, Reorganization and Corporate Structure—Pre-[REDACTED] Investments.”

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DIVIDENDS

Our Company declared a dividend of RMB379.0 million with RMB3.79 per share for the year ended December 31, 2021 and a dividend of RMB600.0 million with RMB6.0 per share for the year ended December 31, 2022, which had been paid in full as of December 31, 2021 and December 31, 2022, respectively. In February, March and April 2023, our Company declared three batches of dividends totaling RMB596.5 million with RMB5.97 per share, of which RMB500.0 million had been paid during the same year, and RMB96.5 million was netted-off against amounts due from Shareholders. On October 23, 2023, our Company declared a dividend of RMB449.5 million with RMB3.38 per share from our distributable historical retained profits, which has been fully paid in November 2023 with our internal resources. See Note 12 to the Accountants’ Report included in Appendix I to this Document for details. As of the Latest Practicable Date, we did not have a formal dividend policy or a fixed dividend distribution ratio. PRC laws require that dividends be paid only out of our distributable profits. Distributable profits are our after-tax profits, less appropriations to statutory and other reserves that we are required to make. Pursuant to our Articles of Association, subject to the approval of our Board and Shareholders, we may distribute dividends to our Shareholders when we have distributable profits and after ensuring sufficient working capital for the Company and making required statutory reserves until the aggregate amount of such reserves reach 50% of its registered capital, which are not available for distribution as cash dividends.

After the [REDACTED], we may declare and pay dividends mainly by cash or by stock that we consider appropriate. Decisions to declare or to pay any dividends in the future, will depend on, among other things, our Company’s profitability, operation and development plans, external financing environment, costs of capital, our Company’s cash flows and other factors that our Directors may consider relevant. Our ability to distribute dividend in the future also depends on whether we can receive dividends from our subsidiaries.

USE OF [REDACTED]

We estimate that we will receive net [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED], after deducting [REDACTED], fees and estimated expenses payable by us in connection with the [REDACTED], assuming no [REDACTED] is exercised and assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED] range stated in this Document.

We intend to use the net [REDACTED] as follows (based on the mid-point of the [REDACTED] range stated in this Document):

- approximately [REDACTED]%, or HK\$[REDACTED], will be used to improve our overall operation capabilities and strengthen our supply chain.
- approximately [REDACTED]%, or HK\$[REDACTED], will be used to develop our digitalization capabilities, and engage and train professional talents.

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- approximately [REDACTED]%, or HK\$[REDACTED], will be used in branding and promoting activities.
- approximately [REDACTED]%, or HK\$[REDACTED], will be used to promote our self-operated coffee brand and develop the coffee shop network across China.
- approximately [REDACTED]%, or HK\$[REDACTED], will be used for our product development and innovation, including recruiting, training and retaining in-house research and development personnel and building a research and development center at our headquarter equipped with advanced software and hardware to streamline and enhance our product development endeavors.
- the remaining approximately [REDACTED]%, or HK\$[REDACTED], will be used for working capital and general corporate purposes.

For further details, see “Future Plans and Use of [REDACTED].”

[REDACTED]

Our [REDACTED] mainly include (i) [REDACTED], such as [REDACTED], and (ii) [REDACTED], comprising professional fees paid to our legal advisors and Reporting Accountants for their services rendered in relation to the [REDACTED] and the [REDACTED], and other fees and expenses. Assuming full payment of the discretionary incentive fee, the estimated total [REDACTED] (based on the mid-point of the [REDACTED] Range and assuming that the [REDACTED] is not exercised) for the [REDACTED] are approximately HK\$[REDACTED], accounting for approximately of [REDACTED]% of our gross [REDACTED]. Among such estimated total [REDACTED], we expect to pay [REDACTED] of HK\$[REDACTED], professional fees for our legal advisors and Reporting Accountants of HK\$[REDACTED] and other fees and expenses of HK\$[REDACTED]. An estimated amount of HK\$[REDACTED] for our [REDACTED], accounting for approximately [REDACTED]% of our gross [REDACTED], is expected to be expensed through the statement of profit or loss and an estimated amount of HK\$[REDACTED] is expected to be recognized directly as a deduction from equity upon the [REDACTED]. We recognized [REDACTED] of RMB[REDACTED], RMB[REDACTED] and RMB[REDACTED] in 2021, 2022 and 2023 in our consolidated statements of profit or loss and other comprehensive income, respectively.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

