

FINANCIAL INFORMATION

The following discussion and analysis should be read in conjunction with our consolidated financial statements included in the Accountants’ Report in Appendix I, together with the accompanying notes. Our consolidated financial statements have been prepared in accordance with IFRS.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this Document, including but not limited to the sections headed “Risk Factors” and “Business.”

For the purposes of this section, unless the context otherwise requires, references to the years of 2021, 2022 and 2023 refer to the years ended December 31 of such years.

OVERVIEW

In 2008, we launched our first ChaPanda store in Chengdu. Since establishment, we have been dedicated to exploring a wide selection 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 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.

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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%.

BASIS OF PRESENTATION

The historical financial information of our Group has been prepared in accordance with International Financial Reporting Standards (“IFRSs”) issued by International Accounting Standards Board. The preparation of the historical financial information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to make judgements, estimates and assumptions in the process of applying our Group’s accounting policies. Judgements made by management in the application of IFRSs that have significant effect on the historical financial information and major sources of estimation uncertainty are discussed in Note 3 to Note 5 to the Accountants’ Report included in Appendix I to this Document.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, materially affected by a number of factors, many of which are outside of our control. These factors include but are not limited to the following.

Consumer demand for freshly-made tea drinks

Our financial performance and operational results are subject to the consumer demand for freshly-made tea drinks in China, which, in turn, is largely affected by various general economic and cultural factors. In recent years, the per capita disposable income in China has witnessed a significant increase, driving the upgrade of consumption behaviors and the increase of willingness to purchase freshly-made tea drinks. Meanwhile, the freshly-made tea drinks have become more popular among consumers in China, especially young consumers, with the increased popularity of traditional Chinese culture in consumer sector. Consumer demand for our freshly-made tea drinks is also affected by, among other factors, changes in consumer preferences and consumer perceptions of the safety and quality of our products.

According to Frost & Sullivan, the market size of the freshly-made tea shop industry in China grew from approximately RMB80.5 billion in 2018 to RMB247.3 billion in 2023 with a CAGR of 25.2%, and is expected to further increase to RMB538.5 billion in 2028 with a CAGR of 15.4% from 2024 to 2028. Going forward, we intend to seize the growing consumer demand and market opportunities to achieve sustainable and healthy business growth. As a market leader in China’s freshly-made tea shop industry, we believe we are well positioned to leverage our strong product development, product offerings and brand awareness to cater to the changing preferences of consumers and capture the massive growth opportunities.

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Expansion and performance of our store network

During the Track Record Period, we primarily derived revenue from (i) sale of goods and equipment, where we sell to franchised ChaPanda stores materials, ingredients, packaging materials and store equipment, such as in-store machines, for the production of freshly-made tea drinks and operating ChaPanda stores, and (ii) royalty and franchising income, representing fees we receive for offering to franchised ChaPanda stores brand licensing, comprehensive services, ongoing supports and trainings. Therefore, the number of franchised ChaPanda stores and their store performance significantly affect our revenue and business operation. As of December 31, 2021, 2022 and 2023, we operated 5,070, 6,352 and 7,795 franchised ChaPanda stores, respectively. To a lesser extent, we also generated revenue from selling freshly-made tea drinks to consumers through our self-operated ChaPanda stores during the Track Record Period. As of December 31, 2021, 2022 and 2023, we had seven, nine and six self-operated ChaPanda stores, respectively.

As of the Latest Practicable Date, the ChaPanda store network in China comprised 7,927 stores spanning across all provinces and different tiers of cities in China. Going forward, we plan to deepen our penetration in existing markets and expand into new markets. In addition to the domestic market, we intend to expand into overseas emerging markets with a priority on the Southeast Asia market.

We use various key performance indicators to manage our store performance, such as retail sales value. To improve the performance of our store network, we provide various support and guidance to the franchised ChaPanda stores across their entire lifecycle, spanning from the selection of store location, marketing campaigns, employee training, to standard day-to-day store operation policies. We utilize our digital infrastructure to empower several key business aspects, such as supply chain, operation, product development and financial management. In particular, we rely on our data analytics to determine our purchase plans, manage our inventory and align procurement with anticipated plans. In the future, we endeavor to constantly improve the performance of our store network by offering products catering to the consumer preference and market trends, promoting our brand awareness, improving store operational efficiency and enhancing our supply chain capabilities.

Ability to control our costs and expenses

During the Track Record Period, our cost of sales and operating expenses had grown generally in line with our revenue. Our cost of sales primarily consists of the costs associated with goods, primarily including materials and ingredients for the production of tea drinks and packaging materials, equipment, offering training services for franchised ChaPanda stores, and operating self-operated ChaPanda stores. In 2021, 2022 and 2023, our cost of sales accounted for 64.3%, 65.6% and 65.6% of our total revenue, respectively. In 2021, 2022 and 2023, our administrative expenses accounted for 9.8%, 6.9% and 7.4% of our total revenue, respectively. In 2021, 2022 and 2023, our distribution and selling expenses accounted for 0.5%, 1.4% and 2.3% of our total revenue, respectively.

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Since we continue to rapidly expand our store network, our profitability will largely depend on our ability to effectively control our cost of sales and operating expenses by implementing various measures, including but not limited to leveraging our brand and bargaining power to negotiate favorable terms in our procurement process and utilizing our technology capabilities and digitalization to streamline our business operation and improve efficiency.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our financial statements. Critical accounting policies that are significant for understanding our financial condition and results of operations are set forth in detail in Note 4 of the Accountants’ Report in Appendix I of this Document. For details, see Note 4 to the Accountants’ Report included in Appendix I to this Document. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. There has not been any material deviation from our management’s estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes to these estimates and assumptions in the foreseeable future. When reviewing our financial statements, you should consider (i) our selection of key accounting policies, (ii) the judgment and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions. We believe that the material accounting policy information and estimates such as basis of consolidation, revenue from contracts with customers, and leases as detailed in Note 4 and Note 5 of the Accountants’ Report in Appendix I to this Document are critical and involve the most important estimates and judgments we used in preparing our financial statements.

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%.

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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. Our strong growth during the Track Record Period, especially through the COVID-19 pandemic, was primarily attributable to the following key drivers.

- (1) the robust trend in China’s freshly-made tea shop industry, including but not limited to (i) the increase in the market size of China’s freshly-made tea shop market, which, according to Frost & Sullivan, 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 15.4% from 2024 to 2028. Especially, the middle-end freshly-made tea shops, such as us, enjoyed higher growth rate in comparison to high-end and low-end freshly-made tea shops, according to Frost & Sullivan; (ii) the higher growth of chained freshly-made tea shop operators than non-chained operators due to their nation-wide presence, strong brand recognition, standardized product quality and cost advantage from bulk purchase, as evidenced by the penetration rate of chained stores in China’s freshly-made tea shop market increasing from 49.2% in 2018 to 64.7% in 2023, which is expected to reach 73.5% in 2028, according to Frost & Sullivan; (iii) the growth of the retail sales value of freshly-made tea shops through online delivery, which increased from RMB29.7 billion in 2018 to RMB139.1 billion in 2023 with a CAGR of 36.2%, and is expected to reach RMB405.1 billion in 2028 with a CAGR of 21.8% from 2024 to 2028, according to Frost & Sullivan; and (iv) strong momentum we enjoyed as a leading market player as compared to other competitors. According to Frost & Sullivan, leading players gained strong momentum of growth from 2021 to 2023 with top five companies recording average retail sales value CAGR of 41.3%, which is way above industry average of 13.9%.
- (2) our competitive strength, such as (i) the expansion of our store networks during the Track Record Period, as evidenced by increased number of franchisees from 2,580 at the beginning of 2021 to 5,538 at the end of 2023 and franchised stores from 2,240 at the beginning of 2021 to 7,795 at the end of 2023; (ii) the improvement of our total retail sales value which increased from RMB9,984.0 million in 2021 to RMB13,331.7 million in 2022 and further to RMB16,909.1 million in 2023. This was due to improvement in consumer traffic, our dedication to product development and delivery and resilient business model despite impact of COVID-19 in 2022; (iii) the significant growth in sales volume during the Track Record Period from 597.2 million cups in 2021 to 1,016.1 million cups in 2023 and the healthy mix of existing and new products benefitting from in-house product development and innovation capabilities; and (iv) the increase in our sales through online delivery platform, as evidenced by the increase in retail sales value of online delivery orders from

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RMB6,116.4 million in 2021 to RMB9,981.5 million in 2023 and the increase in sales volume of online delivery orders from 354.3 million cups in 2021 to 569.1 million cups in 2023, enabling ChaPanda store network to reach a wider consumer base without having to expand physical locations or employ additional staff. In this regard, 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.

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.

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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 |
| Finance costs | 2,672 | 4,569 | 3,692 |
| Less: | | | |
| Interest income on bank deposits | 1,353 | 1,602 | 6,954 |
| | 948,835 | 1,201,595 | 1,429,593 |
| EBITDA (non-IFRS measure) | | | |
| 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 |
| | 1,069,903 | 1,203,637 | 1,536,366 |
| 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: | | | |

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| | For the year ended December 31, | | |
|--|---------------------------------|----------------|------------------|
| | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | |
| [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% |

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 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 net profit of RMB778.5 million, RMB964.8 million and RMB1,150.8 million in 2021, 2022 and 2023, respectively. The continuous growth was primarily due to our increased revenue driven by the expansion of our store networks, as evidenced by increased number of franchisees and franchised stores during the Track Record Period.

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DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

We derived revenue from the following sources during the Track Record Period.

- (1) 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. Our franchisees process the materials and ingredients using the equipment purchased from us into freshly-made tea drinks in franchised stores. We primarily sell the store equipment to newly opened ChaPanda stores, and, to a lesser extent, replace or upgrade store equipment for existing ChaPanda stores. In our ordinary course of business, we also sell packaging materials to third-party purchasers that are manufactured by Senmian New Materials, such as biodegradable straws and cups.

