



茶百道

四川百茶百道實業股份有限公司

Sichuan Baicha Baidao Industrial Co., Ltd.

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

Stock code : 2555



GLOBAL
OFFERING

Sole Sponsor and Sole Overall Coordinator

 **CICC 中金公司**

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

 **CICC 中金公司**

Joint Bookrunners and Joint Lead Managers

 **招銀國際**
CMB INTERNATIONAL


 **建銀國際**
CIB International

 **申萬宏源香港**
SHENWAN HONGYUAN



 **CMS 招商證券國際**

 **富途證券**

 **老虎證券**

IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this Prospectus, you should obtain professional independent advice.



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Sichuan Baicha Baidao Industrial Co., Ltd.

四川百茶百道實業股份有限公司

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

Global Offering

- Number of Offer Shares under the Global Offering :** 147,763,400 H Shares (subject to the Over-Allotment Option)
- Number of Hong Kong Offer Shares :** 14,776,400 H Shares (subject to adjustment)
- Number of International Offer Shares :** 132,987,000 H Shares (subject to adjustment and the Over-Allotment Option)
- Offer Price :** HK\$17.50 per H Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027%, AFRC transaction levy of 0.00015% and Stock Exchange trading fee of 0.00565% (payable in full on application in Hong Kong dollars and subject to refund)
- Nominal value :** RMB0.1 per H share
- Stock code :** 2555

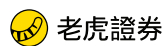
Sole Sponsor and Sole Overall Coordinator



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Bookrunners and Joint Lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

A copy of this Prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available on Display" in Appendix VII to this Prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this Prospectus or any other documents referred to above.

The Offer Price will be HK\$17.50 per Offer Share. Applicants for Hong Kong Offer Shares are required to pay, on application, the Offer Price of HK\$17.50 for each Hong Kong Offer Share together with brokerage fee of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015%.

The Sole Overall Coordinator (on behalf of the Hong Kong Underwriters) may, with the consent of our Company, reduce the number of Hong Kong Offer Shares and/or the Offer Price below that stated in this Prospectus (which is HK\$17.50) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Hong Kong Offer Shares and/or the Offer Price will be published on the websites of the Stock Exchange at www.hkexnews.hk and on the website of our Company at www.chabaidao.com, and the offer will be canceled and relaunched at the revised number of Offer Shares and/or the revised Offer Price with a supplemental prospectus or a new prospectus. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this Prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Sole Sponsor and the Sole Overall Coordinator (on behalf of the Underwriters) if certain events occur prior to 8:00 a.m. on the Listing Date. Please refer to the section headed "Underwriting" in this Prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons, except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold (1) solely to QIBs as defined in Rule 144A pursuant to an exemption from registration under the U.S. Securities Act; and (2) outside the United States in offshore transactions in reliance on Regulation S.

ATTENTION

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this Prospectus to the public in relation to the Hong Kong Public Offering.

This Prospectus is available at the websites of the Stock Exchange (www.hkexnews.hk) and our Company (www.chabaidao.com). If you require a printed copy of this Prospectus, you may download and print from the website addresses above.

April 15, 2024

IMPORTANT

IMPORTANT NOTICE TO INVESTORS:

FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this Prospectus to the public in relation to the Hong Kong Public Offering.

This Prospectus is available at the website of the Stock Exchange at www.hkexnews.hk under the “HKEXnews > New Listings > New Listing Information” section, and our website at www.chabaidao.com. If you require a printed copy of this Prospectus, you may download and print from the website addresses above.

To apply for Hong Kong Offer Shares, you may use one of the following application channels:

<u>Application Channel</u>	<u>Platform</u>	<u>Target Investors</u>	<u>Application Time</u>
White Form eIPO service	at www.eipo.com.hk Enquiries: +852 2862 8600	Investors who would like to receive a physical H Share certificate. Hong Kong Offer Shares successfully applied for will be allotted and issued in your own name.	From 9:00 am on Monday, April 15, 2024 to 11:30 am on Thursday, April 18, 2024, Hong Kong time. The latest time for completing full payment of application monies will be 12:00 noon on Thursday, April 18, 2024, Hong Kong time.
HKSCC EIPO channel	Your broker or custodian who is a HKSCC Participant will submit an EIPO application on your behalf through HKSCC’s FINI system in accordance with your instruction	Investors who would <u>not</u> like to receive a physical H Share certificate. Hong Kong Offer Shares successfully applied for will be allotted and issued in the name of HKSCC Nominees, deposited directly into CCASS and credited to your designated HKSCC Participant’s stock account.	Contact your broker or custodian for the earliest and latest time for giving such instructions, as this may vary by broker or custodian.

IMPORTANT

If you have any question about the application for the Hong Kong Offer Shares, you may call the enquiry hotline of our H Share Registrar and **White Form eIPO** Service Provider, **Computershare Hong Kong Investor Services Limited**, both at +852 2862 8600 on the following dates:

Monday, April 15, 2024 – 9:00 a.m. to 9:00 p.m.
Tuesday, April 16, 2024 – 9:00 a.m. to 9:00 p.m.
Wednesday, April 17, 2024 – 9:00 a.m. to 9:00 p.m.
Thursday, April 18, 2024 – 9:00 a.m. to 12:00 noon

We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public. The contents of this Prospectus are identical to the Prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

If you are an **intermediary, broker or agent**, please remind your customers, clients or principals, as applicable, that this Prospectus is available online at the website addresses above.

Please refer to “How to Apply for Hong Kong Offer Shares” for further details on the procedures through which you can apply for the Hong Kong Offer Shares electronically.

IMPORTANT

Your application through the **White Form eIPO** service or the **HKSCC EIPO** channel must be for a minimum of 200 Hong Kong Offer Shares and in one of the numbers set out in the table.

If you are applying through the **White Form eIPO** service, you may refer to the table below for the amount payable for the number of Shares you have selected. You must pay the respective amount payable on application in full upon application for Hong Kong Offer Shares.

If you are applying through the **HKSCC EIPO** channel, you are required to pre-fund your application based on the amount specified by your broker or custodian, as determined based on the applicable laws and regulations in Hong Kong.

Sichuan Baicha Baidao Industrial Co., Ltd.
(HK\$17.50 per Hong Kong Offer Share)
NUMBER OF HONG KONG OFFER SHARES THAT MAY BE
APPLIED FOR AND PAYMENTS

No. of Hong Kong Offer Shares applied for	Amount payable on application ⁽²⁾	No. of Hong Kong Offer Shares applied for	Amount payable on application ⁽²⁾	No. of Hong Kong Offer Shares applied for	Amount payable on application ⁽²⁾	No. of Hong Kong Offer Shares applied for	Amount payable on application ⁽²⁾
HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
200	3,535.30	4,000	70,705.96	60,000	1,060,589.26	800,000	14,141,190.00
400	7,070.60	5,000	88,382.43	70,000	1,237,354.13	900,000	15,908,838.76
600	10,605.89	6,000	106,058.93	80,000	1,414,119.00	1,000,000	17,676,487.50
800	14,141.19	7,000	123,735.41	90,000	1,590,883.88	2,000,000	35,352,975.00
1,000	17,676.49	8,000	141,411.90	100,000	1,767,648.76	3,000,000	53,029,462.50
1,200	21,211.79	9,000	159,088.39	200,000	3,535,297.50	4,000,000	70,705,950.00
1,400	24,747.08	10,000	176,764.88	300,000	5,302,946.26	5,000,000	88,382,437.50
1,600	28,282.38	20,000	353,529.76	400,000	7,070,595.00	6,000,000	106,058,925.00
1,800	31,817.68	30,000	530,294.63	500,000	8,838,243.76	7,388,200 ⁽¹⁾	130,597,424.94
2,000	35,352.98	40,000	707,059.50	600,000	10,605,892.50		
3,000	53,029.47	50,000	883,824.38	700,000	12,373,541.26		

(1) Maximum number of Hong Kong Offer Shares you may apply for.

(2) The amount payable is inclusive of brokerage, SFC transaction levy, the Stock Exchange trading fee and AFRC transaction levy. If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules) and the SFC transaction levy, the Stock Exchange trading fee and AFRC transaction levy are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC; and in the case of the AFRC transaction levy, collected by the Stock Exchange on behalf of the AFRC).

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

EXPECTED TIMETABLE⁽¹⁾

If there is any change in the following expected timetable of the Hong Kong Public Offering, we will issue an announcement in Hong Kong to be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.chabaidao.com.

Hong Kong Public Offering commences 9:00 a.m. on Monday,
April 15, 2024

Latest time for completing electronic applications
under the **White Form eIPO** service through
the designated website at www.eipo.com.hk⁽²⁾ 11:30 a.m. on Thursday,
April 18, 2024

Application lists for the Hong Kong Public
Offering open⁽³⁾ 11:45 a.m. on Thursday,
April 18, 2024

Latest time for (a) completing payment for the
White Form eIPO applications by effecting
internet banking transfer(s) or PPS payment
transfer(s) and (b) giving **electronic application
instructions to HKSCC**⁽⁴⁾ 12:00 noon on Thursday,
April 18, 2024

If you are instructing your broker or custodian who is a HKSCC Participant to give **electronic application instructions** via HKSCC's FINI system to apply for the Hong Kong Offer Shares on your behalf through the **HKSCC EIPO** channel, you are advised to contact your broker or custodian for the earliest and latest time for giving such instructions which may be different from the latest time as stated above, as this may vary by broker or custodian.

Application lists close⁽³⁾ 12:00 noon on Thursday,
April 18, 2024

Announcement of the level of indications of
interest in the International Offering,
the level of applications in the
Hong Kong Public Offering and the basis of
allocations of the Hong Kong Offer Shares to
be published on the website of our Company
at www.chabaidao.com and the website
of the Stock Exchange at www.hkexnews.hk
at or before 11:00 p.m. on⁽⁵⁾⁽⁶⁾ Monday, April 22, 2024

EXPECTED TIMETABLE⁽¹⁾

Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels, including:

- * in the announcement to be posted on our website at www.chabaidao.com, and the website of the Stock Exchange at www.hkexnews.hk, respectivelyat or before 11:00 p.m. on Monday, April 22, 2024

- * from the designated results of allocations website at www.iporeresults.com.hk (alternatively: www.eipo.com.hk/eIPOAllotment) with a “search by ID” function from11:00 p.m. on Monday, April 22, 2024 to 12:00 midnight on Sunday, April 28, 2024

- * from the allocation results telephone enquiry by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. on Tuesday, April 23, 2024, Wednesday, April 24, 2024, Thursday, April 25, 2024 and Friday, April 26, 2024

- * For those applying through HKSCC EIPO channel, you may also check with your broker or custodian from6:00 p.m. on Friday, April 19, 2024

Despatch of H Share certificates in respect of wholly or partially successful applications, or deposit of H Share certificate into CCASS, on or before⁽⁶⁾⁽⁷⁾Monday, April 22, 2024

Despatch of White Form e-Refund payment instructions and refund cheques on or before⁽⁸⁾ Tuesday, April 23, 2024

Dealings in the H Shares on the Stock Exchange expected to commence at⁽⁶⁾9:00 a.m. on Tuesday, April 23, 2024

EXPECTED TIMETABLE⁽¹⁾

Notes:

- (1) All dates and times refer to Hong Kong dates and times.
- (2) You will not be permitted to submit your application under the **White Form eIPO** service through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of the application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning signal, a tropical cyclone warning signal number 8 or above, and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, April 18, 2024, the application lists will not open and close on that day. See the section headed “How to Apply for Hong Kong Offer Shares—E. Severe Weather Arrangements” in this Prospectus.
- (4) Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares—A. Application for Hong Kong Offer Shares—2. Application Channels” in this Prospectus.
- (5) None of the websites or any of the information contained on the websites forms part of this Prospectus.
- (6) If there is a “black” rainstorm warning signal, a tropical cyclone warning signal number 8 or above and/or Extreme Conditions in force in Hong Kong from Monday, April 15, 2024 to Tuesday, April 23, 2024, then the day of (i) announcement of the results of allocations under the Hong Kong Public Offering; (ii) dispatch of H Share certificates/**White Form** e-Refund payment instructions/refund checks; and (iii) dealings in the H Shares on the Stock Exchange may be postponed and an announcement may be made in such event.
- (7) The H Share certificates will only become valid evidence of title at 8:00 a.m. on the Listing Date, which is expected to be Tuesday, April 23, 2024, provided that the Global Offering has become unconditional in all respects at or before that time. Investors who trade H Shares on the basis of publicly available allocation details or prior to the receipt of the H Share certificates or prior to the H Share certificates becoming valid do so entirely at their own risk.
- (8) **White Form** e-Refund payment instructions/refund checks will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering.

The above expected timetable is a summary only. For details of the structure of the Global Offering, including its conditions, and the procedures for applications for Hong Kong Offer Shares, see “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares”, respectively.

If the Global Offering does not become unconditional or is terminated in accordance with its terms, the Global Offering will not proceed. In such a case, our Company will make an announcement as soon as practicable thereafter.

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IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

This Prospectus is issued by us solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this Prospectus pursuant to the Hong Kong Public Offering. This Prospectus may not be used for the purpose of making, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Hong Kong Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this Prospectus in any jurisdiction other than Hong Kong. The distribution of this Prospectus for purposes of a public offering and the offering and sale of the Hong Kong Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this Prospectus to make your investment decision. The Hong Kong Public Offering is made solely on the basis of the information contained and the representations made in this Prospectus. We have not authorized anyone to provide you with information that is different from what is contained in this Prospectus. Any information or representation not contained nor made in this Prospectus must not be relied on by you as having been authorized by us, the Sole Sponsor, the Sole Overall Coordinator, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, and the Capital Market Intermediaries, any of our or their respective directors, officers, employees, agents, or representatives of any of them or any other parties involved in the Global Offering.

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SUMMARY

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

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this Prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

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

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 8,016 stores, spanning across 31 provinces and municipalities, covering all provinces and different tiers of cities in China. In 2023, the total retail sales value of ChaPanda stores reached approximately RMB16.9 billion.

With the increase in consumer spending, people’s beverage preferences are evolving to encompass various dimensions. In the meantime, emerging technologies in China have enabled and driven the significant development of freshly-made tea shops in the key aspect of their business operation. For example, leveraging big data analytics, freshly-made tea shops optimize location planning and marketing strategies, targeting high-traffic areas and engaging consumers through diverse digital campaigns. Additionally, freshly-made tea shops leverage the convenience of online delivery services to reach a broader consumer base, enhancing accessibility and driving demand for freshly-made tea drinks. Benefiting from the foregoing factors, the freshly-made tea shop market in China has developed rapidly. According to Frost & Sullivan, the CAGR of China’s freshly-made tea shop market was 25.2% from 2018 to 2023,

SUMMARY

significantly higher than the CAGR of China's soft beverage market of 4.4% for the same period. China's freshly-made tea shop market is also expected to have great growth potential in the coming years, with an estimated CAGR of 15.4% from 2024 to 2028.