As of the Latest Practicable Date, the ChaPanda store network in China comprised 7,921 franchised stores and six self-operated stores, spanning across 31 provinces and municipalities, covering all provinces and different tiers of cities in China. For the two months ended February 29, 2024, we experienced a steady growth in our business and financial performance. Our total retail sales value amounted to RMB2,544.4 million and our total retail sales volume amounted to 156.0 million cups for such period. We also recorded a consistent increase in our revenue

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and gross profit in January and February 2024, as compared to the corresponding month last year. 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. The ChaPanda store in South Korea brings our freshly-made tea drinks to local consumers. In January 2024, we launched our first self-operated coffee shop under the brand “Coffree” (咖灰) in Chengdu, China, through which we mainly offer to consumers coffee, bagel, hamburger and other bakery items. Coffree is an independent brand, and the coffee shops to be operated under the Coffree brand will function as standalone stores, separate from the ChaPanda store network.

Impact of COVID-19

During the Track Record Period, the COVID-19 and the related restrictive policies caused a decline in social networking and business activities, which in turn had adverse impacts on China’s freshly-made tea shop market as well as our business expansion, operational results and financial condition. For instance, the number of newly opened franchised ChaPanda stores decreased from 2,843 in 2021 to 1,358 in 2022 due to COVID-19, causing a decrease in the revenue generated from sale of equipment from RMB398.9 million in 2021 to RMB206.4 million in 2022. In addition, our offline store-level sale performance was also impacted by the COVID-19 outbreak. From 2021 to 2022, the offline average daily retail sales value per ChaPanda store decreased by 10.5% and the offline average order per ChaPanda store per day decreased by 8.4%.

In 2021 and 2022, 4,472 and 6,102 ChaPanda stores were temporarily closed, respectively, with an average duration of closure of 16.4 days and 22.2 days per store, respectively. Apart from the adverse impact of COVID-19 and the related restrictive measures, other factors also contributed to such temporary store closure. These factors include, but are not limited to, store decoration and renovation, power outage and extreme weather conditions.

Our business maintained an upward trend despite these challenges during the Track Record Period. While the offline consumption in China was negatively affected, we have witnessed the growth in the online delivery orders during the COVID-19 outbreak. Our revenue increased from RMB3,644.2 million in 2021 to RMB4,231.7 million in 2022.

Regulatory Update

Cybersecurity-related Regulations

Revised CAC Measures

On January 4, 2022, the CAC published the Revised CAC Measures on its website, which became effective on February 15, 2022. See “Regulatory Overview—Regulations on Cyber Security, Information Security, Privacy and Data Protection” for details. 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)

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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 the 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, and the risk of us being required to undertake cybersecurity review in the future is remote. See also “Business—User Privacy and Data Security—Cybersecurity Review” for details.

Draft Cyber Data Security Regulations

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. See “Regulatory Overview—Regulations on Cyber Security, Information Security, Privacy and Data Protection” for details. 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. 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. 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. See also “Business—User Privacy and Data Security—Cybersecurity Review” for details.

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Recent Regulatory Developments Relating to Overseas Listing

On February 17, 2023, the CSRC promulgated the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Enterprises (《境內企業境外發行證券和上市管理試行辦法》) (the “**Trial Administrative Measures**”) and five supporting guidelines, which has become effective on March 31, 2023. The Trial Administrative Measures, require, among others, that PRC domestic enterprises that seek to [REDACTED] and [REDACTED] securities in overseas markets, either directly or indirectly, file the required documents with the CSRC within three business days after its application for overseas [REDACTED] is submitted. We received the filing notice issued by the CSRC dated December 20, 2023 indicating that we have completed the filing application. See “Regulatory Overview—Regulations on M&A and Overseas Listing.”

No Material Adverse Change

Our Directors have confirmed that, up to the date of this Document, there has been no material adverse change in our financial, operational or trading position, indebtedness, contingent liabilities or prospects since December 31, 2023, being the end date of our latest audited financial statements, and there has been no event since December 31, 2023 that would materially affect the information shown in the Accountants’ Report set out in Appendix I to this Document.