In 2021, 2022 and 2023, the sale of goods and equipment represented the primary source of our revenue, amounting to RMB3,446.9 million, RMB4,019.5 million and RMB5,420.0 million, respectively, representing 94.6%, 95.0% and 95.0% of our total revenue for the same periods, respectively.

- (2) Royalty and franchising income, consisting of:
 - 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, store opening process and initial store design services to newly opened franchised stores. Pursuant to the franchise agreements, our franchisees shall pay the non-refundable upfront initial fees to us in a lump sum payment after the franchise agreements are entered into, the amount of which is recognized as our revenue over the expected franchise period, typically of five years. We determine the non-refundable upfront initial fees by taking into account our brand value, the services we offered as well as the fee rate of other comparable companies. In 2021, 2022 and 2023, we received non-refundable upfront initial fees excluding value-added tax of RMB182.2 million, RMB65.1 million and RMB96.5 million, respectively, from our franchisees. The non-refundable upfront initial fees are to be amortized over the next 60 months after the store opening. The following table sets forth the breakdown of the amount of non-refundable upfront initial fees that are recognized as our revenue for the periods indicated.

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| | For the year ended December 31, | | |
|---|---------------------------------|---------------|----------------|
| | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | |
| Franchised stores opened in 2021 and before . . . | 49,281 | 76,258 | 78,282 |
| Franchised stores opened in 2022 | – | 3,884 | 14,622 |
| Franchised stores opened in 2023 | – | – | 10,654 |
| Total | 49,281 | 80,142 | 103,558 |

- 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. Royalty income is calculated in two methods depending on the locations and estimated performance of franchised stores: (i) a fixed portion paid to us after the store opening, the amount of which is recognized on a monthly basis, or (ii) a floating portion that represents a percentage of franchised ChaPanda stores’ monthly retail sales value, net of associated fees and expenses. Royalty income is charged to franchised stores if their operating results exceed a pre-agreed threshold; and
- pre-opening training service fees, which we receive for providing trainings to the staff of franchised ChaPanda stores before the store opening, the amount of which is recognized as our revenue over the period in which the services are rendered.

In 2021, 2022 and 2023, our royalty and franchising income was RMB158.7 million, RMB171.6 million and RMB231.6 million, respectively.

- (3) Other revenue, which is mainly derived from (i) our follow-up store design services in relation to decoration replacement, design upgrading and adjustment for the initial store design, (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.

In 2021, 2022 and 2023, our other revenue amounted to RMB38.6 million, RMB40.5 million and RMB52.7 million, respectively. Our other revenue derived from our online operation and management services during the same periods amounted to RMB19.3 million, RMB11.8 million and RMB15.9 million, respectively. In 2021, we sold promotion points offered by an online delivery platform to franchised stores, which can be used on the relevant platform to promote the franchised stores’ online exposure. Starting from April 2022, the relevant online delivery platform ceased to offer such promotion points to us due to their internal policy adjustments and as a result, our revenue from online operation and management services decreased from RMB19.3 million in 2021 to RMB11.8 million in 2022. Our revenue from online operation and management services increased to RMB15.9 million driven by ChaPanda stores’ collaboration with third-party online delivery platforms.

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The following table sets forth the breakdown of our total revenue by the nature of products and services, in an absolute amount and as a percentage of our total 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: | | | | | | |
| Goods | 3,048,007 | 83.6 | 3,813,075 | 90.1 | 5,164,203 | 90.5 |
| Equipment | 398,857 | 11.0 | 206,444 | 4.9 | 255,777 | 4.5 |
| Subtotal | 3,446,864 | 94.6 | 4,019,519 | 95.0 | 5,419,980 | 95.0 |
| Royalty and franchising income: . . | | | | | | |
| Non-refundable upfront initial fees | 49,281 | 1.4 | 80,142 | 1.9 | 103,558 | 1.8 |
| Royalty income | 48,145 | 1.3 | 73,213 | 1.7 | 96,468 | 1.7 |
| Pre-opening training services . . | 61,309 | 1.7 | 18,287 | 0.4 | 31,569 | 0.6 |
| Subtotal | 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 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 | Revenue | % of total revenue | Revenue | % of total revenue |
| | 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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In 2021, 2022 and 2023, average revenue earned from each ChaPanda store amounted to RMB1.0 million, RMB0.7 million and RMB0.8 million, respectively.

During the Track Record Period, our revenue generated from franchised stores demonstrated a strong growth, supported by our store network expansion, our product development and supply chain capabilities, among others. As we strategically grew the collaboration with online delivery platforms and continuously helped franchised stores improve online sales capabilities, franchised stores enjoyed an expanded sales channel and an increased number of orders. During the Track Record Period, the average selling price of our products and equipment sold to franchisees generally showed a decreasing trend, primarily attributable to the favourable pricing obtained from suppliers leveraging our increased bargaining power, except that (i) the average price of fruits slightly increased as impacted by market price and seasonality of relevant fruits, (ii) the average price of tea leaves slightly increased due to an upgrade in the quality of tea leaves used for tea drinks, and (iii) the average price of certain equipment increased due to the variations in equipment specifications.

Our average revenue generated per franchised store slightly decreased to RMB0.7 million in 2022 with the outbreak of COVID-19 cases in China in the second half of the year, which also caused the slight decrease in the average revenue generated from sales of goods per franchised store and the average revenue generated from royalty income per franchised store. Our average revenue generated from pre-opening training services per newly opened franchised store also decreased from 2021 to 2022, primarily because some franchisees who opened franchised stores in 2022 received training sessions from us in 2021, as it takes one to two months from franchisee enrollment to the store opening. Therefore, the related pre-opening training services revenues for these franchisees in 2022 were recognized in 2021.

Our average revenue generated per franchised ChaPanda store increased from RMB734.9 thousand in 2022 to RMB800.1 thousand in 2023. With our business growth over the same periods, we recorded increase in the store-level financial performance as well. In 2022 and 2023, our average revenue generated from sales of goods per franchised store was RMB667.7 thousand and RMB730.1 thousand, respectively. Over the same periods, our average revenue generated from royalty income per franchised store was RMB12.8 thousand and RMB13.6 thousand, respectively, and the average revenue generated from pre-opening training services per newly opened franchised store was RMB13.5 thousand and RMB19.0 thousand, respectively.

Cost of Sales

Our cost of sales primarily consists of the costs associated with goods, primarily including materials and ingredients for the production of tea drinks and packaging materials, equipment, offering training services for franchised ChaPanda stores, and operating self-operated ChaPanda stores.

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The following table sets forth a breakdown of our cost of sales by nature, in an absolute amount and as a percentage of our total cost of sales, for the periods indicated.

| | For the year ended December 31, | | | | | |
|---|------------------------------------|---------------------|-------------------------|---------------------|-------------------------|---------------------|
| | 2021 | | 2022 | | 2023 | |
| | RMB | % | RMB | % | RMB | % |
| | (in thousands, except percentages) | | | | | |
| Cost of goods | 2,031,780 | 86.7 | 2,604,211 | 93.8 | 3,527,174 | 94.3 |
| Cost of equipment | 283,828 | 12.1 | 136,990 | 4.9 | 171,945 | 4.6 |
| Cost of training services | 11,785 | 0.5 | 12,947 | 0.5 | 18,430 | 0.5 |
| Cost of sales of self-operated ChaPanda stores | 15,776 | 0.7 | 21,333 | 0.8 | 22,976 | 0.6 |
| Total | <u>2,343,169</u> | <u>100.0</u> | <u>2,775,481</u> | <u>100.0</u> | <u>3,740,525</u> | <u>100.0</u> |

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our cost of goods on our net profit for the periods indicated, assuming all other factors affecting our profitability had remained unchanged.

| | -5% | 5% |
|---|--------------------|-----------|
| | (RMB in thousands) | |
| <i>Hypothetical changes in cost of goods</i> | | |
| Year ended December 31, 2021 | (101,589) | 101,589 |
| Year ended December 31, 2022 | (130,211) | 130,211 |
| Year ended December 31, 2023 | (176,206) | 176,206 |
| <i>Changes in net profit</i> | | |
| Year ended December 31, 2021 | 85,810 | (85,810) |
| Year ended December 31, 2022 | 109,166 | (109,166) |
| Year ended December 31, 2023 | 148,956 | (148,956) |

Gross Profit and Gross Profit Margin

As a result of the foregoing, 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.

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The following table sets forth a 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 | | | | | | |
| Goods | 1,016,228 | 33.3 | 1,208,864 | 31.7 | 1,637,029 | 31.7 |
| Equipment | 115,028 | 28.8 | 69,453 | 33.6 | 83,832 | 32.8 |
| Subtotal | 1,131,256 | 32.8 | 1,278,317 | 31.8 | 1,720,861 | 31.8 |
| Royalty and franchising income | | | | | | |
| Non-refundable upfront initial fees | 49,281 | 100.0 | 80,142 | 100.0 | 103,558 | 100.0 |
| Royalty income | 48,145 | 100.0 | 73,214 | 100.0 | 96,468 | 100.0 |
| Pre-opening training services | 49,523 | 80.8 | 5,340 | 29.2 | 13,139 | 41.6 |
| Subtotal | 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 |

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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> |

In 2022, the gross profit margin of our self-operated ChaPanda stores slightly decreased to 14.5% from 17.1% in the previous year due to the temporary suspension of store operation in certain PRC cities amid COVID-19. The gross profit margin of our self-operated ChaPanda stores further decreased to 11.1% in 2023 because we conducted store renovation for certain self-operated ChaPanda stores that led to temporary store suspension in 2023. The gross profit margin of our self-operated stores was relatively low as compared to that of franchised stores during the same period. This was because our self-operated stores are generally located in premium locations or have special decorations to serve as a brand representation, resulting in higher rent and a lower gross profit margin compared to franchised stores. In addition, for self-operated stores, we bear the costs relating to store operations, such as labor costs, rent and utilities, which are recognized as our cost of sales for self-operated stores.