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

During the Track Record Period, we achieved strong financial growth. Our revenue increased by 16.1% from RMB3,644.2 million in 2021 to RMB4,231.7 million in 2022, and further increased by 34.8% to RMB5,704.3 million in 2023. From 2021 to 2023, the CAGR for our net profit reached 21.6%. However, the fast-growing freshly-made tea shop market in China is faced with intense competition. With the growing number of freshly-made tea brands and tea shops in China, our strategy to expand our store network may lead to competition both among ChaPanda stores and against our competitors. It is possible that the existing ChaPanda stores or our competitors might have already taken up the desired locations for new ChaPanda stores and our competitors may enter into these areas after our existing stores have been established, and our measures to minimize the risk of cannibalization within our network and competition against competitors might have limitations.

BRAND AND PRODUCTS

As symbolized by our brand IP, "ChaCha," we are dedicated to balancing tea flavor and fruit freshness. We provide a wide selection of fruit tea drinks to consumers, especially the young generations who value quality tea drinks. Our dedication to product quality and product development has allowed ChaPanda to become a leading player in the industry with a broad base of consumers. Our product portfolio includes a wide range of classic tea drinks, seasonal tea drinks and regional tea drinks. In ChaPanda stores, our classic tea drinks are typically available throughout the year, whereas seasonal tea drinks and regional tea drinks are only sold in limited time periods or certain regions, primarily depending on accessibility of relevant seasonal fruits or local specialty fruits, consumer acceptance and sales and marketing considerations.

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

- sale of goods and equipment, where we sold to franchised ChaPanda stores materials and ingredients for the production of tea drinks, such as dairy products, tea leaves and fruits, as well as packaging materials and store equipment. We also sell packaging materials to third-party purchasers that are manufactured by Senmian New Materials, such as biodegradable straws and cups;

SUMMARY

- royalty and franchising income, consisting of non-refundable upfront initial fees, royalty income and pre-opening training service fees; and
- other revenue, which were mainly derived from (i) our design services in relation to ChaPanda stores, (ii) our online operation and management services in relation to the collaboration with third-party online delivery platforms and (iii) incomes from our self-operated ChaPanda stores.

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

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

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

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

SUMMARY

OUR STORE OPERATION MODEL

We primarily operate our ChaPanda network through a franchise model. We believe our franchise model is key to our rapid business growth and our established success. On the one hand, by partnering with qualified franchisees, we efficiently scale up our business across China, which is evidenced by our industry-leading position. Our franchisees are individuals selected through strict onboarding process who operate franchised stores through their sole proprietors, partnerships and other legal forms. We require our franchisees to possess extensive experience in operating franchised stores and tea drink shops, such as in terms of industry knowledge, brand understanding, store location expertise, business development and expansion capabilities and other prior experiences. On the other hand, we ensure that consumers receive consistent, satisfactory products and services through our franchise model. As of December 31, 2021, 2022, 2023 and the Latest Practicable Date, there were 5,070, 6,352, 7,795 and 8,010 franchised stores in our ChaPanda store network, respectively, each representing more than 99.0% of total ChaPanda stores under operation as of the respective dates. Our involvement in the operation of franchised stores is comprehensive, such as participation in planning and location selection. We also provide in-depth training to franchisees and in-store staff on various aspects, such as procurement, staff recruitment, quality control and daily management. Additionally, we supply raw materials, equipment, and provide logistics, operation and marketing services to support our franchisees in their pursuit of success. Franchisees primarily focus on the day-to-day operation and maintenance of their stores, on-site staff management and customer service. As of December 31, 2021, 2022 and 2023, we had 4,634, 5,396 and 5,538 franchisees, respectively, among which 129, 363 and 595 franchisees opened more than two stores, respectively.

We also strategically maintain a limited number of self-operated stores in selected cities to create immersive consumer experience and to serve as a prominent representation of our brand. Our self-operated stores followed the same standards we set for the franchised stores. As of December 31, 2021, 2022, 2023 and as of the Latest Practicable Date, we had seven, nine, six and six self-operated ChaPanda stores, respectively.

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

	For the year ended December 31,					
	2021		2022		2023	
	Revenue	% of total revenue	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

SUMMARY

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	1,301,040	35.7	1,456,189	34.4	1,963,782	34.4

OUR CHAPANDA STORE NETWORK

Our ChaPanda store network in China comprises stores strategically dispersed across different tiers of cities. While maintaining our position in first-tier and new first-tier cities to enhance our brand identity and keep up with the ever-changing market trend, we have been penetrating and will continue to penetrate into lower-tier cities with promising potential for consumption growth. This deliberate distribution ensures that we reach a broad spectrum of consumers and establish brand visibility across all tiers of cities. We aim to steadily grow our ChaPanda store network in both domestic and overseas markets. In January 2024, the first ChaPanda store in overseas market was launched in Seoul, South Korea. See “—Recent Development and No Material Adverse Change.”

The following table sets forth a breakdown of our store coverage by city tier in China as of December 31, 2021, 2022 and 2023.

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

SUMMARY

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

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

Operation Performance

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

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

SUMMARY

Notes:

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

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

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

Note:

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

OUR COMPETITIVE STRENGTHS AND GROWTH STRATEGIES

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

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

SUMMARY

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

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

OUR CUSTOMERS AND SUPPLIERS

Our customers primarily include the franchisees who operate franchised ChaPanda stores pursuant to the franchise agreements with us. We generated substantially all of our revenue from the sale of goods and equipment to franchised stores as well as the royalty and franchising income charged to our franchisees. In our ordinary course of business, we also sell packaging materials to external customers. We manufacture packaging materials, such as biodegradable straws and cups, through Senmian New Materials, which are used in our products as well as provided to third-party purchasers. See “Business—Supply Chain Management—Senmian Facility” for further details about our manufacturing facility. In 2021, 2022 and 2023, our five largest customers in each year comprised our franchisees, including certain franchisees who also acted as regional service providers and external customers who purchased packaging materials from us. In 2021, 2022 and 2023, revenue from our five largest customers in each year accounted for 3.7%, 1.0% and 0.8% of our total revenue for the respective periods. During the Track Record Period, we were not subject to any material customer concentration risk.

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

SUMMARY

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

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

Consolidated Statements of Profit or Loss and Other Comprehensive Income

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

	For the year ended December 31,					
	2021		2022		2023	
	RMB	% of Revenue	RMB	% of Revenue	RMB	% of Revenue
	(in thousands, except percentages)					
Revenue	3,644,209	100.0	4,231,670	100.0	5,704,307	100.0
Cost of sales	(2,343,169)	(64.3)	(2,775,481)	(65.6)	(3,740,525)	(65.6)
Gross profit	1,301,040	35.7	1,456,189	34.4	1,963,782	34.4
Other income	3,587	0.1	39,221	0.9	65,495	1.1
Loss on fair value change of redeemable shares with other preferential rights	–	–	–	–	(75,838)	(1.3)
Other gains and losses, net . . .	10,897	0.3	19,380	0.4	28,483	0.5
Distribution and selling expenses	(19,125)	(0.5)	(60,684)	(1.4)	(130,996)	(2.3)
Administrative expenses	(358,435)	(9.8)	(291,846)	(6.9)	(420,454)	(7.4)
Research and development expenses	–	–	(3,581)	(0.1)	(16,417)	(0.3)
Other expenses	(7,432)	(0.2)	(1,323)	(0.0)	(13,580)	(0.2)
Listing expenses	(6,192)	(0.2)	(2,042)	(0.0)	(30,935)	(0.5)
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

SUMMARY

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

Non-IFRS Measures

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

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

For the year ended December 31,			
	2021	2022	2023
(RMB in thousands)			
Reconciliation of profit for the year,			
EBITDA (non-IFRS measure) and			
adjusted EBITDA (non-IFRS			
measure)			
Profit for the year	778,517	964,759	1,150,780

SUMMARY

	For the year ended December 31,		
	2021	2022	2023
(RMB in thousands)			
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
EBITDA (non-IFRS measure)	948,835	1,201,595	1,429,593
Add:			
Listing expenses charged in profit or loss ⁽²⁾	6,192	2,042	30,935
Equity-settled share-based payment expenses ⁽³⁾	114,876	–	–
Loss on fair value change of redeemable shares with other preferential rights ⁽⁴⁾	–	–	75,838
Adjusted EBITDA (non-IFRS measure)	1,069,903	1,203,637	1,536,366
Adjusted EBITDA margin (non-IFRS measure)⁽⁵⁾	29.4%	28.4%	26.9%
Reconciliation of profit for the year and adjusted net profit (non-IFRS measure)			
Profit for the year	778,517	964,759	1,150,780
Add:			
Listing expenses charged in profit or loss ⁽²⁾	6,192	2,042	30,935
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%

SUMMARY

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) Listing expenses charged in profit or loss relate to the Global Offering.
- (3) Equity-settled share-based payment expenses represent the fair value of the shares granted at the date of grant with taking into account the consideration for subscription of the equity interests. See Note 31 to the Accountants' Report included in Appendix I to this Prospectus 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. The redeemable shares with other preferential rights will be redesignated from liability to equity as a result of termination of special rights upon listing of the company. See Note 26 to the Accountants' Report included in Appendix I to this Prospectus for details. The item is adjusted as it is non-cash and is not expected to result in our future cash payments.
- (5) Calculated using adjusted EBITDA (non-IFRS measure) divided by revenue for a given period.
- (6) Calculated using adjusted net profit (non-IFRS measure) divided by revenue for a given period.

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

Consolidated Statements of Financial Position

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

	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	<u>1,048,340</u>	<u>1,682,904</u>	<u>3,085,498</u>
Total non-current liabilities	215,371	192,408	1,212,399
Total current liabilities	531,944	827,880	1,026,453
Total liabilities	<u>747,315</u>	<u>1,020,288</u>	<u>2,238,852</u>
Net current assets	<u>316,097</u>	<u>521,393</u>	<u>1,575,395</u>
Net assets	<u>301,025</u>	<u>662,616</u>	<u>846,646</u>

SUMMARY

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

Our net current assets increased from RMB521.4 million as of December 31, 2022 to RMB1,575.4 million as of December 31, 2023, primarily due to (i) the increase in cash and cash equivalents of RMB490.0 million primarily in relation to the Pre-IPO 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-IPO Investors and the principal terms of the Pre-IPO Investments, see “History, Reorganization and Corporate Structure—Pre-IPO Investments.”

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

Consolidated Statements of Cash Flows

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

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

SUMMARY

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

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

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

SUMMARY

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 ⁽⁵⁾	1.59	1.63	2.53
Quick ratio ⁽⁶⁾	1.38	1.40	2.34

Notes:

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

Rule 13.46(2) of the Listing Rules requires a PRC issuer to send an annual report or a summary financial report to its shareholders within four months after the end of the financial year to which the report relates. Since (1) this Prospectus already includes the financial information of the Company for the year ended December 31, 2023 as required under Appendix D2 to the Listing Rules in relation to annual reports; (2) we will not be in breach of the Articles of Association, laws and regulations of the PRC or other regulatory requirements as a result of not distributing such annual reports and accounts; and (3) we have complied with the applicable code provisions in Part 2 of the Corporate Governance Code as set out in Appendix C1 to the Listing Rules, we will not separately prepare and publish and send an annual report to our Shareholders for the year ended December 31, 2023. In addition, we will issue an announcement by April 30, 2024 stating that we will not separately prepare and send an annual report to our Shareholders for the year ended December 31, 2023 as the relevant financial information has been included in this Prospectus. We will still comply with the requirements under Rule 13.91(5) of the Listing Rules.

SUMMARY

RISK FACTORS

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

- Failure to maintain, protect and enhance our ChaPanda brand would limit our ability to expand or retain our consumer base, which would materially and adversely affect our business, financial condition and results of operations.
- Our business is highly dependent on consumer taste, preferences and perceptions, as well as consumers' discretionary spending. We may not be able to respond to market dynamics and consumer preferences effectively, or at all.
- The industry in which we operate is highly competitive. We are faced with increasingly intense competition with other leading players within China's freshly-made tea shop industry.
- Our recent rapid growth may not be indicative of our future growth, and we may not be able to sustain our growth rate in the future.
- Our ChaPanda store network consists primarily of franchised stores that are operated by third parties. Our results of operations are significantly subject to the performance of the franchised stores. We cannot control and may not be able to effectively monitor the operations of these stores or maintain our current relationships with the franchisees.
- Failure to maintain the quality, safety and hygiene standards of our products could have a material and adverse effect on our reputation, financial condition and results of operations.

COMPETITION

The freshly-made tea shops industry in China is highly competitive. In 2023, the market size of China's freshly-made tea shop market was RMB247.3 billion, with the top five players collectively accounting for approximately 40.2% of the market share in terms of retail sales value, according to Frost & Sullivan. Our ChaPanda brand ranked third with a market share of approximately 6.8%. We are faced with increasingly intense competition with other leading players in various aspects of our business, including product innovation, product quality, consumer experience as well as consumer acquisition and retention. The competition may be increasingly intense in the future due to the growing number of freshly-made tea shop brands and the lack of clear differentiation in product offerings, pricing and other key aspects among these brands. The proximity of freshly-made tea shops under different brands in adjacent areas also contributes to heightened competition. See "Industry Overview—Analysis of China's Freshly-Made Tea Shop Industry—Challenges of China's Freshly-Made Tea Shop Industry" and "Risk Factors—Risks Relating to Our Business and Industry—The industry in which we operate is highly competitive. We are faced with increasingly intense competition with other leading players within China's freshly-made tea shop industry" for details about the fierce competition in the market.

SUMMARY

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

LEGAL PROCEEDINGS AND NON-COMPLIANCE

During the Track Record Period, we had certain non-compliance incidents with respect to leased properties and social insurance and housing provident funds. For details, see “Business—Properties—Leased Properties.” Our Directors, as advised by our PRC Legal Advisor, confirm that during the Track Record Period and as of the Latest Practicable Date, we had not been and were not a party to any material legal, arbitral, administrative proceedings or non-compliance incidents that led to fines, enforcement actions or other penalties, which could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations. Our Directors are of the view that, we had complied, in all material respects, with all relevant laws and regulations in the PRC during the Track Record Period and up to the Latest Practicable Date.