Other Income

Our other income primarily consists of (i) government grant, mainly representing subsidies granted by PRC local governments, (ii) interest income on bank deposits, (iii) compensation received, mainly representing payments from our suppliers for providing substandard products, and (iv) commissions from online payment service providers since 2022, when we began the collaboration with certain online payment service providers. Pursuant to the collaboration agreements with these online payment service providers, while they provide integrated payment services and receive a service fee, we receive a commission from promoting their services in ChaPanda store network, expressed as a pre-agreed percentage of the actual transaction values enabled by the online payment services.

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The following table sets forth a breakdown of our other income for the periods indicated.

| | For the year ended December 31, | | |
|--|---------------------------------|---------------|---------------|
| | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | |
| Government grant | 39 | 34,689 | 54,603 |
| Interest income on bank deposits | 1,353 | 1,602 | 6,954 |
| Compensations received | 1,683 | 1,376 | 2,565 |
| Commissions from online payment service providers | – | 1,110 | 1,373 |
| Others | 512 | 444 | – |
| Total | 3,587 | 39,221 | 65,495 |

Other Gains and Losses, Net

Our net other gains and losses consist of (i) loss on disposals of property, plant and equipment, (ii) gain on fair value change of financial assets at fair value through profit or loss (“FVTPL”), (iii) gain on early termination of leases, (iv) net foreign exchange loss, and (v) others.

The following table sets forth the breakdown of our other gains and losses, net for the periods indicated.

| | For the year ended December 31, | | |
|---|---------------------------------|---------------|---------------|
| | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | |
| Loss on disposals of property, plant and equipment | (527) | (370) | (148) |
| Gain on fair value change of financial assets at FVTPL | 11,418 | 18,790 | 29,119 |
| Gain on early termination of leases . . . | 220 | 870 | – |
| Net foreign exchange loss | (172) | (33) | (75) |
| Others | (42) | 123 | (413) |
| Total | 10,897 | 19,380 | 28,483 |

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Distribution and Selling Expenses

Our distribution and selling expenses primarily consist of (i) advertising and promoting fees, (ii) employee compensations for our distribution and sales staff, and (iii) other expenses, mainly including business travel expenses occurred for distribution and selling purposes. In 2021, 2022 and 2023, our distribution and selling expenses accounted for 0.5%, 1.4% and 2.3% of our total revenue, respectively. During the Track Record Period, the increase in the distribution and selling expenses was mainly attributable to our continued branding and marketing efforts.

The following table sets forth a breakdown of our distribution and selling expenses, in an absolute amount and as a percentage of our total distribution and selling expenses, for the periods indicated.

| | For the year ended December 31, | | | | | |
|--|------------------------------------|--------------|---------------|--------------|----------------|--------------|
| | 2021 | | 2022 | | 2023 | |
| | RMB | % | RMB | % | RMB | % |
| | (in thousands, except percentages) | | | | | |
| Advertising and promoting fees | 12,945 | 67.7 | 37,869 | 62.4 | 88,568 | 67.6 |
| Employee compensations | 4,377 | 22.9 | 19,722 | 32.5 | 31,219 | 23.8 |
| Other expenses | 1,803 | 9.4 | 3,093 | 5.1 | 11,209 | 8.6 |
| Total | 19,125 | 100.0 | 60,684 | 100.0 | 130,996 | 100.0 |

Administrative Expenses

Our administrative expenses primarily consist of (i) employee compensations, (ii) operational support service fees, representing amount paid to certain service providers in return for providing business development, brand promotion and supporting services and guidance with their expertise, local resources and insights into local markets, (iii) office and relevant expenses, primarily including office space costs, office expenses, business travel expenses and service fees paid to professional third-party consultants who provided us with routine legal services, warehouse inspection and testing services, rental agency services, among others, all of whom were Independent Third Parties during the Track Record Period, (iv) depreciation and amortization of our assets for administrative purposes, and (v) product development expenses. In 2021, 2022 and 2023, our administrative expenses accounted for 9.8%, 6.9% and 7.4% of our total revenue, respectively.

To facilitate the rapid expansion of our store network, we made the strategic decision to engage third-party service providers to support our regional operating centers. These providers were designated as operating supervisors and their expertise was instrumental in our local market expansion, brand establishment, and the day-to-day supervision of stores. We typically

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chose individuals with a proven track record of excellence, extensive experience, and deep insights into the local markets where we operated. During the Track Record Period, these third-party service providers were Independent Third Parties. As part of this arrangement, we incentivized these service providers based on the operating results of stores in their respective regions and their service fees increased due to improvement of operating results. The engagement of external service providers for our regional operating centers was a transitional arrangement. As our business continued to develop and mature, we gradually transitioned to centralized model and hired relevant employees as our operating supervisors. In particular, we ceased such arrangement in 2022 in certain key regions, such as Hangzhou and Nanjing. As a result, the operational support service fees experienced a general downward trend subsequent to 2021. This strategic shift allowed us to provide more efficient and standardized service across different regions and reduce our reliance on third-party collaborations while ensuring the continued growth and success of our operations.

The following table sets forth a breakdown of the components of our administrative expenses, in an absolute amount and as a percentage of our total administrative expenses, for the periods indicated.

| | For the year ended December 31, | | | | | |
|--|------------------------------------|--------------|----------------|--------------|----------------|--------------|
| | 2021 | | 2022 | | 2023 | |
| | RMB | % | RMB | % | RMB | % |
| | (in thousands, except percentages) | | | | | |
| Employee compensations | 215,270 | 60.1 | 164,217 | 56.2 | 233,267 | 55.5 |
| Operational support service fees | 77,271 | 21.6 | 41,902 | 14.4 | 53,577 | 12.7 |
| Office and relevant expenses | 40,972 | 11.4 | 51,822 | 17.8 | 84,802 | 20.2 |
| Depreciation and amortization | 14,327 | 4.0 | 14,242 | 4.9 | 26,265 | 6.2 |
| Product development expenses | 1,753 | 0.5 | 6,149 | 2.1 | 11,328 | 2.7 |
| Other expenses | 8,842 | 2.4 | 13,514 | 4.6 | 11,215 | 2.7 |
| Total | 358,435 | 100.0 | 291,846 | 100.0 | 420,454 | 100.0 |

Research and Development Expenses

Our research and development expenses consist of the employee compensations for our research and development staff involved in the development of our digital infrastructure. Utilizing our proprietary research and development capabilities, our digital infrastructure directly contributes to the enhancement of our operational efficiency, business management and sustainable growth, driving digitalization into various key aspects of our businesses, including supply chain, store operations, product development and financial management. See “Business—Digitalization.” Leveraging the establishment of our digital infrastructure and our R&D efforts, as of the Latest Practicable Date, we have obtained six software copyrights for the intelligent management systems we developed to support and manage our supply chain,

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store operation, membership program and marketing activities. During the Track Record Period, the increase in the research and development expenses was mainly attributable to the increased headcount of research and development staff in digitalization team, which increased from nil as of December 31, 2021 to 26 as of December 31, 2022, and further increased to 52 as of December 31, 2023. We recognize the expenditure on the foregoing research activities as our research and development expense in the period in which it was incurred because the criteria for the recognition of internally-generated intangible asset arising from development activities were not met. See Note 4 to the Accountants’ Report included in Appendix I to this Document for details.

The following table sets forth the breakdown of our research and development expenses, in an absolute amount and as a percentage of total research and development expenses, for the periods indicated.

| | For the year ended December 31, | | | | | |
|----------------------------------|------------------------------------|----------|--------------|--------------|---------------|--------------|
| | 2021 | | 2022 | | 2023 | |
| | RMB | % | RMB | % | RMB | % |
| | (in thousands, except percentages) | | | | | |
| Employee compensations | – | – | 3,581 | 100.0 | 16,417 | 100.0 |
| Total | – | – | 3,581 | 100.0 | 16,417 | 100.0 |

Other Expenses

Our other expenses consist of (i) surcharge for overdue tax payment, primarily including the overdue value-added tax and enterprise income tax (“EIT”) for the operations in 2019 and 2020 resulting from cut-off adjustments for the corresponding period, and (ii) our charitable donations. The overdue tax payment was due to inadvertent oversight of our accounting staff to make timely tax payment during the period. We have established enhanced internal controls, with respect to timely reconciliation, staff trainings and establishing comprehensive policies on tax payment. The foregoing surcharge for overdue tax payment is a form of administrative enforcement measure imposed by the tax authorities to urge the enterprises to fulfill their relevant obligations, and it does not constitute administrative penalties or major tax non-compliance.

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

| | For the year ended December 31, | | |
|---|---------------------------------|--------------|---------------|
| | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | |
| Surcharge for overdue tax payment . . . | 4,732 | 323 | – |
| Donations | 2,700 | 1,000 | 13,580 |
| Total | 7,432 | 1,323 | 13,580 |

[REDACTED] Expenses

Our [REDACTED] expenses represent the expenses incurred in relation to the [REDACTED]. We recorded [REDACTED] expenses of [REDACTED], [REDACTED] and [REDACTED] in 2021, 2022 and 2023, respectively.

Finance Costs

Our finance costs represent interest on lease liabilities with respect to our office spaces and warehousing facilities. We recorded finance costs of RMB2.7 million, RMB4.6 million and RMB3.7 million in 2021, 2022 and 2023, respectively.

Income Tax Expense

Income tax expense primarily represents income tax payable by us under Law of the PRC on Enterprise Income Tax (the “EIT Law”) and implementation regulations of the EIT Law. Income tax expense consisted of current income tax and deferred income tax.

Entities located in the PRC are subject to a statutory income tax rate of 25.0%. During the Track Record Period, some of our subsidiaries were entitled to preferential income tax rates pursuant to the relevant tax regulations. For example, pursuant to the PRC’s Great Western Development policies and in accordance with relevant rules and regulations of EIT in the PRC, companies focusing on the encouraged industries established in the western region in the PRC are entitled to a preferential EIT tax rate of 15%. During the Track Record Period, certain entities within our Group enjoyed such preferential EIT tax rate of 15% as they were engaged in “the Encouraged Industries in the Western Region.”