GLOBAL OFFERING STATISTICS

The statistics in the following table are based on the assumptions that: (i) the Share Subdivision is completed; (ii) the Global Offering is completed and 147,763,400 Offer Shares are issued and sold in the Global Offering; (iii) the Over-Allotment Option is not exercised; and (iv) 1,477,634,250 Shares are in issue upon completion of the Global Offering:

	Based on an Offer Price of HK\$17.50 per H Share
Our market capitalization of our Shares ⁽¹⁾	HK\$25,858.6 million
Unaudited pro forma adjusted consolidated net tangible assets per Share ⁽²⁾⁽³⁾	HK\$2.39

Notes:

- (1) The calculation of the market capitalization of our Shares is based on the assumption that the Share Subdivision is completed, and 1,477,634,250 Shares will be in issue and outstanding immediately following the completion of the Global Offering (assuming the Over-Allotment Option is not exercised). The differences between the 1,477,634,250 Shares used for the calculation of the market capitalization and the 1,397,763,400 Shares used for the calculation of the unaudited pro forma adjusted consolidated net tangible assets per Share represent (i) 73,484,850 shares reclassified to ordinary shares under equity upon Termination of Potential Rights, and (ii) 6,386,000 shares issued and held by a limited partnership under the Pre-IPO Employee Incentive Scheme, which represent treasury shares held by our Company.

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- (2) The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at December 31, 2023 per Share is arrived at on the basis that 1,397,763,400 shares were in issue including 1,250,000,000 ordinary shares in issue as at December 31, 2023 and 147,763,400 H Shares assuming that the Share Subdivision and Global Offering had been completed on December 31, 2023 and without taking into account any Shares (i) which may be allotted and issued upon the exercise of the Over-Allotment Option, (ii) which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to the directors of our Company (iii) the 6,386,000 shares issued and held by a limited partnership under the Pre-IPO Employee Incentive Scheme, which represent treasury shares held by our Company, as disclosed in section F of “History, Reorganization and Corporate Structure” of the Prospectus, or (iv) the Termination of Potential Rights (as defined and described in note (4) below) of our redeemable shares with other preferential rights existing on December 31, 2023.
- (3) For the purpose of the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at December 31, 2023 per Share, the amount denominated in HK\$ has been converted into RMB at the rate of HK\$1 to RMB0.90629, which was the exchange rate prevailing on April 3, 2024 with reference to the rate published by the People’s Bank of China. No representation is made that the HK\$ amounts have been, could have been or may be converted to RMB, or vice versa, at that rate or any other rates or at all.
- (4) No adjustment has been made to unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at December 31, 2023 to reflect any trading result or other transactions of our Group entered into subsequent to December 31, 2023. In particular, the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company on the table above have not been adjusted to show the effect of the following:

In May and June 2023, our Company issued a total of 7,348,485 redeemable shares with other preferential rights (without taking into account the Share Subdivision) at a total cash consideration of RMB970,000,000 to pre-IPO investors as set out in section E of “History, Reorganization and Corporate Structure” of the Prospectus. Upon completion of the Global Offering, certain redemption and other preferential rights of these redeemable shares with other preferential rights (as detailed in note 26 of the Accountants’ Report of our Group set out in Appendix I to this Prospectus) existing on December 31, 2023 would be terminated (the “**Termination of Potential Rights**”), and assuming no further changes in fair value of the redeemable shares with other preferential rights existing on December 31, 2023 upon Global Offering, the carrying amount of RMB1,021,000,000 would have been reclassified to ordinary shares under equity.

Assuming the Termination of Potential Rights, Share Subdivision and Global Offering had been completed on December 31, 2023, the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company would have increased from approximately RMB3,036,790,000 to approximately RMB4,057,790,000 based on Offer Price of HK\$17.50 per H Share. The number of shares used for calculating the unaudited pro forma adjusted consolidated net tangible assets of our Group per Share would be 1,471,248,250 shares, comprising 1,250,000,000 shares in issue as at December 31, 2023, 73,484,850 shares reclassified to ordinary shares under equity upon Termination of Potential Rights, after the effect of the Share Subdivision, and 147,763,400 H Shares to be issued pursuant to Global Offering, respectively. It does not take into account any Shares which may be issued upon the exercise of the Over-Allotment Option, or any Shares which may be issued or repurchased pursuant to our Company’s general mandate. The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company per Share would have increased to RMB2.76 (equivalent to HK\$3.05) based on the Offer Price of HK\$17.50 per H Share.

All the amounts in this note have been converted from RMB to HK\$ at the rate of RMB0.90629 to HK\$1, which was the exchange rate prevailing on April 3, 2024 with reference to the rate published by the People’s Bank of China. No representation is made that RMB amounts have been, could have been or could be converted to HK\$, or vice versa, at that rate or at any other rates or at all.

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OUR SHAREHOLDING STRUCTURE

Our Controlling Shareholders

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

Immediately following the completion the Global Offering, the group of the Controlling Shareholders will be, in aggregate, entitled to control the exercise of approximately 82.73% of the voting rights (assuming the Over-Allotment Option is not exercised) or approximately 81.50% of the voting rights (assuming the Over-Allotment Option is exercised in full) and thus remain as a group of Controlling Shareholders.

Pre-IPO Investments

We conducted the Pre-IPO Investments with the Pre-IPO Investors, namely, Tower Quality, LVC Tanying, Suzhou Yuexiang, Xinjin Shengwang, Yellow Tomato LP and CICC Tongfu. Immediately following the completion of the Global Offering, assuming that the Over-Allotment Option is not exercised, the Pre-IPO Investors will hold approximately 4.97% of the issued Shares. For further details of the identity and background of the Pre-IPO Investors and the principal terms of the Pre-IPO Investments, see “History, Reorganization and Corporate Structure—Pre-IPO Investments.”

DIVIDENDS

Our Company declared a dividend of RMB379.0 million with RMB3.79 per share for the year ended December 31, 2021 and a dividend of RMB600.0 million with RMB6.0 per share for the year ended December 31, 2022, which had been paid in full as of December 31, 2021 and December 31, 2022, respectively. In February, March and April 2023, our Company declared three batches of dividends totaling RMB596.5 million with RMB5.97 per share, of which RMB500.0 million had been paid during the same year, and RMB96.5 million was netted-off against amounts due from Shareholders. On October 23, 2023, our Company declared a dividend of RMB449.5 million with RMB3.38 per share from our distributable historical retained profits, which has been fully paid in November 2023 with our internal resources. See Note 12 to the Accountants’ Report included in Appendix I to this Prospectus for details. As of the Latest Practicable Date, we did not have a formal dividend policy or a fixed dividend distribution ratio. The Board has approved a dividend policy, which will become

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effective upon Listing. Under the dividend policy, we may provide our Shareholders with interim or annual dividends as the Board deems appropriate. The Board will consider, among other things, the following factors when proposing dividends and determining the amount of dividends:

- our actual and projected financial performance;
- our estimated working capital requirements, capital expenditure requirements and future business expansion plan;
- our present and future cash flow;
- other internal and external factors that may have an impact on our business operations or financial performance and position; and
- other factors that our Board deem relevant.

Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents, including (where required) the approval of our Shareholders.

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.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$2,455.9 million, after deducting underwriting commissions, fees and estimated expenses payable by us in connection with the Global Offering, assuming no Over-Allotment Option is exercised, at the Offer Price of HK\$17.50 per H Share.

We intend to use the net proceeds as follows:

- approximately 51.0%, or HK\$1,252.5 million, will be used to improve our overall operation capabilities and strengthen our supply chain.
- approximately 20.0%, or HK\$491.2 million, will be used to develop our digitalization capabilities, and engage and train professional talents.
- approximately 12.0%, or HK\$294.7 million, will be used in branding and promoting activities.

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- approximately 5.0%, or HK\$122.8 million, will be used to promote our self-operated coffee brand and develop the coffee shop network across China.
- approximately 2.0%, or HK\$49.1 million, will be used for our product development and innovation, including recruiting, training and retaining in-house research and development personnel and building a research and development center at our headquarter equipped with advanced software and hardware to streamline and enhance our product development endeavors.
- the remaining approximately 10.0%, or HK\$245.6 million, will be used for working capital and general corporate purposes.

For further details, see “Future Plans and Use of Proceeds.”

LISTING EXPENSES

Our listing expenses mainly include (i) underwriting-related expenses, such as underwriting fees and commissions, and (ii) non-underwriting-related expenses, comprising professional fees paid to our legal advisors and Reporting Accountants for their services rendered in relation to the Listing and the Global Offering, and other fees and expenses. Assuming full payment of the discretionary incentive fee, the estimated total listing expenses (based on the Offer Price of HK\$17.50 per H Share and assuming that the Over-Allotment Option is not exercised) for the Global Offering are approximately HK\$130.0 million, accounting for approximately of 5.0% of our gross proceeds. Among such estimated total listing expenses, we expect to pay underwriting-related expenses of HK\$77.8 million, professional fees for our legal advisors and Reporting Accountants of HK\$40.7 million and other fees and expenses of HK\$11.5 million. An estimated amount of HK\$8.2 million for our listing expenses, accounting for approximately 0.3% of our gross proceeds, is expected to be expensed through the statement of profit or loss and an estimated amount of HK\$78.5 million is expected to be recognized directly as a deduction from equity upon the Listing. We recognized listing expenses of RMB6.2 million, RMB2.0 million and RMB30.9 million in 2021, 2022 and 2023 in our consolidated statements of profit or loss and other comprehensive income, respectively.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

As of the Latest Practicable Date, the ChaPanda store network in China comprised 8,010 franchised stores and six self-operated stores, spanning across 31 provinces and municipalities, covering all provinces and different tiers of cities in China. For the two months ended February 29, 2024, we experienced a steady growth in our business and financial performance. Our total retail sales value amounted to RMB2,544.4 million and our total retail sales volume amounted to 156.0 million cups for such period. We also recorded a consistent increase in our revenue and gross profit in January and February 2024, as compared to the corresponding month last year. In addition, the first ChaPanda store in overseas market was launched in January 2024 in Seoul, South Korea, which is operated under a specific brand license agreement with our

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

Impact of COVID-19

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

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

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

Regulatory Update

Cybersecurity-related Regulations

Revised CAC Measures

On January 4, 2022, the CAC published the Revised CAC Measures on its website, which became effective on February 15, 2022. See “Regulatory Overview—Regulations on Cyber Security, Information Security, Privacy and Data Protection” for details. As of the Latest Practicable Date, (i) we have not received any notice or determination from competent PRC government authorities identifying us as a critical information infrastructure operator; (ii) although we have possessed approximately 103.4 million users’ personal information, including approximately 103.1 million from registered members and approximately 0.3 million from franchisees, which is over one million users’ personal information, we intend to be listed

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in Hong Kong, not “listed abroad” (國外上市), which is confirmed by the China Cybersecurity Review Technology and Certification Center (the “CCRC”); (iii) we had not received any notification that the data we currently process has been determined to be important data or core data, nor had we received any notification from any regulatory authority regarding the identification of important data or core data; and (iv) we have not been involved in any investigation on data processing activities that affects or may affect national security, nor have we been involved in any investigation on cybersecurity review made by the PRC government authorities or received any inquiry, notice, warning or sanctions from the PRC government authorities. According to our phone consultation with the CCRC, an institution authorized by the CAC to conduct cybersecurity review, the CCRC verbally confirmed that “listed abroad” (國外上市) stipulated in the Revised CAC Measures does not include “listed in Hong Kong,” and further confirmed that we does not need to apply for a cybersecurity review for listing in Hong Kong. As advised by our PRC Legal Advisor and to the best knowledge of our Company, we do not need to apply for cybersecurity review under the current regulatory regime, and the risk of us being required to undertake cybersecurity review in the future is remote. See also “Business—User Privacy and Data Security—Cybersecurity Review” for details.

Draft Cyber Data Security Regulations

On November 14, 2021, the CAC published the Draft Cyber Data Security Regulations, which apply to activities relating to the use of networks to carry out data processing activities within the territory of the PRC. See “Regulatory Overview—Regulations on Cyber Security, Information Security, Privacy and Data Protection” for details. Our PRC Legal Advisor advises that the Draft Cyber Data Security Regulations are applicable to the data processing activities of certain of our subsidiaries in the PRC, if the draft regulations were to be implemented in their current form. As of the Latest Practicable Date, we had not been subject to any material administrative penalties, mandatory rectifications, or other sanctions by any competent regulatory authorities in relation to cybersecurity and data protection, nor had there been material cybersecurity and data protection incidents or infringement upon any third parties, or other legal proceedings, administrative or governmental proceedings, pending or, to the best of our knowledge, threatened against or relating to us. Additionally, as of the Latest Practicable Date, the Draft Cyber Data Security Regulations is still a draft and its anticipated adoption or effective date remains unclear. If the Draft Cyber Data Security Regulations were to be implemented in its current form, based on the foregoing and a detailed analysis of its provisions by our PRC Legal Advisor, we and our PRC Legal Advisor do not foresee any impediment for us to comply with the Revised CAC Measures and the Draft Cyber Data Security Regulations in any material aspect. See also “Business—User Privacy and Data Security—Cybersecurity Review” for details.

Recent Regulatory Developments Relating to Overseas Listing

On February 17, 2023, the CSRC promulgated the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Enterprises (《境內企業境外發行證券和上市管理試行辦法》) (the “**Trial Administrative Measures**”) and five supporting guidelines, which has become effective on March 31, 2023. The Trial Administrative Measures,

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require, among others, that PRC domestic enterprises that seek to offer and list securities in overseas markets, either directly or indirectly, file the required documents with the CSRC within three business days after its application for overseas listing is submitted. We received the filing notice issued by the CSRC dated December 20, 2023 indicating that we have completed the filing application. See “Regulatory Overview—Regulations on M&A and Overseas Listing.”

No Material Adverse Change

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

DEFINITIONS

In this Prospectus, unless the context otherwise requires, the following terms and expressions have the meanings set forth below. Certain other terms are explained in the section headed “Glossary of Technical Terms” in this Prospectus.