We recorded income tax expense of RMB143.2 million, RMB186.0 million and RMB215.1 million in 2021, 2022 and 2023, respectively, and our effective tax rate (calculated as income tax expense divided by profit before taxation) was 15.5%, 16.2% and 15.7%, respectively, for the same periods.

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During the Track Record Period and as of the Latest Practicable Date, we had fulfilled all our tax obligations and did not have any unresolved tax disputes.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year Ended December 31, 2023 Compared to Year Ended December 31, 2022

Revenue

Our revenue increased by 34.8% from RMB4,231.7 million in 2022 to RMB5,704.3 million in 2023, primarily attributable to the increase in revenue generated from our sale of goods and equipment, and to a lesser extent, the increase in our royalty and franchising income and the increase in our other revenue.

- Revenue generated from the sale of goods and equipment increased by 34.8% from RMB4,019.5 million in 2022 to RMB5,420.0 million in 2023, primarily due to the increase in our sale of goods from RMB3,813.1 million in 2022 to RMB5,164.2 million in 2023. In particular, the revenue generated from the sales of dairy products increased from RMB919.7 million in 2022 to RMB1,166.7 million in 2023. The increase in our revenue generated from the sale of goods was consistent with the growth in the number of franchised ChaPanda stores from 6,352 as of December 31, 2022 to 7,795 as of December 31, 2023.

Furthermore, we recorded an increase in the sale of equipment from RMB206.4 million in 2022 to RMB255.8 million in 2023. This was due to the growth in the number of newly opened franchised ChaPanda stores from 1,358 in 2022 to 1,663 in 2023 in line with our year-over-year business expansion.

- Royalty and franchising income increased by 34.9% from RMB171.6 million in 2022 to RMB231.6 million in 2023, primarily due to (i) the increase in non-refundable upfront initial fees from RMB80.1 million in 2022 to RMB103.6 million in 2023, attributable to the increase in the total number of franchised ChaPanda stores, (ii) the increase in royalty income from RMB73.2 million in 2022 to RMB96.5 million in 2023, attributable to the growth of the retail sales value of franchised ChaPanda stores from RMB13,308.1 million in 2022 to RMB16,883.8 million in 2023, and (iii) the increase in the income generated from offering pre-opening training services from RMB18.3 million in 2022 to RMB31.6 million in 2023 in line with the increased number of newly opened franchised ChaPanda stores.
- Our other revenue increased by 30.2% from RMB40.5 million in 2022 to RMB52.7 million in 2023, primarily because of the increase in the revenue from our online operation and management services in relation to the collaboration with third-party online delivery platforms.

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Cost of Sales

Our cost of sales increased by 34.8% from RMB2,775.5 million in 2022 to RMB3,740.5 million in 2023, primarily due to the increase in cost of goods from RMB2,604.2 million in 2022 to RMB3,527.2 million in 2023, which was in line with the expansion of our ChaPanda store network. The increase in our cost of sales was generally in line with the increase in our revenue over the same period, which, in turn, was driven by our business expansion. Our cost of sales accounted for 65.6% of our total revenue in both 2022 and 2023.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 34.9% from RMB1,456.2 million in 2022 to RMB1,963.8 million in 2023. Our gross profit margin remained relatively stable at 34.4% in 2022 and 2023.

Other Income

Our other income increased by 67.0% from RMB39.2 million in 2022 to RMB65.5 million in 2023, primarily due to the increase in the governmental subsidies we received from local PRC government as financial support for our business operation and expansion in local areas. The amount of such governmental subsidies is calculated based on our economic contribution to the local areas and increased along with our improved financial performance.

Loss on Fair Value Change of Redeemable Shares with Other Preferential Rights

We recorded loss on fair value change of redeemable shares with other preferential rights of RMB75.8 million in 2023 in connection with the Pre-[REDACTED] Investments, compared to nil in 2022, due to an increase in the valuation of our Company driven by our strong business growth and improved business outlook.

Other Gains and Losses, Net

We recorded net other gains of RMB28.5 million in 2023, as compared to net other gains of RMB19.4 million in 2022. The change was primarily attributable to gain on fair value change of financial assets at FVTPL due to the purchase of financial instruments.

Distribution and Selling Expenses

Our distribution and selling expenses significantly increased by 115.9% from RMB60.7 million in 2022 to RMB131.0 million in 2023, due to (i) an increase of RMB50.7 million in advertising and promoting fees, attributable to our enhanced marketing and branding efforts to promote brand awareness to support our expansion strategies and cope with the fierce competition in the freshly-made tea shops market, (ii) an increase of RMB11.5 million in employee compensations, due to the increased number of distribution and sales staff to implement our branding and marketing strategies, and (iii) an increase of RMB8.1 million in other expenses, primarily due to the increased expenditure for the installation and use of software for customer relationship maintenance, and to a lesser extent, the increased business travel expenses occurred for distribution and sales purposes.

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Administrative Expenses

Our administrative expenses increased by 44.1% from RMB291.8 million in 2022 to RMB420.5 million in 2023, primarily due to (i) an increase of RMB69.1 million in employee compensations in relation to our operating staff and supply chain teams, (ii) an increase of RMB33.0 million in office and relevant expenses, mainly attributable to the increased business travel expenses occurred for administration purposes, and to a lesser extent, the increased leased properties used to support our business expansion over the same period, and (iii) an increase of product development expenses of RMB5.2 million in line with our enhanced efforts in product innovation, as evidenced by more than 250 products we developed and 48 new products we rolled out in 2023.

Research and Development Expenses

Our research and development expenses increased from RMB3.6 million in 2022 to RMB16.4 million in 2023, primarily due to the increase in employee compensations of newly hired research and development staff who were mainly engaged in the development of our digital infrastructure. To support our R&D efforts in driving digitalization into key aspects of our businesses, over the same years, the number of such staff increased from 26 to 52. In 2023, our digitalization team was mainly devoted to enhancing our level of digitalization in supply chain, warehousing and overall operation. It also developed a one-stop mobile mini program used across our internal franchisee network to facilitate their store operation and management.

Other Expenses

Our other expenses increased by 926.5% from RMB1.3 million in 2022 to RMB13.6 million in 2023, the amounts of which represented the social donations we made to Beijing Charity Association and Hebei Charity Federation in August 2023 to fight against flood disasters.

[REDACTED] *Expenses*

Our **[REDACTED]** expenses significantly increased from RMB**[REDACTED]** in 2022 to RMB**[REDACTED]** in 2023, primarily due to the expenses in relation to this **[REDACTED]**.

Finance Costs

Our finance costs decreased from RMB4.6 million in 2022 to RMB3.7 million in 2023, mainly attributable to the decrease in interest on lease liabilities, which was caused by the reduced balance of lease liabilities being amortized during the same period.

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Income Tax Expense

Our income tax expense increased by 15.6% from RMB186.0 million in 2022 to RMB215.1 million in 2023, primarily due to the increase in our taxable income. Our effective tax rate kept stable at 16.2% and 15.7% during the same periods, respectively.

Profit for the Year

As a result of the foregoing, our profit increased by 19.3% from RMB964.8 million in 2022 to RMB1,150.8 million in 2023.

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

Revenue

Our revenue increased by 16.1% from RMB3,644.2 million in 2021 to RMB4,231.7 million in 2022, primarily attributable to the increase in revenue generated from our sale of goods and equipment, and to a lesser extent, the increase in our royalty and franchising income and the increase in our other revenue.

- Revenue generated from the sale of goods and equipment increased by 16.6% from RMB3,446.9 million in 2021 to RMB4,019.5 million in 2022, primarily due to the increase in our sale of goods from RMB3,048.0 million in 2021 to RMB3,813.1 million in 2022. In particular, the revenue generated from the sales of fruit juices increased from RMB362.4 million in 2021 to RMB524.3 million in 2022. The increase in our sale of goods was consistent with the growth in the number of franchised ChaPanda stores from 5,070 as of December 31, 2021 to 6,352 as of December 31, 2022.

The increase in the revenue generated from the sale of goods and equipment was partially offset by the decrease in sale of equipment from RMB398.9 million in 2021 to RMB206.4 million in 2022. This was due to the decrease in the number of newly opened franchised ChaPanda stores from 2,843 in 2021 to 1,358 in 2022 due to the negative impact of COVID-19.

- Royalty and franchising income increased by 8.1% from RMB158.7 million in 2021 to RMB171.6 million in 2022, primarily due to (i) the increase in non-refundable upfront initial fees from RMB49.3 million in 2021 to RMB80.1 million in 2022, attributable to the increase in the total number of franchised ChaPanda stores, and (ii) the increase in royalty income from RMB48.1 million in 2021 to RMB73.2 million in 2022, attributable to the increase in the total number of franchised ChaPanda stores over the same year as well as the growth of the retail sales value of franchised ChaPanda stores from RMB9,963.9 million in 2021 to RMB13,307.9 million in 2022.

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The increase in royalty and franchising income was partially offset by the decrease in income generated from offering pre-opening training services from RMB61.3 million in 2021 to RMB18.3 million in 2022. This was due to the decrease in the number of newly opened franchised ChaPanda stores from 2,843 in 2021 to 1,358 in 2022 due to the negative impact of COVID-19.

- Our other revenue increased by 4.9% from RMB38.6 million in 2021 to RMB40.5 million in 2022, primarily due to the increased total number of self-operated ChaPanda stores.

Cost of Sales

Our cost of sales increased by 18.4% from RMB2,343.2 million in 2021 to RMB2,775.5 million in 2022, primarily due to (i) the increase in cost of goods from RMB2,031.8 million in 2021 to RMB2,604.2 million in 2022, attributable to the expansion of our ChaPanda store network, (ii) the increase in cost of training services from RMB11.8 million in 2021 to RMB12.9 million in 2022, resulting from the increase in the total number of franchised ChaPanda stores and the enrichment of our training courses, and (iii) the increase in cost of sales of self-operated ChaPanda stores from RMB15.8 million in 2021 to RMB21.3 million in 2022, attributable to the increase in the total number of self-operated ChaPanda stores. The increase in our cost of sales was generally in line with the increase in our revenue over the same year, which, in turn, was driven by our business expansion. Our cost of sales accounted for 64.3% and 65.6% of our total revenue in 2021 and 2022, respectively.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 11.9% from RMB1,301.0 million in 2021 to RMB1,456.2 million in 2022. Our gross profit margin was 35.7% in 2021 and 34.4% in 2022, respectively.