“affiliate”	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“AFRC”	The Accounting and Financial Reporting Council of Hong Kong
“AIC”	Administration of Industry & Commerce* (工商行政管理機關) of the PRC (now known as the Administration for Market Regulation* (市場監督管理局)) or, where the context so requires, the State Administration for Industry & Commerce of the PRC (中華人民共和國工商行政管理總局) or its delegated authority at the provincial, municipal or other local level
“Articles of Association” or “Articles”	the articles of association of our Company, as amended, which shall become effective on the Listing Date, a summary of which is set out in Appendix V to this Prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Beijing Shuxin”	Beijing Shuxin Tongyuan Enterprise Management Co., Ltd.* (北京蜀信同源企業管理有限公司), a limited liability company incorporated under the laws of the PRC on November 15, 2023, and a wholly-owned subsidiary of the Company
“Board” or “Board of Directors”	the board of Directors
“Business Day”	a day on which banks in Hong Kong are generally open for normal business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong

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“Cafrui Consulting”	Hainan Cafrui Enterprise Management Consulting Co., Ltd.* (海南咖弗瑞企業管理諮詢有限公司), a limited liability company incorporated under the laws of the PRC on May 12, 2023, and an indirectly wholly-owned subsidiary of the Company
“Cafrui Industrial”	Hainan Cafrui Industrial Co., Ltd.* (海南咖弗瑞實業有限公司), a limited liability company incorporated under the laws of the PRC on April 24, 2023, and a wholly-owned subsidiary of the Company
“Capital Market Intermediaries” or “Capital Market Intermediary(ies)” or “CMI(s)”	the capital market intermediaries participating in the Global Offering and has the meaning ascribed thereto under the Listing Rules
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Chadandang”	Sichuan Chadandang Logistics Distribution Co., Ltd.* (四川茶擔當物流配送有限公司), a limited liability company incorporated under the laws of the PRC on January 26, 2021, and an indirectly wholly-owned subsidiary of the Company
“ChaPanda Catering”	Chengdu Chabaidao Catering Management Co., Ltd.* (成都茶百道餐飲管理有限公司), a limited liability company incorporated under the laws of the PRC on February 21, 2017 and deregistered on February 22, 2024
“ChaPanda E-commerce”	Sichuan Chabaidao E-commerce Co., Ltd.* (四川茶百道電子商務有限公司), a limited liability company incorporated under the laws of the PRC on February 11, 2022, and a wholly-owned subsidiary of the Company
“ChaPanda Training”	Chengdu Chabaidao Skills Training Co., Ltd.* (成都市茶百道職業技能培訓學校有限公司), a limited liability company incorporated under the laws of the PRC on September 18, 2021, and a wholly-owned subsidiary of the Company

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“Chashanli Catering”	Chengdu Chashanli Catering Management Co., Ltd.* (成都茶山里餐飲管理有限公司) a limited liability company incorporated under the laws of the PRC on December 22, 2022, and an indirectly wholly-owned subsidiary of the Company
“Chengdu Jinbosen”	Chengdu Jinbosen Enterprise Management Co., Ltd.* (成都錦柏森企業管理有限公司), a limited liability company incorporated under the laws of the PRC on October 17, 2018, which is held as to 60% by Mr. Wang and 40% by Ms. Liu, and is one of our Controlling Shareholders
“China” or “PRC”	the People’s Republic of China which, for the purpose of this Prospectus and for geographical reference only, excludes Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company,” “our Company” or “the Company”	Sichuan Baicha Baidao Industrial Co., Ltd. (四川百茶百道實業股份有限公司), a joint stock company incorporated under the laws of PRC with limited liability on December 31, 2020
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“connected transaction(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and unless the context otherwise requires, refers to Mr. Wang, Ms. Liu, Chengdu Jinbosen, Hengsheng Herui and Tongchuang Gongjin. See “Relationship with Our Controlling Shareholders” in this Prospectus

DEFINITIONS

“Corporate Governance Code”	the Corporate Governance Code set out in Appendix C1 to the Listing Rules
“CSDCC”	China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限責任公司)
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Dabaika”	Dabaika (Xi’an) Catering Management Co., Ltd.* (達百咖(西安)餐飲管理有限公司), a limited liability company incorporated under the laws of the PRC on March 12, 2024, and an indirectly wholly-owned subsidiary of the Company
“Director(s)”	the director(s) of our Company
“EIT”	enterprise income tax
“EIT Law”	Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法)
“Exchange Participant”	a person (a) who, in accordance with the Rules of the Stock Exchange, may trade on or through the Stock Exchange; and (b) whose name is entered in a list, register or roll kept by the Stock Exchange as a person who may trade on or through the Stock Exchange
“Extreme Conditions”	any extreme conditions or events, the occurrence of which will cause interruption to the ordinary course of business operations in Hong Kong and/or that may affect the Global Offering
“FINI”	“Fast Interface for New Issuance,” the online platform operated by HKSCC that is mandatory for admission to trading and, where applicable, the collection and processing of specified information on subscription in and settlement for the Listing
“Founder(s)”	individually and collectively, Mr. Wang and Ms. Liu

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“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a market research and consulting company and Independent Third Party, which prepared the Frost & Sullivan Report
“Frost & Sullivan Report”	the industry report prepared by Frost & Sullivan and commissioned by our Group regarding the freshly-made tea shop industry in China
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Group,” “our Group,” “we” or “us”	our Company, our subsidiaries and the legal entities whose financial results had been consolidated to our consolidated financial statements as included in Appendix I to this Prospectus (or our Company and any one or more of such subsidiaries and legal entities, as the context may require)
“H Share(s)”	overseas listed foreign share(s) in the share capital of our Company with a nominal value of RMB0.1 each, which is/are to be subscribed for and traded in HK dollars and to be listed on the Stock Exchange
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hengsheng Herui”	Sichuan Hengsheng Herui Industrial Group Co., Ltd.* (四川恒盛合瑞實業集團有限公司), formerly known as Sichuan Hengsheng Herui Industrial Co., Ltd.* (四川恒盛合瑞實業有限公司), a limited liability company incorporated under the laws of PRC on November 20, 2018, a promoter of the Company, and one of our Controlling Shareholders
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited

DEFINITIONS

“HKSCC EIPO”	the application for the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your designated HKSCC Participant’s stock account through causing HKSCC Nominees to apply on your behalf, including by instructing your broker or custodian who is a HKSCC Participant to give electronic application instructions via HKSCC’s FINI system to apply for the Hong Kong Offer Shares on your behalf
“HKSCC Operational Procedures”	the operational procedures of HKSCC, containing the practices, procedures and administrative or other requirements relating to HKSCC’s services and the operations and functions of CCASS, FINI or any other platform, facility or system established, operated and/or otherwise provided by or through HKSCC, as from time to time in force
“HKSCC Participant”	a participant admitted to participate in CCASS as a direct clearing participant, a general clearing participant or a custodian participant
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Offer Shares”	the 14,776,400 H Shares offered by us for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to adjustment as described in the section headed “Structure of the Global Offering” in this Prospectus)
“Hong Kong Public Offering”	the offering of the Hong Kong Offer Shares for subscription by the public in Hong Kong (subject to adjustment as described in the section headed “Structure of the Global Offering” in this Prospectus) at the Offer Price (plus brokerage, SFC transaction levy, Stock Exchange trading fee and AFRC transaction levy), on and subject to the terms and conditions described in the section headed “Structure of the Global Offering” in this Prospectus

DEFINITIONS

“Hong Kong Underwriters”	the underwriters listed in the paragraph headed “Hong Kong Underwriters” in the section headed “Underwriting” in this Prospectus, being the underwriters of the Hong Kong Public Offering
“Hong Kong Underwriting Agreement”	the underwriting agreement dated April 12, 2024 relating to the Hong Kong Public Offering entered into by, among others, our Company, the Sole Sponsor, the Sole Overall Coordinator and the Hong Kong Underwriters, as further described in “Underwriting—Underwriting arrangements and expenses—Hong Kong Public Offering—Hong Kong Underwriting Agreement”
“IFRS”	the International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by IASB and the International Accounting Standards (IAS) and interpretations issued by the International Accounting Standards Board (“ IASB ”)
“Independent Third Party(ies)”	any entity(ies) or person(s) who is not a connected person of our Company within the meaning of the Hong Kong Listing Rules
“International Offer Shares”	the 132,987,000 H Shares initially offered by our Company pursuant to the International Offering (subject to adjustment as described in the section headed “Structure of the Global Offering” in this Prospectus) together with any additional H Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-Allotment Option
“International Offering”	the offer of the International Offer Shares (a) in the United States solely to QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act or (b) outside the United States in offshore transactions in reliance on Regulation S, at the Offer Price, in each case on and subject to the terms and conditions of the International Underwriting Agreement, as further described in “Structure of the Global Offering” in this Prospectus

DEFINITIONS

“International Underwriters”	the underwriters who is/are expected to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the underwriting agreement relating to the International Offering expected to be entered into on or about April 18, 2024, by, among others, our Company, the Sole Sponsor, the Sole Overall Coordinator and the International Underwriters, as further described in “Underwriting—International Offering” in this Prospectus
“IPO”	initial public offering
“Joint Bookrunners”	the joint bookrunners as named in the section headed “Directors, Supervisors and Parties Involved in the Global Offering”
“Joint Global Coordinators”	the joint global coordinators as named in the section headed “Directors, Supervisors and Parties Involved in the Global Offering”
“Joint Lead Managers”	the joint lead managers as named in the section headed “Directors, Supervisors and Parties Involved in the Global Offering”
“Latest Practicable Date”	April 5, 2024 being the latest practicable date for the purpose of ascertaining certain information contained in this Prospectus prior to its publication
“Listing”	listing of the H Shares on the Main Board of the Stock Exchange
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about Tuesday, April 23, 2024, on which our H Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules” or “Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with Growth Enterprise Market of the Stock Exchange
“MIIT”	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“Ministry of Finance” or “MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Wang”	Mr. Wang Xiaokun (王霄錕), our Founder, the chairman of the Board, an executive Director, the spouse of Ms. Liu, a promoter of the Company and one of our Controlling Shareholders
“Ms. Liu”	Ms. Liu Weihong (劉洧宏), our Founder, a Supervisor, the spouse of Mr. Wang and one of our Controlling Shareholders
“Mr. Wang Hongxue”	Mr. Wang Hongxue (汪紅學), an executive Director and the general manager (president)
“Ms. Dai Li”	Ms. Dai Li (戴利), an executive Director and the deputy general manager (centralized management center)
“Mr. Chen Keyuan”	Mr. Chen Keyuan (陳克遠), an executive Director and head of the legal and internal control center of the Group
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Nomination Committee”	the nomination committee of the Board
“Offer Price”	the offer price per Offer Share (exclusive of brokerage fee of 1.0%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015%) of HK\$17.50 at which the Offer Shares are to be subscribed or purchased pursuant to the Global Offering

DEFINITIONS

“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares, with any additional H Shares which may be allotted and issued pursuant to the exercise of the Over-Allotment Option
“Over-Allotment Option”	the option granted by us to the International Underwriters, exercisable by the Sole Overall Coordinator (for itself and on behalf of the International Underwriters) pursuant to the International Underwriting Agreement, to require our Company to allot and issue up to an aggregate of 22,164,400 additional H Shares at the Offer Price, representing 15% of the Offer Shares initially available under the Global Offering, to cover, among other things, over-allocations in the International Offering, if any
“PBOC”	People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC Company Law”	Company Law of the People’s Republic of China (中華人民共和國公司法), as amended, supplemented or otherwise modified from time to time
“PRC GAAP”	generally accepted accounting principles in the PRC
“PRC Government” or “State”	the central government of the PRC, including all governmental subdivisions (including principal, municipal and other regional or local government entities) and instrumentalities
“PRC Legal Advisor”	Jingtian & Gongcheng, our legal advisor as to PRC laws
“Pre-IPO Employee Incentive Scheme”	the pre-IPO employee incentive scheme of our Company approved and adopted on June 27, 2023, a summary of the principal terms of which is set forth in “Statutory and General Information—5. Pre-IPO Employee Incentive Scheme” in Appendix VI to this Prospectus

DEFINITIONS

“Pre-IPO Employee Incentive Platform” or “Tongchuang Gongjin”	Sichuan Tongchuang Gongjin Enterprise Management Partnership (Limited Partnership) (四川同創共進企業管理合夥企業(有限合夥)), a limited partnership established in the PRC on July 31, 2023, the pre-IPO employee incentive platform of our Group of which Mr. Wang is the sole general partner and one of our Controlling Shareholders
“Pre-IPO Investments”	the investments in our Company undertaken by the Pre-IPO Investors, the details of which are set out in the section headed “History, Reorganization and Corporate Structure” in this Prospectus
“Pre-IPO Investor(s)”	the investors from whom our Company obtained investments, namely, TOWER QUALITY LIMITED, Shanghai Tanying Investment Partnership (Limited Partnership)* (上海檀英投資合夥企業(有限合夥)), Suzhou Yuexiang Equity Investment Partnership (Limited Partnership)* (蘇州悅享股權投資合夥企業(有限合夥)), Chengdu Xinjin Shengwang Jiaozi New Consumer Equity Investment Fund Partnership (Limited Partnership)* (成都新津昇望交子新消費股權投資基金合夥企業(有限合夥)), Nanjing Yellow Tomato Equity Investment Partnership (Limited Partnership)* (南京黃番茄股權投資合夥企業(有限合夥)) and CICC Tongfu (Quanzhou) Consumer Industry Venture Capital Fund Partnership (Limited Partnership)* (中金同富(泉州)消費產業創業投資基金合夥企業(有限合夥))
“Prospectus”	this Prospectus being issued in connection with the Hong Kong Public Offering
“Province”	each being a province or, where the context requires, a provincial-level autonomous region or municipality under the direct supervision of the central government of the PRC
“Qingheli Shuka”	Chengdu Qingheli Shuka Catering Co., Ltd.* (成都青和里蜀咖餐飲有限公司), a limited liability company incorporated under the laws of the PRC on December 5, 2023, and an indirectly wholly-owned subsidiary of the Company

DEFINITIONS

“Qingkou Tea”	Fuzhou Qingkou Tea Industry Co., Ltd.* (福州市清口茶業有限公司), a limited liability company incorporated under the laws of the PRC on January 17, 2024 and was held by Sichuan Shuxin Tongyuan as to 67% and by an Independent Third Party (except for being a substantial shareholder thereof), Fuzhou Qingkou Ercha Tea Co., Ltd.* (福州市青口二茶茶業有限公司) as to 33%
“Qualified Institutional Buyer” or “QIB”	a qualified institutional buyer within the meaning of Rule 144A under the U.S. Securities Act
“Regulation S”	Regulation S under the U.S. Securities Act
“Remuneration Committee”	the remuneration committee of the Board
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	State Administration of Foreign Exchange of the PRC (中國國家外匯管理局)
“SAT”	State Administration of Taxation of the PRC (國家稅務總局)
“Securities and Futures Ordinance” or “SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Senmian New Materials”	Senmian New Materials Technology (Chengdu) Co., Ltd.* (森冕新材料科技(成都)有限公司), a limited liability company incorporated under the laws of the PRC on May 6, 2021 and was held by the Company as to 67% and by an Independent Third Party (except for being a substantial shareholder thereof), Yibin Senqian Enterprise Management Co., Ltd. (宜賓森乾企業管理有限公司) as to 33%
“SFC”	Securities and Futures Commission of Hong Kong

DEFINITIONS

“Shanghai-Hong Kong Stock Connect”	a securities trading and clearing links program developed by the Hong Kong Stock Exchange, Shanghai Stock Exchange, HKSCC and CSDCC for the establishment of mutual market access between Hong Kong and Shanghai, including Southbound Trading and Northbound Trading
“Share(s)”	ordinary share(s) in the share capital of our Company with a nominal value of RMB0.1 each upon the completion of the Share Subdivision; before the completion of the Share Subdivision, ordinary share(s) in the share capital of our Company with a nominal value of RMB1.0 each
“Share Subdivision”	the sub-division of the Shares by the Company where the Company subdivided its Share from one Share of RMB1.0 each into ten Shares of RMB0.1 each, which will become effective immediately prior to the Listing
“Shareholder(s)”	holder(s) of the Share(s)
“Shenzhen-Hong Kong Stock Connect”	a securities trading and clearing links program to be developed by the Stock Exchange, Shenzhen Stock Exchange, HKSCC and CSDCC for the establishment of mutual market access between Hong Kong and Shenzhen
“Shucha Huwei”	Shanghai Shucha Huwei Beverage Co., Ltd.* (上海蜀茶滬味飲品有限公司), a limited liability company incorporated under the laws of the PRC on June 7, 2021, and an indirectly wholly-owned subsidiary of the Company
“Shudu Chayi”	Chengdu Shudu Chayi Catering Management Co., Ltd.* (成都蜀都茶驛餐飲管理有限公司), a limited liability company incorporated under the laws of the PRC on November 21, 2022, and an indirectly wholly-owned subsidiary of the Company
“Shuka Catering”	Chengdu Hangzhong Road Shuka Catering Co., Ltd.* (成都航中路蜀咖餐飲有限公司), a limited liability company incorporated under the laws of the PRC on September 8, 2023, and an indirectly wholly-owned subsidiary of the Company

DEFINITIONS

“Shuwei Tea Rhyme”	Sichuan Shuwei Tea Rhyme Supply Chain Co., Ltd.* (四川蜀味茶韻供應鏈有限公司), a limited liability company incorporated under the laws of the PRC on January 12, 2021, and a wholly-owned subsidiary of the Company
“Shuxin Anhe”	Sichuan Shuxin Anhe Food Technology Development Co., Ltd.* (四川蜀信安和食品科技開發有限公司), a limited liability company incorporated under the laws of the PRC on May 28, 2021, and a wholly-owned subsidiary of the Company
“Shuxin Yuncha”	Sichuan Shuxin Yuncha Information Technology Co., Ltd.* (四川蜀信雲茶信息科技有限公司), a limited liability company incorporated under the laws of the PRC on August 10, 2021, and a wholly-owned subsidiary of the Company
“Shuxin Zhiyuan”	Sichuan Shuxin Zhiyuan Enterprise Management Consulting Co., Ltd.* (四川蜀信致遠企業管理諮詢有限公司), a limited liability company incorporated under the laws of the PRC on January 14, 2021, and a wholly-owned subsidiary of the Company
“Shuyunming Beverage”	Chengdu Shuyunming Beverage Co., Ltd. (成都蜀韻茗飲品有限公司), a limited liability company incorporated under the laws of the PRC on January 29, 2021, and an indirectly wholly-owned subsidiary of the Company
“Sichuan Shuxin Tongyuan”	Sichuan Shuxin Tongyuan Enterprise Management Consulting Co., Ltd.* (四川蜀信同源企業管理諮詢有限公司), a limited liability company incorporated under the laws of the PRC on October 19, 2023, and a wholly-owned subsidiary of the Company
“Sole Sponsor,” “Sponsor-OC,” “Sole Overall Coordinator” or “CICC”	China International Capital Corporation Hong Kong Securities Limited
“Stabilization Manager”	China International Capital Corporation Hong Kong Securities Limited
“State Council”	the State Council of the PRC (中華人民共和國國務院)

DEFINITIONS

“Stock Exchange” or “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Supervisor(s)”	member(s) of our Supervisory Committee
“Supervisory Committee”	the supervisory committee of our Company
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the financial years ended December 31, 2021, 2022 and 2023
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement, as the context may require
“Unlisted Share(s)”	ordinary share(s) issued by our Company, with a nominal value of RMB0.1 each (taking into account the Share Subdivision), which is/are not listed on any stock exchange
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. dollar” or “US\$” or “USD”	United States dollar, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended and supplemented or otherwise modified from time to time, and the rules and regulations promulgated thereunder

DEFINITIONS

“Wencha Catering”	Chengdu Wencha Catering Management Co., Ltd.* (成都溫茶餐飲管理有限公司), a limited liability company incorporated under the laws of the PRC on August 1, 2022, and an indirectly wholly-owned subsidiary of the Company
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of the White Form eIPO Service Provider at www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Wuhan Chaxin”	Wuhan Chaxin Beverage Co., Ltd* (武漢茶馨飲品有限公司), a limited liability company incorporated under the laws of the PRC on May 24, 2021, and deregistered on February 27, 2024
“Xiangbin Liangwei”	Chengdu Champagne Liangwei Catering Management Co., Ltd.* (成都香檳靚味餐飲管理有限公司), a limited liability company incorporated under the laws of the PRC on July 26, 2022, and an indirectly wholly-owned subsidiary of the Company
“Xinyuming Beverage”	Chengdu Xinyuming Beverage Co., Ltd.* (成都欣芋茗飲品有限公司), a limited liability company incorporated under the laws of the PRC on March 12, 2021, and an indirectly wholly-owned subsidiary of the Company

For ease of reference, the names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including our subsidiary) have been included in this Prospectus in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail.

* For identification purposes only

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain technical terms used in this Prospectus in connection with our Company and its business. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.

“active member”	members that purchased our products through our Weixin Mini Program in a given period
“CAGR”	compound annual growth rate
“Douyin”	Douyin (抖音), a leading social media short-form video app in China for creating and sharing short lip-sync, comedy, and talent videos
“first-tier cities”	for the purpose of this Prospectus, Beijing, Shanghai, Guangzhou and Shenzhen, which are determined in accordance with the Ranking of Chinese Cities’ Business Attractiveness 2022 (2022城市商業魅力排行榜) published by China’s leading media concern YiCai (第一財經), a ranking of China’s cities by indexes such as concentration of commercial resources, city as a hub, urban residents’ activity, lifestyle diversity and future potential
“fourth-tier and below cities”	for the purpose of this Prospectus, any other cities in China that are not categorized as first-tier, new first-tier, second-tier or third-tier cities
“high pressure processing” or “HPP”	a food processing technique which is believed to better preserve the flavor and nutrition of foods as compared to other traditional food processing techniques
“key opinion leader” or “KOL”	an influential individual on a social platform that consumers trust with purchasing decisions and popular opinions
“KPI”	key performance indicator

GLOSSARY OF TECHNICAL TERMS

“new first-tier cities”	for the purpose of this Prospectus, Chengdu, Xi’an, Wuhan, Suzhou, Zhengzhou, Chongqing, Hangzhou, Nanjing, Tianjin, Changsha, Dongguan, Ningbo, Hefei, Foshan and Qingdao, which are determined in accordance with the Ranking of Chinese Cities’ Business Attractiveness 2022 (2022城市商業魅力排行榜) published by China’s leading media concern YiCai (第一財經), a ranking of China’s cities by indexes such as concentration of commercial resources, city as a hub, urban residents’ activity, lifestyle diversity and future potential
“PLA”	plant-based polylactic acid
“repurchase rate”	calculated by dividing (i) the total number of registered members who purchased ChaPanda products, less the number of registered members who purchase ChaPanda products for only once, by (ii) the total number of registered members who purchased ChaPanda products, in a given period
“second-tier cities”	for the purpose of this Prospectus, Kunming, Shenyang, Jinan, Wuxi, Xiamen, Fuzhou, Wenzhou, Jinhua, Harbin, Dalian, Guiyang, Nanning, Quanzhou, Shijiazhuang, Changchun, Nanchang, Huizhou, Changzhou, Jiaxing, Xuzhou, Nantong, Taiyuan, Baoding, Zhuhai, Zhongshan, Lanzhou, Linyi, Weifang, Shaoxing and Yantai, which are determined in accordance with the Ranking of Chinese Cities’ Business Attractiveness 2022 (2022城市商業魅力排行榜) published by China’s leading media concern YiCai (第一財經), a ranking of China’s cities by indexes such as concentration of commercial resources, city as a hub, urban residents’ activity, lifestyle diversity and future potential
“SKU”	stock keeping unit
“store closure rate”	being the number of closed stores during a given period divided by the total number of stores as of the end of such period. For the purpose of this calculation, the stores temporarily closed are not included in the numerator

GLOSSARY OF TECHNICAL TERMS

“third-tier cities”	for the purpose of this Prospectus, Taizhou, Haikou, Urumqi, Luoyang, Langfang, Shantou, Huzhou, Xianyang, Yancheng, Jining, Hohhot, Yangzhou, Ganzhou, Fuyang, Tangshan, Zhenjiang, Handan, Yinchuan, Nanyang, Guilin, Taizhou, Zunyi, Jiangmen, Jieyang, Wuhu, Shangqiu, Lianyungang, Xinxiang, Huai’an, Zibo, Mianyang, Heze, Zhangzhou, Zhoukou, Cangzhou, Xinyang, Hengyang, Zhanjiang, Sanya, Shangrao, Xingtai, Putian, Liuzhou, Suqian, Jiujiang, Xiangyang, Zhumadian, Yichang, Yueyang, Zhaoqing, Chuzhou, Weihai, Dezhou, Tai’an, Anyang, Jingzhou, Yuncheng, Anqing, Chaozhou, Qingyuan, Kaifeng, Suzhou, Zhuzhou, Bengbu, Xuchang, Ningde, Lu’an, Yichun, Liaocheng and Weinan, which are determined in accordance with the Ranking of Chinese Cities’ Business Attractiveness 2022 (2022城市商業魅力排行榜) published by China’s leading media concern YiCai (第一財經), a ranking of China’s cities by indexes such as concentration of commercial resources, city as a hub, urban residents’ activity, lifestyle diversity and future potential
“Weibo”	Sina Weibo (新浪微博), a Chinese microblogging (weibo) website and social media platform
“Weixin”	Weixin (微信), a Chinese instant messaging, social media and mobile payment app

FORWARD-LOOKING STATEMENTS

We have included in this Prospectus forward-looking statements. Statements that are not historical facts, including but not limited to statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

This Prospectus contains forward-looking statements and information relating to us and our subsidiary that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this Prospectus, the words “aim,” “anticipate,” “believe,” “could,” “expect,” “going forward,” “intend,” “may,” “ought to,” “plan,” “project,” “seek,” “should,” “will,” “would,” “vision,” “aspire,” “target,” “schedules,” and the negative of these words and other similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the risk factors as described in this Prospectus, some of which are beyond our control and may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing us which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our operations and business prospects;
- our ability to maintain relationship with, and the actions and developments affecting, our major customers and suppliers;
- future developments, trends and conditions in the industries and markets in which we operate or plan to operate;
- general economic, political and business conditions in the markets in which we operate;
- changes to the regulatory environment in the industries and markets in which we operate;
- our ability to maintain the market leading positions;
- the actions and developments of our competitors;
- our ability to effectively contain costs and optimize pricing;
- the ability of third parties to perform in accordance with contractual terms and specifications;
- our ability to retain senior management and key personnel and recruit qualified staff;

FORWARD-LOOKING STATEMENTS

- our business strategies and plans to achieve these strategies, including our service and geographic expansion plans;
- our ability to defend our intellectual rights and protect confidentiality;
- the effectiveness of our quality control systems;
- change or volatility in interest rates, foreign exchange rates, equity prices, trading volumes, commodity prices and overall market trends; including those pertaining to the PRC and the industry and markets in which we operate; and
- capital market developments.

By their nature, certain disclosures relating to these and other risks are only estimates and should one or more of these uncertainties or risks, among others, materialize, actual results may vary materially from those estimated, anticipated or projected, as well as from historical results. Specifically but without limitation, sales could decrease, costs could increase, capital costs could increase, capital investment could be delayed and anticipated improvements in performance might not be fully realized.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this Prospectus are qualified by reference to the cautionary statements in this section as well as the risks and uncertainties discussed in the section headed “Risk Factors” in this Prospectus.

In this Prospectus, statements of or references to our intentions or those of our Directors were made as of the date of this Prospectus. Any such information may change in light of future developments.

RISK FACTORS

An investment in our H Shares involves a high degree of risk. You should carefully consider the following information about risks, together with the other information contained in this Prospectus, including our consolidated financial statements and related notes, before you decide to buy our H Shares. If any of the circumstances or events described below actually arises or occurs, our business, results of operations, financial condition and prospects would likely suffer. In any such case, the market price of our H Shares could decline and you may lose all or part of your investment. This Prospectus also contains forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors, including the risks described below.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Failure to maintain, protect and enhance our ChaPanda brand would limit our ability to expand or retain our consumer base, which would materially and adversely affect our business, financial condition and results of operations.

The recognition of our ChaPanda brand among consumers helps us manage our consumer acquisition costs and contributes to the growth and success of our business. Accordingly, maintaining, protecting and enhancing the recognition of our brand is critical to our business and market position. Failing that, our brand value and image will be undermined, and our businesses and results of operations may be materially and adversely affected. While we are expanding our scale and enlarging our geographical coverage, it will become more difficult for us to maintain quality and consistency of products and services, and we cannot assure you that consumers' trust in our brand will not decline.