Other Income

Our other income significantly increased from RMB3.6 million in 2021 to RMB39.2 million in 2022. This was primarily due to the significant increase in government grant from RMB0.04 million in 2021 to RMB34.7 million in 2022, mainly consisting of subsidies granted by local PRC authorities to reward our effort in supporting local economy.

Other Gains and Losses, Net

Our net other gains increased by 77.8% from RMB10.9 million in 2021 to RMB19.4 million in 2022. The increase was primarily due to the gain on fair value change of financial assets at FVTPL from RMB11.4 million to RMB18.8 million, attributable to the purchase of financial instruments.

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Distribution and Selling Expenses

Our distribution and selling expenses significantly increased by 217.3% from RMB19.1 million in 2021 to RMB60.7 million in 2022, primarily due to (i) an increase of RMB24.9 million in advertising and promoting fees, attributable to our enhanced marketing and branding efforts to promote brand awareness, such as marketing campaigns for our tea drinks on social networking platforms and crossover collaborations, and (ii) an increase of RMB15.3 million in employee compensations, attributable to the increase in the number of distribution and sales staff over the same period to implement our marketing strategies in line with our business expansion.

Administrative Expenses

Our administrative expenses decreased by 18.6% from RMB358.4 million in 2021 to RMB291.8 million in 2022, primarily due to (i) a decrease of RMB51.1 million in employee compensations, and (ii) a decrease of RMB35.4 million in operational support service fees, as we increasingly utilized our proprietary capabilities to expand market presence and reduced the collaboration with service providers for business development, brand promotion and supporting services and guidance.

Research and Development Expenses

Our research and development expenses increased from nil in 2021 to RMB3.6 million in 2022, primarily due to the establishment of our digitalization team, which caused the increase in the number of our research and development staff engaged in the development of our digital infrastructure. As of December 31, 2022, we had a total of 26 such staff compared to nil as of December 31, 2021, to support the building of our digital infrastructure.

Other Expenses

Our other expenses decreased by 82.2% from RMB7.4 million in 2021 to RMB1.3 million in 2022, primarily due to the decrease in surcharge for overdue tax payment from RMB4.7 million in 2021 to RMB0.3 million in 2022.

[REDACTED] *Expenses*

Our **[REDACTED]** expenses amounted to RMB**[REDACTED]** in 2021 and RMB**[REDACTED]** in 2022, respectively.

Finance Costs

Our finance costs increased by 71.0% from RMB2.7 million in 2021 to RMB4.6 million in 2022, due to the increase in interest on lease liabilities, which, in turn, was because we had more leased properties to support our business development over the same year.

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Income Tax Expense

Our income tax expense increased by 29.9% from RMB143.2 million in 2021 to RMB186.0 million in 2022, primarily due to the increase in our taxable income. Our effective tax rate was 15.5% and 16.2% during the same periods, respectively.

Profit for the Year

As a result of the foregoing, our profit for the year increased by 23.9% from RMB778.5 million in 2021 to RMB964.8 million in 2022.

DISCUSSION OF CERTAIN KEY ITEMS FROM OUR 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 |
| 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 |

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Our net assets increased from RMB662.6 million as of December 31, 2022 to RMB846.6 million as of December 31, 2023. This increase was primarily due to profit and total comprehensive income for the period of RMB1,150.8 million, and was partially offset by dividends recognized as distribution of RMB949.5 million.

Our net assets increased from RMB301.0 million as of December 31, 2021 to RMB662.6 million as of December 31, 2022, due to profit and total comprehensive income for the year of RMB964.8 million; partially offset by dividends recognized as distribution of RMB603.2 million.

For details of changes in equity during the Track Record Period, please see our consolidated statements of changes in equity included in Appendix I to this Document.

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

| | As of December 31, | | | As of |
|--|--------------------|------------------|------------------|----------------------|
| | 2021 | 2022 | 2023 | February 29, 2024 |
| | | | | (unaudited) |
| | (RMB in thousands) | | | |
| Current assets | | | | |
| Inventories | 113,084 | 192,479 | 201,171 | 197,090 |
| Trade and other receivables, deposits and prepayments | 69,566 | 66,383 | 62,519 | 53,376 |
| Amounts due from related parties . . . | 149,525 | 91,576 | 607 | 607 |
| Financial assets at fair value through profit or loss | 387,728 | 772,804 | 1,391,562 | 1,342,529 |
| Bank balances and cash | 128,138 | 226,031 | 945,989 | 1,037,876 |
| Total current assets | 848,041 | 1,349,273 | 2,601,848 | 2,631,478 |
| Current liabilities | | | | |
| Trade and other payables | 349,365 | 605,588 | 770,619 | 627,952 |
| Contract liabilities | 116,779 | 160,857 | 176,680 | 192,285 |
| Income tax payables | 15,308 | 23,939 | 38,206 | 41,167 |
| Lease liabilities | 28,654 | 37,496 | 40,948 | 36,798 |
| Dividend payables | – | – | – | – |
| Amounts due to related parties | 21,838 | – | – | – |
| Total current liabilities | 531,944 | 827,880 | 1,026,453 | 898,202 |
| Net current assets | 316,097 | 521,393 | 1,575,395 | 1,733,276 |

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Our net current assets increased from RMB1,575.4 million as of December 31, 2023 to RMB1,733.3 million as of February 29, 2024, primarily due to (i) the increase in bank balances and cash of RMB91.9 million, primarily attributable to the increased balance of time deposits with our improved cash position, and (ii) the decrease in trade and other payables of RMB142.7 million, primarily due to the settlement of accounts payable incurred for purchases of inventories to support our sales around the Chinese New Year. The increase in our net current assets was partially offset by the decrease in financial assets at FVTPL of RMB49.0 million, primarily because we redeemed certain financial instruments to purchase time deposits with relatively higher returns to improve our cash position.

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—E. Pre-[REDACTED] Investments.”

Our net current assets increased from RMB316.1 million as of December 31, 2021 to RMB521.4 million as of December 31, 2022, primarily due to (i) the increase in financial assets at FVTPL of RMB385.1 million, attributable to increased investments in financial instruments with our improved cash position, (ii) the increase in cash and cash equivalents of RMB97.9 million in relation to the cash to be used to purchase financial instruments in the subsequent year, and (iii) the increase in inventories of RMB79.4 million, which was in line with our business expansion. The increase in our net current assets was partially offset by the increase in trade and other payables of RMB256.2 million, attributable to increased procurement and optimized credit terms with our major suppliers.

Inventories

Our inventories primarily consist of (i) raw materials, consisting of packaging materials and other materials, and (ii) finished goods, representing materials and ingredients for the production of tea drinks. Among our finished goods, tea leaves and fruit juice typically have a shelf life of approximately 12 months to 24 months. Fresh milk typically has a shelf life of approximately 21 days and the rest of the dairy products we use typically have a shelf life of approximately four months to 18 months. Fresh fruits we use typically have a shelf life of approximately seven to ten days.

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The following table sets forth a summary of our inventory balances as of the dates indicated.

| | As of December 31, | | |
|----------------------|--------------------|----------------|----------------|
| | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | |
| Raw materials | 3,306 | 5,200 | 4,188 |
| Finished goods | 109,778 | 187,279 | 196,983 |
| Total | 113,084 | 192,479 | 201,171 |

During the Track Record Period, finished goods were the largest component of our inventories. As of December 31, 2021, 2022 and 2023, the balance of our finished goods was RMB109.8 million, RMB187.3 million and RMB197.0 million, respectively, representing 97.1%, 97.3% and 97.9% of our total inventory balances as of the same dates, respectively. Our inventories increased from RMB113.1 million as of December 31, 2021 to RMB192.5 million as of December 31, 2022, and further increased to RMB201.2 million as of December 31, 2023, the growth of which was consistent with our business expansion during the same periods.

We believe maintaining appropriate levels of inventories dynamically can help us fully address our consumers’ demand and achieve consumer satisfaction without adversely affecting our liquidity. We have in place a set of policies and procedures to manage our inventories. For details, see “Business—Our Inventory Management.”

The following table sets forth an aging analysis of inventories as of the dates indicated.

| | As of December 31, | | |
|----------------------|--------------------|----------------|----------------|
| | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | |
| Within 90 days | 102,680 | 191,173 | 190,528 |
| 91 to 365 days | 10,404 | 1,306 | 10,266 |
| Over 365 days | — | — | 377 |
| Total | 113,084 | 192,479 | 201,171 |

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The following table sets forth inventories turnover days for the periods indicated.

| | For the year ended December 31, | | |
|--|---------------------------------|------|------|
| | 2021 | 2022 | 2023 |
| Inventories turnover days ⁽¹⁾ | 15.7 | 20.1 | 19.2 |

Note:

- (1) Inventories turnover days are based on the average balance of inventories divided by cost of sales for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period. The number of days for the years ended December 31 is 365 days.

Our inventories turnover days increased from 15.7 days in 2021 to 20.1 days in 2022 resulting from our increased inventory balance in line with our business expansion. Inventories turnover days decreased to 19.2 days in 2023, primarily due to (i) the increased turnover efficiency and inventory management capabilities with the development of our warehousing and distribution network, and (ii) a relatively higher proportion of short shelf-life goods in our inventories, such as fresh milk and fresh fruits.

Specifically, in 2021, 2022 and 2023, inventories turnover days of our self-operated ChaPanda stores in each year amounted to 6.4 days, 6.7 days and 4.4 days, respectively, the fluctuations of which were generally in line with the changes in our overall inventories turnover days.

As of February 29, 2024, RMB175.6 million, or 87.3% of our inventories outstanding as of December 31, 2023 had been sold or utilized.