Many factors, some of which are beyond our control, are important to maintaining, protecting and enhancing our brand, such as the following:

- maintaining the quality and attractiveness of our products;
- developing, launching or improving products that satisfy our consumers' needs;
- providing an enjoyable consumer experience;
- increasing brand awareness through marketing and brand promotion activities;
- maintaining good relationships and retaining favorable terms with our franchisees, suppliers, service providers and other business partners;
- ensuring compliance with relevant laws and regulations;

RISK FACTORS

- competing effectively against existing and future competitors; and
- preserving our reputation and goodwill generally and in the event of any negative publicity regarding our products, services and data security, or other issues affecting us or China's food and beverage industry in general.

Any events that will harm our reputation, such as liability claims, litigation, consumers' complaints, illegal activities conducted in ChaPanda stores or other negative publicity regarding ChaPanda stores, or any unlawful acts by other market participants as a result of using our brand illegally, may have a negative effect on our brand. In particular, our brand value may be affected by risks inherently associated with our franchise business model. For example, the wrongdoings of our individual franchisees may have a negative impact on consumers' perception of our brand and our overall brand value. Meanwhile, the poor performance of any franchised store or any negative publicity in relation to franchised stores relating to our products, IPs, operations and other business partners, even without merits, could materially and adversely affect consumer perceptions of our brand and result in decreased demand for our products. In addition, any public perception that we, or other industry participants, do not provide satisfactory products or services to consumers, even if factually incorrect or based on isolated incidents, could damage our reputation, diminish the value of our brand, undermine the trust and credibility we have established and have a negative impact on our ability to attract and retain consumers, and our business, financial condition and results of operations may be materially and adversely affected. We cannot assure that we will not receive any material consumer complaints or that no one will utilize our brand illegally, which could cause a material adverse effect on our future operations. Any damage to our reputation or brand may result in adverse impact on our business, financial condition and results of operations.

Our business is highly dependent on consumer taste, preferences and perceptions, as well as consumers' discretionary spending. We may not be able to respond to market dynamics and consumer preferences effectively, or at all.

The growth of the freshly-made tea shop market in China is affected by consumer taste, preferences and perceptions. Since our revenue is mainly generated from the sale of goods and equipment primarily to franchised stores as well as the royalty and franchising income received from our franchisees, any shift in consumer preferences, or a decrease or slowdown in the growth of freshly-made tea drinks consumption in China, would harm our business.

To respond to fluctuating market trends and evolving consumer taste, demand and preferences, we have continuously devoted significant resources to developing new products and improving existing products. However, there is no guarantee that we will always be able to effectively respond to market development and successfully identify, develop and promote new or improved products in the changing market, or that our new products will always be favored by consumers and commercially successful. There might be lack of consumer acceptance or reduced consumer demand for our products for many reasons, such as the increase in product price due to raw materials costs, changes in our membership program, or decreased demand for our existing products as our competitors introduce new products. If any of the foregoing risks materialized, our business, financial condition and results of operations could be adversely affected.

RISK FACTORS

In particular, our sales could be impacted by changes in consumer preferences due to dietary concerns, such as preferences regarding calories and sugar consumption. We offer a variety of options to consumers, including products without additional sugar and reduced calories; however, unfavorable publicity regarding the health effects of sugar or other compounds present in our products, whether accurate or not, or negative publicity or litigation arising from certain health risks, could significantly reduce the demand for our products and could materially harm our business and results of operations.

To a large extent, our success also depends on consumers' discretionary spending, which is influenced by macroeconomic conditions. For instance, in the event that the youth unemployment rate in China increased, the discretionary spending of the consumers of our tea drinks might be adversely affected given the target consumers of our tea drinks typically range between 18 to 35 years old. Any material decrease in the amount of consumers' discretionary spending in China may have a material adverse effect on our business, results of operations and financial condition.

The industry in which we operate is highly competitive. We are faced with increasingly intense competition with other leading players within China's freshly-made tea shop industry.

The freshly-made tea shop industry in China is highly competitive. There are approximately 3,000 freshly-made tea shop brands with approximately 420,000 stores in China's freshly-made tea shop market. In 2023, the market size of China's freshly-made tea shop market was RMB247.3 billion, with the top five players collectively accounting for approximately 40.2% of the market share in terms of retail sales value, according to Frost & Sullivan. Our ChaPanda brand ranked third with a market share of approximately 6.8%. We are faced with intense competition with other leading players in various aspects of our business, including product innovation, product quality, consumer experience as well as consumer acquisition and retention, and our measures to prevent cannibalization may not be effective. See "Business—Our ChaPanda Store Network—Store Location and Planning." The competition may be increasingly intense in the future due to the growing number of freshly-made tea shop brands and the lack of clear differentiation in product offerings, pricing and other key aspects among these brands. The proximity of freshly-made tea shops under different brands in adjacent areas also contributes to heightened competition. According to Frost & Sullivan, among the top ten shopping areas in China, which are ranked based on factors such as the population size of the business district, transportation facilities and business scale, there are approximately 50 freshly-made tea shops within a one-kilometer distance from each shopping area's center, and among the top ten shopping malls in China, which are ranked by the sales value, an average of ten freshly-made tea shops can be found within each shopping mall. We generally establish protective distances ranging from 50m to 400m between new and existing ChaPanda stores based on market analysis and an assessment of the performance of our competitors in adjacent areas. According to Frost & Sullivan, the range of our protective distance is in line with industry norm.

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We may fail to effectively compete against, or may be outperformed by the other leading players. For example, if we are unable to maintain the quality and attractiveness of our products, develop and launch new products that address our consumers' evolving demands, continuously optimize our consumer experience, or continue to enhance brand awareness, among other things, consumers may choose to switch from our products and services to those provided by the other leading players, which may have a material adverse impact on our results of operations, financial condition and business prospects. Additionally, our store expansion plan is closely linked to the local consumer demands. If our target market has been saturated by existing market players, we may face challenges to find prime locations for ChaPanda stores, potentially limiting expansion into potential markets and affecting our market share in such areas. The intensifying competition for desirable locations may also result in increased operational costs or compromises in store visibility and accessibility. There is no guarantee of the effectiveness of our measures to mitigate the risk of cannibalization. Even if we are able to remain competitive against the other leading players, we may incur a significant amount of additional costs, which could result in a reduced level of profitability for our business.

Our recent rapid growth may not be indicative of our future growth, and we may not be able to sustain our growth rate in the future.

Since our first store was launched in 2008 in Chengdu, Sichuan, we had achieved rapid growth with 8,016 ChaPanda stores in China as of the Latest Practicable Date. Our historical growth rate may not be sustainable or indicative of our future growth rate, and in future periods, our growth could be slower than we expect or decline. We believe that continued growth in our revenue and the retail sales value of ChaPanda stores, as well as our ability to improve margins and profitability, will depend upon, among other factors, our ability to address the challenges, risks, and difficulties described elsewhere in this "Risk Factors" section. We cannot provide assurance that we will be able to successfully manage any such challenges or risks to our future growth. Any of these factors could cause our revenue growth to slow down or decline and may adversely affect our margins and profitability.

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Our ChaPanda store network consists primarily of franchised stores that are operated by third parties. Our results of operations are significantly subject to the performance of the franchised stores. We cannot control and may not be able to effectively monitor the operations of these stores or maintain our current relationships with the franchisees.

We primarily operate the ChaPanda store network through a franchise model. Hence, our business operation depends on the success of, and cooperation with, our franchisees. We are subject to a number of risks relating to our franchise business model, each of which may have an material and adverse impact on our ability to collect fees from franchisees, our brand image, our business and results of operations. In particular, these risks include the following, among others:

- *Control over franchisees.* While we actively manage the key aspects of each store, our franchisees are responsible for the day-to-day operation of their stores. As a result, the ultimate success and quality of a franchised store rest with the franchisees to a large extent. We cannot ensure that our franchisees will stay in compliance with our internal requirements at all times. If our franchisees do not perform their obligations pursuant to their franchise agreements with us or our internal policies or guidelines, including, but not limited to, obtaining the relevant operating permits or complying with the applicable laws and regulations, or if our franchisees do not successfully operate stores pursuant to our standards, or project an image inconsistent with our brand and values, our brand image and reputation could be harmed, which in turn could hurt our business and operating results.
- *Our franchisees' ability to operate stores.* The success of the ChaPanda store network depends on the willingness and ability of our franchisees to remain aligned with us on commercial, operating and promoting strategies and standards, which may be capital-intensive and may only be beneficial in the long term. There is no guarantee that our franchisees will share our vision, and they may refuse to take actions that are only beneficial in the long term.
- *Revenue generated from the operation of franchised stores.* Because our revenue is mainly derived from the sale of goods and equipment and royalty and franchising income with respect to our franchisees, our financial performance is highly dependent on the business performance of individual ChaPanda stores. If our franchisees do not experience sales growth, our revenue and margins could be negatively affected. Also, if sales decline for our franchisees, their financial results may deteriorate, which could result in, among other things, store closures or delayed or reduced payments to us.
- *Termination of partnerships with our franchisees.* Franchisees may choose to terminate partnerships with us due to various reasons, many of which are out of our control. For instance, during the renewal process of franchise agreements, our franchisees may find the existing or renewed terms in the franchise agreements less favorable than they expect. In addition, they may also find it difficult to meet our

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internal quality standard. In the event that a large number of franchisees decide to terminate partnerships with us, there is no guarantee that we can find new franchisees to operate existing franchised stores in a timely manner, or at terms favorable to us, or at all, which may adversely affect our business operation and financial results.

If any of our franchisees defaults under our agreements with them or commits wrongdoing, such franchisee may not be in a position to sufficiently compensate us for losses which we have suffered as a result of such defaults or wrongdoings. While we ultimately can take action to terminate our franchisees that do not comply with the terms of our franchise agreements or commit wrongdoing, we may not be able to identify problems and make timely responses and, as a result, our brand image and reputation may suffer, which may have a material adverse effect on our results of operations.

Failure to maintain the quality, safety and hygiene standards of our products could have a material and adverse effect on our reputation, financial condition and results of operations.

Quality, safety and hygiene standards of our products are vital to our reputation and success. Maintaining consistent quality in food safety standards, to a large extent, depends on the effectiveness of our quality assurance system, which, in turn, depends on multiple factors, such as the design of our quality control system and the ability to ensure our employees, franchisees and other third parties who are involved in the operation comply with those quality assurance policies and guidelines. Instances or reports, whether true or not, of food-safety issues, such as food- or beverage-borne illnesses, adulteration, contamination or mislabeling, either during packaging, transportation, storing or preparation, employee hygiene and cleanliness failures, or improper employee conduct, have in the past severely injured the reputations of companies in the food and beverage sectors. Any report linking us to such instances could severely hurt our sales and could possibly lead to product liability claims, litigation and/or temporary store closures. In addition, instances of food or beverage safety issues, even those involving solely the stores of competitors or of suppliers, could cause negative publicity about us or the freshly-made tea shop industry in general and adversely affect our sales on a regional or national basis. A decrease in consumer traffic as a result food safety concerns or negative publicity, or as a result of a temporary closure of ChaPanda stores, product recalls or food or beverage safety claims or litigation, could materially harm our business and results of operations.

We have implemented internal policies and guidelines for quality control and food safety throughout the ChaPanda store network. For details, see “Business—Food Safety and Quality Control.” Nevertheless, we cannot assure that our quality control and food safety control will remain effective at all times, and we cannot assure that we can discover any flaw in our quality control and food safety control. We may fail to ensure that our franchisees, employees and other third parties involved in our operations, such as suppliers and third-party logistic service providers, adhere to our internal policy and guidelines. There have been, and may continue to be, negative incidents and publicity regarding food safety issues in ChaPanda stores. Due to these incidents, we may become subject to public scrutiny, mainly relating to the safety and

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quality of our food products. From time to time, criticisms, complaints and negative media coverage, regardless of their veracity, may result in negative publicity, which could result in government inquiry or harm to our reputation and brand, and may adversely affect our business and prospects. Failure to discover or prevent any food contamination may adversely affect the quality of the products that we sell, might lead to liability claims and penalties and fines from relevant authorities, as well as less consumer traffic in ChaPanda stores. There are no assurances that we will not receive any food contamination claims and relevant administrative punishments in the future. Any of these events may cause material damages to our reputation, financial condition and results of operations.

Our future growth depends on our ability to successfully expand our ChaPanda store network. Our new stores may not be able to successfully enter into new markets and achieve satisfying store performance.

We generated substantially all of our revenue from the sale of goods and equipment to franchised stores as well as the royalty and franchising income charged to our franchisees. Therefore, our future growth depends on the ability to introduce new franchisees, expand our ChaPanda store network and achieve store profitability. The expansion of ChaPanda store network may significantly increase the demand towards our management and operation, technology, employees and other resources. The planned expansion also requires us to maintain stable quality of raw material supplying and good relationships with the franchisees, so that our ChaPanda brand would not be affected by any actual or perceptible deterioration in the quality of our products or service.

We may not be able to maintain the historical expansion rate for various reasons, many of which are out of our control. For instance, our future success largely relies on our abilities to attract new franchisees who operate stores or attract existing franchisees for store expansion. Meanwhile, in the event that there was any delay or failure in the expansion of new stores, our development strategy, expected financial position and results of operations may be materially and adversely affected. Generally, it takes approximately 60 to 100 days to complete the entire process from selecting new franchisees to opening new stores. The actual timing of store opening is also subject to the time for the franchisees to obtain requisite pre-opening approvals, licenses and certificates. Any delay in new stores opening and/or closures of the existing stores will affect the number of stores, the operation days, as well as our results of operations. Therefore, the number and timing of opening of new stores has already, and may continue to have, a material effect on our profitability.

Our store expansion within established geographical markets, where we already have a presence, may inadvertently lead to internal competition among ChaPanda stores. The proximity of new store locations to existing ones may divert consumer traffic, posing a potential impact on the sales performance of the existing stores. In addition, we may face intense competition from industry competitors while selecting sites for new stores. There is no guarantee of the effectiveness of our measures to mitigate the risk of cannibalization. Consumers' demand for our products and services may not be as strong as we expect to support our rapid business growth, which may result in over-expansion of our store network. Our

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continuous success is also dependent on our ability to recruit, train and retain qualified management, administrative, sales and marketing personnel, especially during the time of expanding into new markets. We also have to continuously manage our relationship with suppliers and other customers.

All of the above require extra attention and effort from our management and a significant amount of additional expenditures. Even if we manage to open more stores as planned, it would typically take a certain amount of time for the new stores to break even, or achieve results similar to existing stores. Our results of operations and profitability may fluctuate depending on the development strategies and progresses of new ChaPanda stores.