Trade and Other Receivables, Deposits and Prepayments

Trade and other receivables, deposits and prepayments consist of (i) trade receivables, primarily representing outstanding amounts due from certain of franchised ChaPanda stores in relation to the floating portion of royalty fees and amounts due from third-party purchasers in relation to packaging materials, (ii) other receivables, mainly including deposits other than lease deposits, such as utility deposits, tender deposits and performance deposits, (iii) value-added tax recoverable, (iv) lease deposits, (v) advances to staff used as petty cash for the payment of incidental expenses, such as employee reimbursements, (vi) deferred issue costs, representing fees and expenses that have incurred in connection with the [REDACTED] and the [REDACTED] but have not been recognized as expenses, which will be deductible from equity upon completion of the [REDACTED], and (vii) prepayments to third parties, mainly in relation to the purchase of our materials and ingredients for the production of tea drinks and equipment.

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The following table sets forth the details of our trade receivables, deposits and prepayments as of the dates indicated.

| | As of December 31, | | |
|---|--------------------|---------------|---------------|
| | 2021 | 2022 | 2023 |
| (RMB in thousands) | | | |
| Current | | | |
| Trade receivables | 5,713 | 6,199 | 7,191 |
| Other receivables | 3,442 | 3,412 | 6,947 |
| Value-added tax recoverable | 1,644 | 14,478 | 15,346 |
| Lease deposits | 4,571 | 7,490 | 6,339 |
| Advances to staff | 198 | 1,140 | 230 |
| Deferred issue costs | 1,093 | 1,427 | 3,907 |
| Prepayments to third parties | 52,905 | 32,237 | 22,559 |
| Subtotal | 69,566 | 66,383 | 62,519 |
| Non-current | | | |
| Prepayments for construction in progress | 42,410 | – | 300 |
| Subtotal | 42,410 | – | 300 |
| Total | 111,976 | 66,383 | 62,819 |

Our trade and other receivables, deposits and prepayments decreased from RMB112.0 million as of December 31, 2021 to RMB66.4 million as of December 31, 2022, mainly due to our prepayments for construction in progress being carried forward to construction in progress over time. Our trade and other receivables, deposits and prepayments further decreased to RMB62.8 million as of December 31, 2023, primarily due to the decrease in the prepayment amount paid to our suppliers and service providers in relation to the materials and ingredients and equipment.

As of February 29, 2024, RMB0.5 million, or 3.4% of our value-added tax recoverable outstanding as of December 31, 2023 had been deducted. As of February 29, 2024, RMB21.0 million, or 93.3% of our prepayments to third parties outstanding as of December 31, 2023 had been settled.

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The following table sets forth an aging analysis of trade receivables upon the delivery of goods or the rendering of royalty and franchising services as of the dates indicated.

| | As of December 31, | | |
|---------------------------|--------------------|--------------|--------------|
| | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | |
| Within 90 days | 4,792 | 5,995 | 7,191 |
| 91 to 180 days | 743 | 26 | – |
| 181 to 365 days | 83 | 106 | – |
| Over 365 days | 95 | 72 | – |
| Total | 5,713 | 6,199 | 7,191 |

The following table sets forth the turnover days of our trade receivables for the periods indicated.

| | For the year ended December 31, | | |
|--|---------------------------------|------|------|
| | 2021 | 2022 | 2023 |
| Trade receivables turnover days ⁽¹⁾ | 1.0 | 0.5 | 0.4 |

Note:

- (1) Trade receivables turnover days are based on the average balance of trade receivables divided by total revenue for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period. The number of days for the years ended December 31 is 365 days.

Our trade receivables turnover days decreased from 1.0 day in 2021 to 0.5 days in 2022, and further to 0.4 days in 2023, attributable to the increases in our total revenue over the same periods.

As of February 29, 2024, all of our trade receivables outstanding as of December 31, 2023 had been subsequently settled.

Amounts Due From Related Parties

We recorded amounts due from related parties of RMB149.5 million, RMB91.6 million and RMB0.6 million as of December 31, 2021, 2022 and 2023, respectively. Our amounts due from related parties comprise (i) the trade in nature portion, representing receivables from franchised ChaPanda stores owned and operated by certain management or executive Directors who were key management personnel of our operating entities or subsidiaries, and (ii) the non-trade in nature portion, representing the rental deposits for our office spaces leased from

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related parties and advances to our related parties, which were unsecured, interest-free and repayable on demand. See Note 20(a) to the Accountants’ Report included in Appendix I to this Document for details. Our Directors have represented that the amounts due from related parties have been fully settled as of December 31, 2023, save for the above-mentioned rental deposits in the non-trade in nature portion. The rental deposits are made in connection with the leases by the Group from the entities controlled by the Controlling Shareholders. See “Relationship with Our Controlling Shareholders—Operational Independence.” We expect to continue such leases after the [REDACTED] and the rental deposits will be refunded to us without interest upon the termination of the Office Lease Agreements after deducting outstanding rents, services fees, utilities, damages or indemnities, where applicable, unless contract violation, nonperformance or unilateral termination occurs as stipulated therein.

The following table sets forth a breakdown of our amounts due from related parties by trade and non-trade in nature as of the dates indicated.

| | As of December 31, | | |
|-------------------------------|---------------------------|---------------|-------------|
| | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | |
| Trade in nature | 949 | – | – |
| Non-trade in nature | 148,576 | 91,576 | 607 |
| Total | 149,525 | 91,576 | 607 |

As advised by our PRC Legal Advisor, because the General Lending Provision of the PRC are formulated to regulate the operation of loan business by domestic financial institutions, and the Group is not a domestic financial institution, the General Lending Provision is not applicable to the advances to related parties and the advances to the staff.

Financial Assets at Fair Value through Profit or Loss

Our financial assets at FVTPL represent financial instruments, such as wealth management products issued by financial institutions. Our financial assets at FVTPL increased from RMB387.7 million as of December 31, 2021 to RMB772.8 million as of December 31, 2022, and further to RMB1,391.6 million as of December 31, 2023, primarily because we increased our investments in financial instruments with improved cash position.

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We started to purchase the wealth management products in September 2020. During the Track Record Period, the wealth management products underlying our financial instruments primarily comprised bonds, generally with an average expected return of approximately 1.5% to 3.1% per year and an average return on investment of approximately 3.68%, 3.24% and 2.69% in 2021, 2022 and 2023, respectively. The issuing institutions of the bonds we hold include well established PRC commercial banks with good credit, namely Industrial and Commercial Bank of China, China Construction Bank and CITIC.

We adopt a strict and prudent internal control mechanism for our investments in financial instruments. Pursuant to our investment strategy, our wealth management team under the Board composed of our supervisors, company secretary and financial director, is responsible for managing our investments in financial instruments with the aim to minimize the financial risks. Each member of our wealth management team is equipped with extensive experience in and deep knowledge of financial matters. To make the investment decisions, our wealth management team reasonably and conservatively matches the maturities of the portfolio to anticipated operating cash needs, allowing us to generate investment returns for the benefits of our Shareholders.

We believe we have a minimized risk exposure from our investments. We primarily invest in relatively low-risk wealth management products. We make investment decisions related to wealth management products on a case-by-case basis after thoroughly considering a number of factors, including but not limited to macro-economic environment, general market conditions and the expected profit or potential loss of the investment. Accordingly, the target of our investments shall be short- to medium-term, liquid, safe and low-risk financial products, including but not limited to structured deposits, fixed-income products issued by banking facilities and other appropriate financial products. We do not purchase stocks and stock derivatives, funds and futures derivatives.

The objective of our investments in the foregoing financial products is to utilize idle funds to realize cash value preservation and addition. Therefore, we only make investments when the pre-determined criteria are met. For instance, we require the issuing facility of the financial products shall have good credit status and financial condition, impeccable credit record and good profitability. We make sure our investment in financial products will not affect our ordinary corporate activities and our main businesses.

As for the liquidation policy, we generally redeem the financial product with less than a month maturity when we have actual need for fund in our daily operation. For the financial products with more than one month maturity, we normally redeem them upon the date of redemption or maturity.

We will comply with relevant requirements under Chapter 14 of the Listing Rules and disclose the details of our investments or other notifiable transactions to the extent necessary and as appropriate after the [REDACTED].

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Cash and Cash Equivalents

We had cash and cash equivalents of RMB128.1 million, RMB226.0 million and RMB716.0 million as of December 31, 2021, 2022 and 2023, respectively. See “—Liquidity and Capital Resources—Cash Flow Analysis.”

Trade and Other Payables

Our trade and other payables consist of (i) trade payables, mainly representing the amounts payable to suppliers of the finished goods and equipment, (ii) deposits, representing deposits received from franchisees which will be refunded at the end of their respective franchise periods unless renewals were made, (iii) operational support service fees payable to certain service providers in return for providing business development, brand promotion and supporting services and guidance with their expertise, local resources and insights into local markets, (iv) other payables in relation to the construction and renovation of manufacturing facilities, procurement of office supplies and marketing efforts through live streaming on social networking platforms, (v) payroll payable, and (vi) other tax payable.

The following table sets forth a breakdown of our trade and other payables as of the dates indicated.

| | As of December 31, | | |
|--|-----------------------|-----------------------|-----------------------|
| | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | |
| Trade payables | 116,224 | 351,149 | 354,672 |
| Deposits | 87,835 | 107,952 | 145,046 |
| Operational support service fees | 59,909 | 41,359 | 42,069 |
| Other payables | 19,417 | 43,618 | 96,981 |
| Payroll payable | 28,502 | 54,281 | 83,393 |
| Other tax payable | 37,478 | 7,229 | 39,655 |
| Accrued share issue costs | — | — | 992 |
| Accrued [REDACTED] expenses | [REDACTED] | [REDACTED] | [REDACTED] |
| Total | <u>349,365</u> | <u>605,588</u> | <u>770,619</u> |

Our trade and other payables increased from RMB349.4 million as of December 31, 2021 to RMB605.6 million as of December 31, 2022, primarily due to a corresponding increase in trade payables as a result of increased procurement and optimized credit terms with our major suppliers. Our trade and other payables further increased to RMB770.6 million as of December 31, 2023, primarily attributable to increased procurement in line with our business expansion. During the Track Record Period, the credit terms with our major suppliers ranged from five days to 30 days. Credit term with the same supplier generally increased as the partnership

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extended during the same periods, which was also attributable to our growing bargaining power as a result of our business expansion. In addition, our other payables increased from RMB19.4 million as of December 31, 2021 to RMB43.6 million as of December 31, 2022, and further to RMB97.0 million as of December 31, 2023 driven by the increase in the payables with respect to construction of manufacturing facilities and the growth of the marketing efforts through live streaming on social networking platforms.