Even if our revenue and the retail sales value of ChaPanda stores continue to grow, we expect that our growth may slow for a number of reasons, such as if there is a slow-down in the growth of demand of our products or an increase in market competition. Having previously experienced rapid expansion, we are now poised to embrace a period of more stable and deliberate growth. This transition is primarily rooted in our successful establishment of a nationwide store network. We plan to penetrate into untapped cities while steadily increasing store coverage in cities where we had established presence. Consequently, it is important to note that future growth rate may differ from our historical rapid expansion, possibly showing a more measured pace. If our growth rate decline or if we fail to continue to grow our revenue or improve margins, our business, financial condition and results of operations as well as investors' perceptions of our business and prospects may be adversely affected and the market price of our Shares could decline. You should not rely on our historical rate of growth as an indication of our future performance.

We and ChaPanda stores require various approvals, licenses and permits to operate our business and the loss or failure to obtain or renew any or all of these approvals, licenses and permits could materially and adversely affect our business and results of operations.

In accordance with the laws and regulations of the PRC, we and our franchisees are required to maintain various approvals, licenses and permits to operate our business and ChaPanda stores in the PRC, respectively. From time to time, we may be required to make additional efforts to follow the laws and regulations in relation to necessary approvals, licenses and permits. These approvals, licenses and permits are granted upon satisfactory compliance with, among other things, the applicable laws and regulations in relation to food safety, hygiene, environmental protection and fire safety. They are also subject to examinations or verifications by relevant authorities and are valid only for a fixed period of time subject to renewal and accreditation. See also “Business—Legal Proceedings and Non-Compliance—Compliance Status of Franchised Stores and Self-operated Stores.”

Complying with government regulations may require substantial expenses, and any noncompliance may expose us to liability. In case of any noncompliance, we may have to incur significant expenses and divert substantial management time and resources to resolving any deficiencies. We may also experience negative publicity arising from such deficiencies, which may materially and adversely affect our business and financial performance. Meanwhile,

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pursuant to the franchise agreements between our franchisees and us, our franchisees are responsible for the validity and effectiveness of the required licenses and permits for operating their franchised stores, and the noncompliance in this regard may cause penalties, such as temporary closure, for related franchised stores until they regain compliance. If a large number of franchised stores are subject to such penalties or temporary closure, our operational results and financial performance may be negatively impacted.

We and our franchisees may experience difficulties, delays or failures in obtaining the necessary approvals, licenses and permits for new stores. In addition, there can be no assurance that we or our franchisees will be able to obtain or renew all of the approvals, licenses and permits required for existing business operations in a timely manner or at all. If any of these occurs, our ongoing business could be interrupted and our expansion plan may be delayed.

From time to time we may develop new brands, new products and store formats, evaluate and potentially explore new business opportunities, enter into new markets, and consummate strategic investments or acquisitions, which, if unsuccessful, may adversely affect our operation and financial results.

We continually evaluate the potentials of new business initiatives or new markets. For example, we plan to expand into overseas markets with a priority on the Southeast Asia market. The overseas markets in which we plan to enter in the future may have different competitive conditions, regulatory and compliance requirements, consumer tastes and discretionary spending patterns than the markets in China. As a result, new stores to be opened in overseas markets may not be as successful as ChaPanda stores opened in China. Specifically, due to lower consumer familiarity with our brand in overseas markets, differences in consumer tastes or spending patterns or other reasons, store sales outside China may take longer to, or may never, ramp up and reach expected sales and profit levels, thereby affecting our overall growth and profitability. To build brand awareness in overseas markets, we may need to make greater investments in advertising and promotional activity than we originally planned or than we need to for opening new stores in China, which could negatively impact the profitability of our operations in those overseas markets.

We seek and will continue to explore opportunities to grow our business, especially in establishing different brands and developing different products and store formats. For example, we launched our first self-operated coffee shop under the brand “Coffree” (咖灰) in Chengdu, China in January 2024, through which we mainly offer to consumers coffee, bagel, hamburger and other bakery items. However, our exploration of new business opportunities may not be successful due to various reasons such as lack of customer acceptance, inefficiency in operations and unsuccessful branding strategies. Additionally, to complement our business and strengthen our market-leading position, we may form strategic alliances or make strategic investments and acquisitions from time to time. We may experience difficulties in integrating our operations with the newly invested or acquired businesses, implementing our strategies or achieving expected levels of net revenues, profitability, productivity or other benefits. As a result, we cannot assure you that our initiatives in exploring new business opportunities, enter into new markets, investments or acquisitions will benefit our business operations, generate sufficient revenue to offset the associated costs, or otherwise result in the intended benefits.

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We rely on third-party suppliers and other business partners to provide raw materials and services to us. The loss of any of these suppliers or other business partners, or any significant interruption in their operations, may negatively impact our business.

We rely on our third-party suppliers and other business partners to operate our business. For details of how we cooperate with our suppliers, see “Business—Supply Chain Management.” Hence, our results of operations would be materially and adversely affected if our cooperation with them has been interrupted, discontinued or otherwise deteriorated due to many factors, including, but not limited to, any interruptions to their operations, any failure of our suppliers to accommodate our fast growing business scale, any termination or suspension of our supply arrangements, any change in cooperation terms, or any disputes with our third-party suppliers or other business partners.

For example, a significant interruption in the operations of the third-party logistic service providers that we cooperate with could impact the operation of our sales of goods. Interruptions or failures in the third-party logistics services due to unforeseen events, such as inclement weather, natural disasters or transportation disruptions, could prevent the timely or successful delivery of raw materials and ingredients. If our raw materials and ingredients are not delivered to stores on time and in proper condition, there may be a shortage of our products, in which case our business and reputation may be adversely affected. Furthermore, a significant interruption in the operations of our raw material suppliers could cause a shortage of raw materials at ChaPanda stores. Our current agreements with our suppliers generally do not prohibit them from working with our competitors. Our competitors may be more effective in providing incentives to our suppliers to prioritize their orders in case of short supply. We cannot assure you that we would be able to find alternative suppliers on commercially reasonable terms, or a timely basis, or at all. If we could not solve the impact of the interruptions of operations of our third-party suppliers or other business partners, our business operations and financial results may be materially and adversely affected.

Our success depends on a stable and adequate supply of quality raw materials, which is subject to risk of shortage, unsatisfactory quality and fluctuations in the cost.

The principal raw materials for our products include dairy products, tea leaves, sugar, fresh fruits, fruit juices and packaging materials. In 2021, 2022 and 2023, our cost of goods, primarily including materials and ingredients for the production of tea drinks, and packaging materials, amounted to RMB2,031.8 million, RMB2,604.2 million and RMB3,527.2 million, respectively, accounting for approximately 55.8%, 61.5% and 61.8%, respectively, of total revenue over the same periods. As a result, our costs depend on our ability to source quality key raw materials at competitive prices. We generally enter into one-year supply agreements with pre-determined quantity and price terms. If we are unable to obtain raw materials in the quantities, of a quality or at a price that we require, our quality of products and profit margins may be adversely affected. Raw materials used in our products are subject to price volatility caused by external conditions, such as market supply and demand, changes in governmental policies and natural disasters. We and ChaPanda stores typically are not able to immediately pass raw material price increases on to our consumers from unforeseen changes in price of raw materials that may have an adverse effect on our profitability and results of operations.

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In addition, if a large number of our current suppliers decide to terminate business relationships with us, or if the raw materials supplied by our current suppliers fail to meet our standards, or if our current supplies of raw materials are interrupted for any reason, qualified suppliers may not be readily available and we may not be able to easily switch to other suppliers in a timely fashion, which may materially and adversely affect our business and financial results.

We may incur significant costs in connection with our marketing and promotional efforts, and if some marketing campaigns are not as effective as expected, our results of operations may be negatively impacted.

Our operating results are affected by our brand marketing efforts and advertising activities. To promote our brand recognition and increase our brand value, we had invested in the ChaPanda brand with comprehensive branding and marketing initiatives during the Track Record Period. We utilize tailored and creative branding and marketing strategies through different channels and platforms, such as holding online marketing campaigns, crossover collaborations and social media marketing campaigns, which have achieved positive results. For a detailed discussion of our branding and marketing activities, see “Business—Branding and Marketing” in this Prospectus. In 2021, 2022 and 2023, the distribution and selling expenses amounted to RMB19.1 million, RMB60.7 million and RMB131.0 million, respectively. Going forward, we will continue to adopt such strategies to enhance our reputation.

As marketing trends in China are evolving, we may continue to explore new sales channels to keep pace with industry developments and consumer preferences. With our continued efforts in this regard, we expect our operational and marketing expenses may keep increasing. In addition, our crossover collaborations with third-party partners may fail or not achieve expected results. If any of the foregoing risks becomes materialized, our businesses and results of operations may be materially and adversely affected.

Any unexpected or prolonged disruption to our warehouse operations could adversely affect our business.

As of December 31, 2023, our system included 21 multi-temperature warehouses, comprising 20 central hubs and one pre-positioned hub, which together encompassed an area of approximately 80,000 square meters. In the event that there is any unexpected and prolonged disruption in the supply of utilities, such as water or electricity, or access to the premises, such as because of fire, and we cannot restore the affected warehouse, or relocate to another suitable location promptly with well-equipped facilities, our business operations will be materially and adversely interrupted, which in turn will affect our results of operations. However, we cannot assure you that our prevention measures are effective and sufficient. If any of our warehouses experiences a material incident or the prevention measures are not adequately implemented in the future, we may lose the raw materials stored therein, incur significant costs and expenses to restore or to relocate such warehouses, and/or be determined by the relevant authorities to be in violation of applicable laws and regulations and subject to relevant administrative

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penalties. If such an incident causes damages to other third parties, we may also be required to compensate if we are determined to be partially or fully responsible for such incident. Under such circumstances, our business operation, results of operations and financial condition may be adversely affected.

If we incur any material equipment breakdown, such as the equipment failure for temperature or humidity control for a prolonged period of time, the quality of the raw materials stored in the relevant warehousing spaces may be compromised. We may have to discard them and absorb the relevant costs. In addition, repairing or adding equipment and machinery for our warehouses may be expensive and time consuming.

We may be unable to detect, deter and prevent all instances of fraud or other misconduct committed by our franchisees, employees or other third parties.

We may be exposed to fraud, bribery or other misconduct committed by our employees, franchisees, suppliers or any other third parties that could subject us to financial losses and sanctions imposed by governmental authorities, which may adversely affect our reputation. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any instances of fraud, bribery and other misconduct involving our employees, suppliers, franchisees and other third parties that had a material and adverse impact on our business and results of operations. We may be unable to prevent, detect or deter all such instances of misconduct committed by our franchisees, employees or other third parties. As store employees may need to handle cash in daily operations, there might be fraud, theft or other misconduct with respect to cash management that could subject us and our franchisees to financial losses. Any such misconduct committed against our interests, which may include past acts that have gone undetected or future acts, may have a material adverse effect on our business and results of operations.

If we fail to manage our inventories effectively, our results of operations, financial condition and liquidity may be materially and adversely affected.

Our inventories are mostly finished goods, representing materials and ingredients used to produce tea drinks in stores, which require us to manage our inventories effectively. We depend on our demand forecasts for various kinds of goods to make purchase decisions and to manage our inventories. Such demand, however, can change significantly between the time inventories are ordered and the date by which we hope to sell it. Demand may be affected by seasonality, new product launches, pricing and discounts, product defects, changes in consumer spending patterns, changes in consumer tastes and other factors, and our consumers may not purchase products in the quantities that we expect. In addition, as we develop and market a new product, we may not be successful in establishing stable and favorable supplier relationships or accurately forecasting demand. The acquisition of certain types of inventories may require significant lead time and prepayment and they may not be returnable.

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Furthermore, as we plan to continue expanding our product offerings, we expect to include a wider variety of materials and ingredients in our inventory, which will make it more challenging for us to manage our inventory and logistics effectively. We cannot guarantee that our inventory levels will be able to meet the demands of consumers, which may adversely affect our sales. We also cannot guarantee that all of our inventory can be consumed within its shelf life. If we fail to manage our inventory effectively, we may be subject to a heightened risk of inventory obsolescence, a decline in inventory value, and significant inventory write-offs. Any of the above may materially and adversely affect our results of operations and financial condition. On the other hand, if we underestimate demand for our products, or if our suppliers fail to supply quality materials and ingredients in a timely manner, we may experience inventory shortages, which might result in diminished brand loyalty and lost revenue, any of which could harm our results of operations, financial condition and liquidity.

Any significant changes in food safety regulations and related policies could affect our business.

The industry we operate shall comply with the laws and regulations of food safety in China. Such regulations set out the safety standards for food and food additives, packaging and containers, the information required to be disclosed on packaging, and the regulations on food operating and siting and sale of food. In recent years, the Chinese government has been stepping up its supervision on food safety. According to the newly amended Food Safety Law of the People's Republic of China and the Regulations for the Implementation of the Food Safety Law of the People's Republic of China, food manufacturers and operators should act in accordance with laws, regulations and food safety standards to engage in production and operating activities, establish a sound food safety management system and take effective measures to prevent and control food safety risks, so as to ensure the food safety. In accordance with Measures for the Supervision and Administration of the Safety of Food Offered through Online Catering Services, online catering service providers shall have their own physical venues and have obtained the food operation licenses according to the law. Failure to comply with the laws and regulations of food safety in China may result in corrective actions ordered by regulatory authorities, fines, confiscation of the proceeds, suspension of business operation as ordered, revocation of operation permits, and in extreme cases, criminal liability. Despite our current compliance with existing laws and regulations of food safety, if the Chinese government makes further changes to its regulations on food safety, our production, sale and distribution costs may increase, and we may not be able to successfully pass the additional costs on externally, which will have adverse impacts on our business, financial condition and development prospects.

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Our product sales and business operation is subject to seasonal fluctuations.

We experience seasonal fluctuations during our ordinary course of business and the operation of ChaPanda stores, in particular with respect to the supply of raw materials. During the Track Record Period, we typically had higher consumer traffic from May to September in each year due to hot weather. Going forward, we expect our financial condition and results of operations within a year may continue to fluctuate and our historical quarterly results may not be comparable to future quarters.

We are subject to risks in relation to leased properties.