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

| | As of December 31, | | |
|--------------------------|--------------------|----------------|----------------|
| | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | |
| Within 90 days | 65,001 | 348,927 | 354,003 |
| 91 to 365 days | 51,223 | 1,300 | 218 |
| Over 365 days | – | 922 | 451 |
| Total | 116,224 | 351,149 | 354,672 |

The following table sets forth our trade payables turnover days for the periods indicated.

| | For the year ended December 31, | | |
|---|---------------------------------|------|------|
| | 2021 | 2022 | 2023 |
| Trade payables turnover days ⁽¹⁾ | 14.0 | 30.7 | 34.4 |

Note:

- (1) Trade payables turnover days are based on the average balance of trade payables divided by cost of sales for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period. The number of days for the years ended December 31 is 365 days.

Our trade payables turnover days increased from 14.0 days in 2021 to 30.7 days in 2022, primarily attributable to the increased balance of trade payables due to the improved credit terms for our key suppliers in line with our business scale up. Credits terms with our key suppliers reached 30 days in 2022, granting us longer payment terms and resulting in an increase in trade payables balances and turnover days. Our trade payables turnover days further increased to 34.4 days for the year ended December 31, 2023, primarily attributable to the increased balance of trade payables resulting from our business expansion.

As of February 29, 2024, RMB353.8 million, or 99.8% of our trade payables outstanding as of December 31, 2023 had been subsequently settled.

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Contract Liabilities

Our contract liabilities mainly represent payment received in advance from franchised stores related to the sale of goods and equipment and the royalty and franchising income. Our current contract liabilities increased from RMB116.8 million as of December 31, 2021 to RMB160.9 million as of December 31, 2022, and further to RMB176.7 million as of December 31, 2023, which was due to the increase in the number of ChaPanda stores over the same periods in line with the expansion of our ChaPanda store network. Our non-current contract liabilities amounted to RMB186.3 million, RMB153.3 million and RMB147.5 million as of December 31, 2021, 2022 and 2023, respectively, in line with the progress of the occurrence and satisfaction of our contractual obligations.

| | As of December 31, | | |
|--|--------------------|----------------|----------------|
| | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | |
| Current | | | |
| Sale of goods and equipment | 31,892 | 62,672 | 77,224 |
| Royalty and franchising income | 84,887 | 98,185 | 99,456 |
| Subtotal | 116,779 | 160,857 | 176,680 |
| Non-current | | | |
| Royalty and franchising income | 186,261 | 153,271 | 147,530 |
| Subtotal | 186,261 | 153,271 | 147,530 |
| Total | 303,040 | 314,128 | 324,210 |

Among the current portion of our contract liabilities, contract liabilities related to sale of goods and equipment are recognized as our revenue generated from sale of goods and equipment within one to three months, contract liabilities related to pre-opening training services are recognized as our royalty and franchising income within one month, and contract liabilities related to non-refundable upfront initial fee are recognized as our royalty and franchising income within one year.

The non-current portion of our contract liabilities, representing the transaction price allocated to the remaining performance obligations for non-refundable upfront initial fee, is recognized as our royalty and franchising income within two to five years, based on the progress of the satisfaction of performance obligations. For the timing of subsequent recognition of contract liabilities as our revenue, see Note 6 to the Accountants’ Report included in Appendix I to this Document for details.

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As of February 29, 2024, 28.3% of the contract liabilities as of December 31, 2023 had been recognized as revenue.

Income Tax Payables

We recorded income tax payables of RMB15.3 million, RMB23.9 million and RMB38.2 million as of December 31, 2021, 2022 and 2023, respectively.

Lease Liabilities

As of December 31, 2021, 2022 and 2023, our lease liabilities, including current and non-current portion, amounted to RMB57.7 million, RMB76.1 million and RMB83.5 million, respectively, the amount of which were secured by rental deposits and were unguaranteed. The continuous increases during the Track Record Period were generally in line with the increase in the number of leased properties we had due to our business expansion.

Property, Plant and Equipment

Our property, plant and equipment consist of leasehold improvements, furniture and fixtures and office equipment, motor vehicles, plants and machineries, buildings and construction in progress. The following table sets forth a breakdown of our property, plant and equipment as of the dates indicated.

| | As of December 31, | | |
|--|--------------------|----------------|----------------|
| | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | |
| Leasehold improvements | 6,501 | 14,089 | 20,286 |
| Furniture and fixtures and office equipment | 3,520 | 3,434 | 4,611 |
| Motor vehicles | 3,024 | 2,500 | 2,570 |
| Plants and machineries | 5,682 | 11,641 | 27,187 |
| Buildings | – | – | 158,563 |
| Construction in progress | 4,723 | 113,907 | 22,495 |
| Total | 23,450 | 145,571 | 235,712 |

The carrying amount of our property, plant and equipment amounted to RMB23.5 million, RMB145.6 million and RMB235.7 million as of December 31, 2021, 2022 and 2023, respectively. The increase in the carrying amount of our property, plant and equipment over time was primarily due to the upgrade of our fixed assets to support our business growth. In particular, our construction in progress increased from RMB4.7 million as of December 31, 2021 to RMB113.9 million as of December 31, 2022, and decreased to RMB22.5 million as of

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December 31, 2023, which was in line with the ongoing construction and completion of our production facilities. Our leasehold improvements increased from RMB6.5 million as of December 31, 2021 to RMB14.1 million as of December 31, 2022, and further to RMB20.3 million as of December 31, 2023, primarily due to the increased fit-out costs caused by office space expansion. Our plants and machineries increased from RMB5.7 million as of December 31, 2021 to RMB11.6 million as of December 31, 2022 and further to RMB27.2 million as of December 31, 2023, primarily because we purchased equipment for our new warehousing facilities. We recorded buildings of RMB158.6 million as of December 31, 2023, mainly due to our construction in progress being transferred to buildings upon its completion.

Right-of-Use Assets

Our right-of-use assets consist of leased offices, leased warehouses, leasehold land, leased retail stores and leased motor vehicles. Our right-of-use assets increased from RMB52.7 million as of December 31, 2021 to RMB105.1 million as of December 31, 2022, and further to RMB110.6 million as of December 31, 2023, primarily due to the acquisition of land use right from local governmental authorities for expansion of our plants and office space and the increase in our leased properties.

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our cash requirements mainly with cash from operating activities, investing activities and financing activities in a balanced manner. After the [REDACTED], we intend to finance our future capital requirements through cash generated from our business operations, the net [REDACTED] from the [REDACTED], and other future equity or debt financings. We currently do not anticipate any changes to the availability of financing to fund our operations in the near future. We had cash and cash equivalents of RMB128.1 million, RMB226.0 million and RMB716.0 million as of December 31, 2021, 2022 and 2023, respectively.

Cash Flow Analysis

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

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, primarily including the increase in trade and other payables of RMB126.2 million, primarily due to the increased purchase from suppliers in line with our ChaPanda store network expansion, as well as our optimized credit terms with our major suppliers.

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Net cash generated from operating activities in 2022 was RMB1,185.9 million, which primarily consists of profit before taxation of RMB1,150.7 million, adjusted for certain non-cash and non-operating items. Adjustments for such non-cash and non-operating items primarily include (i) amortization of right-of-use assets of RMB39.9 million primarily due to the accrued depreciation of existing leased properties, and (ii) gain on fair value change on financial assets at FVTPL of RMB18.8 million primarily attributable to the purchase of financial instruments. The amount was further adjusted by changes in working capital, primarily including (i) the increase in trade and other payables of RMB233.3 million, primarily due to the increased purchase from suppliers in line with our ChaPanda store network expansion, as well as our optimized credit terms with our major suppliers, and (ii) the increase in contract liabilities of RMB11.1 million, primarily due to the increase in the number of ChaPanda stores in line with the expansion of our ChaPanda store network; partially offset by the increase in inventories of RMB79.4 million, as we continued to expand our business.

Net cash generated from operating activities in 2021 was RMB1,270.1 million, which primarily consists of profit before taxation of RMB921.7 million, adjusted for certain non-cash and non-operating items. Adjustments for such non-cash and non-operating items primarily include (i) share-based payment expense of RMB114.9 million related to awarded shares granted to certain key management personnel for incentive purposes, and (ii) amortization of right-of-use assets of RMB22.1 million primarily due to the accrued depreciation of existing leased properties. The amount was further adjusted by changes in working capital, primarily including (i) the increase in trade and other payables of RMB455.1 million, primarily due to increased purchase from suppliers in line with our store network expansion, as well as our optimized credit terms with our major suppliers, and (ii) the increase in contract liabilities of RMB84.6 million, primarily due to the increase in the number of ChaPanda stores in line with the expansion of our ChaPanda store network; partially offset by (i) the increase in trade and other receivables, deposits and prepayments of RMB90.5 million, primarily due to the increase in the prepayment amount paid to our suppliers, and (ii) the increase in inventories of RMB24.5 million, which was in line with our business expansion.

Net Cash Used in Investing Activities

Net cash used in investing activities in 2023 was RMB922.5 million, which primarily consists of (i) purchase of financial assets at FVTPL of RMB6,820.9 million with our improved cash position, and (ii) purchase of property, plant and equipment of RMB85.0 million to support our business growth; partially offset by proceeds from redemption of financial assets at FVTPL of RMB6,204.8 million.

Net cash used in investing activities in 2022 was RMB415.5 million, which primarily consists of (i) purchase of financial assets at FVTPL of RMB4,925.1 million with our improved cash position, and (ii) advances to related parties of RMB141.2 million; partially offset by proceeds from redemption of financial assets at FVTPL of RMB4,541.4 million.

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Net cash used in investing activities in 2021 was RMB691.1 million, which primarily consists of (i) purchase of financial assets at FVTPL of RMB1,478.0 million with our improved cash position, and (ii) advances to related parties of RMB444.9 million; partially offset by proceeds from redemption of financial assets at FVTPL of RMB1,259.9 million.

Net Cash Generated from/Used in Financing Activities

Net cash generated from financing activities in 2023 was RMB24.5 million, which primarily consists of the proceeds of RMB970.0 million in relation to the Pre-[REDACTED] Investments; partially offset by dividend paid of RMB949.5 million.

Net cash used in financing activities in 2022 was RMB672.5 million, which primarily consists of (i) dividend paid of RMB603.2 million, and (ii) repayments of lease liabilities of RMB43.0 million for rent payment.

Net cash used in financing activities in 2021 was RMB579.1 million, which primarily consists of (i) dividends paid of RMB408.4 million, and (ii) net cash outflow on reorganization of RMB277.3 million; partially offset by capital injection of RMB108.1 million.

INDEBTEDNESS

The following table sets forth our indebtedness as of the dates indicated.

| | As of December 31, | | | As of |
|---|--------------------|---------------|------------------|----------------------|
| | 2021 | 2022 | 2023 | February 29, 2024 |
| | | | | (unaudited) |
| | (RMB in thousands) | | | |
| Current | | | | |
| Lease liabilities | 28,654 | 37,496 | 40,948 | 36,798 |
| Subtotal | 28,654 | 37,496 | 40,948 | 36,798 |
| Non-current | | | | |
| Lease liabilities | 29,087 | 38,579 | 42,576 | 48,483 |
| Redeemable shares with other preferential rights | – | – | 1,021,000 | 990,000 |
| Subtotal | 29,087 | 38,579 | 1,063,576 | 1,038,483 |
| Total | 57,741 | 76,075 | 1,104,524 | 1,075,281 |

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Lease Liabilities

As of December 31, 2021, 2022 and 2023, our lease liabilities, including current and non-current portion, which were secured by rental deposits and unguaranteed, amounted to RMB57.7 million, RMB76.1 million and RMB83.5 million, respectively. As of February 29, 2024, our lease liabilities, including current and non-current portion, amounted to RMB85.3 million, of which RMB76.0 million were secured by our rental deposits and unguaranteed and RMB9.3 million were unsecured and unguaranteed.

Redeemable shares with other preferential rights

As of December 31, 2023 and February 29, 2024, our redeemable shares with other preferential rights, which were unsecured and unguaranteed, amounted to RMB1,021.0 million and RMB990.0 million, respectively.

Contingent Liabilities

During the Track Record Period and up to February 29, 2024, we did not have any material contingent liabilities.

Our Directors confirm that as of the Latest Practicable Date, the agreements under our borrowings did not contain any covenant that would have a material adverse effect on our ability to make additional borrowings or issue debt or equity securities in the future. Our Directors further confirm that we had no defaults in bank and other borrowings, nor did we breach any covenants (that were not waived) during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that during the Track Record Period and up to the Latest Practicable Date, we did not experience any material difficulties in obtaining credit facilities, or withdrawal of facilities or requests for early repayment. As of the Latest Practicable Date, we did not have any unutilized banking facilities. Our Directors confirm that there has not been any material change in our indebtedness since the Latest Practicable Date and up to the date of this Document.

Saved as otherwise disclosed under sections headed “—Indebtedness” and “—Contractual Obligations,” as of February 29, 2024, being the latest practicable date for determining our indebtedness, we did not have any other loan issued and outstanding or any loan agreed to be issued, bank overdrafts, loans and other similar indebtedness, liabilities under acceptances or acceptance credits or hire purchase commitments, debentures, mortgages, charges, guarantees or other material contingent liabilities.

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CAPITAL EXPENDITURES

Our historical capital expenditures primarily included purchase of property, plant and equipment. The following table sets forth our capital expenditures for the periods indicated.

| | For the year ended December 31, | | |
|---|--|---------------|---------------|
| | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | |
| Purchase of property, plant and equipment | 64,847 | 64,255 | 85,027 |
| Total | 64,847 | 64,255 | 85,027 |

We will continue to make capital expenditures to meet the expected growth of our business and our expansion plan. See “Future Plans and Use of [REDACTED]—Use of [REDACTED].” We intend to fund our future capital expenditures with financial resources available to us, including our existing cash balance, cash generated from our operation activities, and net [REDACTED] from the [REDACTED].

CONTRACTUAL OBLIGATIONS

Capital Commitments

Our capital commitments mainly represent the capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the historical financial information. Our capital commitments decreased from RMB102.1 million as of December 31, 2021 to RMB83.4 million as of December 31, 2022 and further to RMB12.2 million as of December 31, 2023, which was in line with the ongoing construction and completion of our production facilities.

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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 “—Non-IFRS Measures.”
- (3) Calculated using adjusted EBITDA (non-IFRS measure) divided by revenue for a given period. For details, see “—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%.

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. For details of our related party transactions, see Note 33 to the Accountants’ Report included in Appendix I to this Document.

Our Directors are of the view that each of the related party transactions set out in Note 33 to the Accountants’ Report included in Appendix I to this Document was conducted in the ordinary course of business on an arm’s length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or cause our historical results to become non-reflective of our future performance.

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OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as Shareholder’s equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or product development services with us.

FINANCIAL RISKS DISCLOSURE

Our activities expose us to a variety of financial risks, mainly market risk, credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance.

Risk management is carried out under policies approved by our Board. The management identifies and evaluates financial risks in close co-operation with our operating units.

Market Risk

Our activities expose us primarily to the financial risks of currency rate and interest rates.

Currency risk

Our businesses are principally conducted in RMB and all of our monetary assets and liabilities are denominated in RMB. The only scenario in which we use foreign currency is to purchase coconut milk from the South East Asia using United States Dollars (“USD”), but the related purchases are less than 2% of the total purchases for each reporting period and the impact of exchange rate fluctuations on inventory costs is insignificant. There are no or immaterial foreign currency bank balances or transaction balances at the end of each reporting periods. Our management considers our exposure to foreign currency risk is not significant.

On the other hand, RMB is not a freely convertible currency and the PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. Changes in the foreign exchange control system may prevent us from satisfying foreign currency demand in the future.

We have no significant foreign currency risk as our operation is denominated in RMB, which is also the functional currency of us.

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Interest Rate Risk

We consider that the overall interest rate risk is not significant and no sensitivity analysis is presented for us.

The fair value interest rate risk on the other financial assets at FVTPL is limited because the periods of these investment products are short.

We are also exposed to fair value interest rate risk in relation to lease liabilities (see Note 25 to the Accountants' Report included in Appendix I to this Document for details) and we consider that the exposure of such interest rate risk arising from fixed rate lease liabilities is insignificant.

Other Price Risk

We are exposed to equity price risk through our redeemable shares with other preferential rights.

Credit Risk and Impairment Assessment

Credit risk refers to the risk that our counterparties default on their contractual obligations resulting in financial losses to us. Our credit risk exposures are primarily attributable to trade and other receivables, bank balances, amounts due from related parties, and wealth management products issued by banks.

In determining the ECL for trade and other receivables, amounts due from related parties, our management has taken into account the historical default experience and forward-looking information, as appropriate. At the end of each reporting period, the carrying amount of the respective recognized financial assets of us as stated in the consolidated statements of financial position best represents our maximum exposure to credit risk which will cause a financial loss to us and due to failure to discharge an obligation by the counterparties. The average loss rates for majority of the financial assets measured at amortized cost are assessed to be less than 1%.

Our management considers the bank balances that are deposited with the financial institutions with high credit rating to be low credit risk financial assets. Our management considers these bank balances are short-term in nature and the probability of default is negligible on the basis of high-credit-rating issuers, and accordingly, loss allowance was considered as insignificant.

For further details of our credit risk, see Note 32 to the Accountants' Report included in Appendix I to this Document.

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Liquidity Risk

Our management is satisfied that we will have sufficient financial resources to meet its financial obligations as they fall due in the foreseeable future by taking into account our cash flow projection, repayment from related parties, and our future capital expenditure in respect of its non-cancellable capital commitments, our management considers that we have sufficient working capital to meet in full our financial obligations as they fall due for at least the next twelve months from the end of each reporting period.

For further details of our liquidity risk, see Note 32 to the Accountants’ Report included in Appendix I to this Document.

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, both of which had been paid in full as of December 31, 2021 and December 31, 2022. 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.

WORKING CAPITAL SUFFICIENCY

Our Directors are of the opinion that, taking into account the financial resources available to the Group, including the estimated net [REDACTED] from the [REDACTED] and the expected cash generated from operating activities, we have sufficient working capital for our present requirements and for the next 12 months from the date of this Document. With the same bases as set above, the Sole Sponsor concurs with the Director’s view that the Company has sufficient working capital for its present requirement and for the next 12 months from the date of this Document.

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DISTRIBUTABLE RESERVES

As of December 31, 2023, we had distributable reserve comprising the retained profits of our Company amounting to RMB170.6 million, which was available for distribution.

[REDACTED] EXPENSES

Our [REDACTED] expenses mainly include (i) [REDACTED]-related expenses, such as [REDACTED] fees and [REDACTED], and (ii) [REDACTED]-related expenses, 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] expenses (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] expenses, we expect to pay [REDACTED]-related expenses 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] expenses, 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] expenses 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.

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.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except for the amounts due from related parties as disclosed in this section, as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

UNAUDITED [REDACTED] ADJUSTED NET TANGIBLE ASSETS

[REDACTED]

FINANCIAL INFORMATION

[REDACTED]

FINANCIAL INFORMATION

[REDACTED]