Our warehousing facilities, self-operated stores, office spaces and almost all of franchised ChaPanda stores are located on leased premises. Therefore, we are subject to a number of risks in relation to the leased properties in the ordinary course of the businesses of ours and our franchisees, including but not limited to the following:

- There might be defects in the leasehold interest of our leased properties. For instance, certain lessors fail to provide the ownership certificates for our leased properties, hence we cannot ensure that they have the rights or authorizations to lease such properties to us. In these cases, the relevant lease agreements might be deemed invalid and unenforceable in accordance with the relevant laws and regulations, and we might incur additional costs and resources to relocate relevant properties into new locations. In addition, certain of our lease agreements have not been registered and filed with the relevant land and real estate administration bureaus in the PRC. The relevant government authorities may impose a fine ranging from RMB1,000 to RMB10,000 for each unregistered lease. See “Business—Properties—Leased Properties.”
- Because the lease agreements for ChaPanda stores generally have short lease terms, the ability to renew existing lease agreements at reasonable commercial terms is crucial to the stores’ continuous operations and profitability, especially for those in locations with high volume of consumer traffic. At the end of each lease term, we and our franchisees may not be able to negotiate an extension of the lease with the landlord and may therefore be forced to vacate the leased premises and move to a less favorable location.
- We and our franchisees may also be exposed to risks of unexpected early lease termination at the request of the lessors or other reasons out of our control, and the relevant stores need to be temporarily closed if we and our franchisees are not able to identify suitable premises on acceptable terms to relocate in a timely manner.

Due to the above reasons, we and our franchisees may need to find alternative locations for ChaPanda stores with equal or similar commercial attractiveness as the original locations, and at commercially favorable terms in a timely manner. Failure to do so would have adverse impacts on the operation of such stores and our results of operations.

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We may not be successful in promoting our membership program and our ability to track and analyze consumer and transaction data from such program may be limited.

As part of our growth strategy, our ChaPanda membership program allows our consumers to accumulate Panda points and access a variety of membership privileges. Consumers who choose to subscribe for such membership will be eligible for certain exclusive offers, benefits and services.

We have limited experience in operating such membership program, and we cannot predict with certainty the rate or extent to which our consumers will subscribe for such membership program. There is no assurance that our membership program will be successfully implemented or sustainable, nor can we assure you that the program will be effective in retaining existing consumers or increase their purchase frequency and that the program will not adversely affect the volume and frequency of purchases by consumers who do not become members.

Illegal actions or misconduct, or any failure by third-party business partners to provide satisfactory products or services could materially and adversely affect our business, reputation, financial condition and results of operations.

Our reputation and operation may be harmed by illegal or unsatisfactory actions taken or unsatisfactory performance by third-party business partners. In the event that we become subject to claims caused by actions taken or unsatisfactory performance by our third-party business partners, we may attempt to seek compensation from them. However, such compensation may be limited. If no claim can be asserted against a third-party business partner, or amounts that we claim cannot be fully recovered from the third-party business partner, we may be required to bear such losses and compensation at our own cost. This could have a material and adverse effect on our business, financial condition and results of operations.

If our relationships with various third-party online platforms are interrupted or discontinued, our business and results of operations may be materially and adversely affected.

We cooperate with various third-party online platforms, including leading online delivery platforms, social media platforms and mobile payment platforms.

ChaPanda stores collaborate with third-party online delivery platforms, which currently include Meituan and Ele.me, to fulfill online orders from consumers. In 2021, 2022 and 2023, the total retail sales value generated from delivery orders amounted to RMB6.1 billion, RMB8.4 billion and RMB10.0 billion, respectively, representing 61.3%, 62.9% and 59.0% of our total retail sales value for the same periods, respectively. See “Business—Our ChaPanda Store Network—Collaboration with Third-party Online Delivery Platforms.” During the Track Record Period, a majority of our retail sales value generated from delivery orders was generated through a leading online delivery platform we cooperated with. Any disruption in the delivery service provided by these online delivery platforms or issues with order accuracy or

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quality control during the delivery process, such as discontinuation of our cooperation with such platforms or suspension or breakdown due to technical problem on such platforms, may decrease consumers' satisfaction with our products, and thus may adversely affect our reputation and the store performance of ChaPanda stores. See “—We rely on limited third-party delivery platforms to carry out delivery services for online orders.”

We collaborate with influencers and key opinion leaders (“KOLs”) on social commerce platforms, such as Douyin, and adopt new forms of marketing approaches, such as live streaming and short-form videos featuring our brand and products, to reach a broader potential consumer base, engage interactions with targeted consumers, and enhance brand recognition. These online platforms enable us to reach, acquire and interact with consumers, and engage innovative online marketing and branding campaigns. Our accounts on these online platforms release appealing and engaging content to promote our products and member activities from time to time.

We also allow consumers to purchase products at ChaPanda stores through mobile payment platforms, including Weixin Pay, Alipay and Union Pay. If we fail to establish our presence on more online channels, or if we are not able to renew our cooperative relationships with the existing online channels in a timely manner, on reasonable commercial terms or at all, our competitiveness of acquiring consumers through online channels at a relatively low cost and our ability to provide online services to our consumers may be compromised, and our sales and brand visibility may be adversely affected. If our cooperation with the online channels is discontinued, our business strategy may fail, which in turn, may materially and adversely affect our long-term development plans.

We rely on limited third-party delivery platforms to carry out delivery services for online orders.

A large portion of our orders are fulfilled through third-party online delivery platforms. The percentage of ChaPanda stores who fulfilled online orders through collaboration with third-party online delivery platforms increased from 91.8% in January 2021 to 95.9% in December 2023. We currently have a limited number of delivery service providers, mainly consisting of two leading third-party delivery platforms in China. Hence, risks in relation to our collaboration with these service providers, such as interruption to their business operations, termination or suspension of our cooperation, disputes or deterioration with respect to our relationships, or adverse changes in key contractual terms such as increased fee rate, could result in delayed delivery of our tea drinks, increased costs, or other negative impacts on our business and results of operations.

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There can be no assurance that we can continue or extend relationships with these delivery platforms on terms acceptable to us, or that we will be able to establish relationships with new delivery service providers to ensure accurate, timely and cost-efficient delivery services. If we are unable to maintain or develop good relationships with partnered delivery platforms or to engage additional delivery service providers, it may delay our planned business expansion.

Counterfeit stores may significantly harm our reputation and brand image and divert potential consumers.

Our established brand recognition has attracted imitators who operate counterfeit stores that utilize our trademarks and imitate our products without our authorization. Counterfeit stores may divert potential consumers from ChaPanda stores. More importantly, counterfeit or substandard products sold in counterfeit stores may significantly harm our reputation and brand image, including the perceived quality and reliability of our products.

Any unauthorized use of our trademarks and imitation of our products could adversely affect our brand name and reputation, thereby causing a decline in our financial performance, reduction in our market share as well as an increase in the amount of resources we need to devote to detection and prosecution of unauthorized use of our trademarks or imitation of our products. We have adopted certain measures to crack down on counterfeit stores, such as increasing surveillance and conducting inspections of suspected counterfeit stores based on leads from internal and external whistleblowers, coordinating with relevant governmental authorities to execute targeted raids and seize counterfeit products, bringing intellectual property infringement actions to the court, among others. However, we cannot assure you that any of our measures will provide effective prevention for unauthorized third-party use of our trademarks or imitation of our products which could adversely affect our reputation, results of operations and financial condition.

Our success depends on the continuing efforts of our senior management team. If we fail to hire, train, retain or motivate our senior management, our business may suffer.

We depend on our senior management for our operations. The expertise, industry experience and contributions of our senior management are crucial to our success. If any members of our senior management are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all. As a result, our business may be disrupted, our management quality may deteriorate and our results of operations may be materially and adversely affected. In addition, if any member of our senior management team joins a competitor or forms a competing business, we may lose trade secrets and business know-how as a result. Competition for experienced management in our industry is intense, and the pool of qualified candidates is limited. We may not be able to retain the services of our senior management or attract and retain additional high quality senior management in the future.

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Our limited insurance coverage may expose us to losses, which may have a material adverse effect on our reputation, business, financial condition and results of operations.

We have purchased property insurance policies which comprehensively covered major business interruptions and accidental loss, such as fire, water and malicious damage.

Although we require our franchisees to obtain the requisite insurance coverage through our franchisees management, we cannot guarantee that our franchisees will adhere to such requirements. In particular, there are inherent risks of accidents or injuries in stores. In the future, we may be unable to renew our insurance policies or obtain new insurance policies without increases in cost or decreases in coverage levels. We may also encounter disputes with insurance providers regarding payments of claims that we believe are covered under our policies. Furthermore, if we are held liable for amounts and claims exceeding the limits of our insurance coverage or outside the scope of our insurance coverage, our reputation, business, financial condition and results of operations may be materially and adversely affected.

Our financial and operating performance may be adversely affected by epidemics, adverse weather conditions, natural disasters and other catastrophes.

Our financial and operating performance may be adversely affected by epidemics, adverse weather conditions, natural disasters and other catastrophes, particularly in locations where we operate a large number of stores. For instance, our business could be materially and adversely affected by the outbreak of swine influenza, avian influenza, severe acute respiratory syndrome or epidemics. Since ChaPanda stores are currently located in various locations in China, if any of such event occurs, our ability to operate our business may be restricted. As a result, we may have to incur substantial additional expenses and our financial and operating performance may be adversely affected.

We may not be able to adequately protect our intellectual property, which could adversely affect our business and operations.

The success of our business depends in part upon our continued ability to use our brands, trade names and trademarks to increase brand awareness and to further develop our products. The unauthorized reproduction of our trademarks could diminish the value of our ChaPanda brand and its market acceptance, competitive advantages or goodwill. In addition, we consider our proprietary information systems and operational system to be key components of our competitive advantage and our growth strategy.

Monitoring and preventing the unauthorized use of our intellectual property is difficult. The measures we take to protect our brand, trade names, trademarks and other intellectual property rights may not be adequate to prevent their unauthorized use by third parties. If we are unable to adequately protect our ChaPanda brand, trade names, trademarks and other intellectual property rights, we may lose these rights and our business may suffer materially.

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We may also be subject to claims for infringement, invalidity, or indemnification relating to third parties' intellectual property rights. Regardless of their merits, such third-party claims may be time-consuming and costly to defend, divert management attention and resources, or require us to enter into licensing agreements, which may not be available on commercially reasonable terms, or at all.

We may experience significant liability claims or complaints from consumers, or adverse publicity involving our products, our services or ChaPanda stores.

We face an inherent risk of liability claims or complaints from our consumers. We also face an inherent risk in the freshly-made tea shops industry of food contamination and related consumer complaints, regulatory investigations or liability claims. We take these complaints seriously and endeavor to reduce such complaints by implementing various remedial measures, such as strengthening the management of franchised stores. Nevertheless, we cannot assure you that we can successfully prevent or address all consumer complaints in a timely manner or at all.

Any complaints or claims against us, even if meritless and/or unsuccessful, may divert management attention and other resources from our business and adversely affect our business and operations. Consumers may lose confidence in us and our brand, which may adversely affect our business and results of operations. Furthermore, negative publicity including but not limited to negative online reviews on social media and crowd-sourced review platforms, industry findings or media reports related to food quality, safety, public health concerns, illness or injury, whether or not accurate, and whether or not concerning our products, can adversely affect our business, results of operations and reputation.

We may not be able to fulfill our obligations in respect of contract liabilities, which may have a material and adverse impact on our business, reputation and liquidity position.

As of December 31, 2021, 2022 and 2023, we recorded contract liabilities of RMB303.0 million, RMB314.1 million and RMB324.2 million, respectively, which mainly represent payment received in advance from franchised stores related to the sale of goods and equipment and the royalty and franchising income. For details, see “Financial Information—Discussion of Certain Key Items from Our Consolidated Statements of Financial Position—Contract Liabilities.”

If we fail to provide satisfactory products to our consumers in time, we may not be able to honor our obligations in respect of our contract liabilities, which may have a material and adverse impact on our business, reputation and liquidity position.

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There are uncertainties about the recoverability of our deferred tax assets, which may affect our financial condition in the future.

As of December 31, 2021, 2022 and 2023, our deferred tax assets amounted to RMB74.9 million, RMB66.5 million and RMB83.4 million, respectively. Our deferred tax assets arise from the deductible temporary differences between (i) the carrying amounts of assets and liabilities from financial reporting purposes and (ii) the tax base of such assets and liabilities as well as unused tax losses and unused tax credits. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such recognition requires significant judgment on the tax treatment of certain transactions and assessment on the probability of whether adequate future taxable profits will be available for the deferred tax assets to be recovered. Therefore, there are uncertainties regarding the recoverability of our deferred tax assets and to what extent they may affect our financial condition in the future.

We are exposed to credit risk attributable to trade and other receivables, deposits and prepayments.

During the Track Record Period, our trade and other receivables, deposits and prepayments primarily consisted of outstanding amounts from franchised stores, amounts due from third-party purchasers in relation to packaging materials, prepayments for construction in progress, prepayments to suppliers for purchase of goods and equipment, lease deposits and prepayments to third parties in relation to the purchase of materials and ingredients. The carrying amount of our trade and other receivables, deposits and prepayments was RMB112.0 million, RMB66.4 million and RMB62.8 million as of December 31, 2021, 2022 and 2023, respectively. We performed impairment assessment under expected credit loss (“ECL”) model for our credit risk exposure during the Track Record Period, assessed the ECL were insignificant and recorded no impairment loss for financial assets (including trade and other receivables, bank balances, amounts due from related parties/subsidiaries, and wealth management products issued by banks). For details, see “Financial Information—Discussion of Certain Key Items from our Consolidated Statements of Financial Position—Trade and Other Receivables, Deposits and Prepayments” in this Prospectus and Note 32 to the Accountants’ Report included in Appendix I to this Prospectus. In the event that the probability of default and our credit risk exposure increases, we may incur impairment losses and our results of operations and financial condition could be materially and adversely affected.

We are exposed to changes in the fair value of our financial assets measured at fair value though profit or loss (“FVTPL”).

Our results of operations are affected by changes in the fair value of our financial assets measured at FVTPL. As of December 31, 2021, 2022 and 2023, our financial assets measured at FVTPL were RMB387.7 million, RMB772.8 million and RMB1,391.6 million, respectively. In 2021, 2022 and 2023, the amount of gain on fair value change of financial assets at FVTPL recognized was RMB11.4 million, RMB18.8 million and RMB29.1 million, respectively.

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Fair values of financial assets measured at FVTPL are determined based on quoted value provided by financial institutions. Factors beyond our control can significantly influence and cause adverse changes to these market-observable data we use and thereby affect the fair value of such financial assets. These factors include, but are not limited to, general economic condition, changes in market interest rates and stability of the capital markets. Any of these factors, as well as others, could cause our estimates to vary from actual results, which could materially and adversely affect our results of operation and financial condition.

Fair value change in our redeemable shares with other preferential rights and the uncertainty in the related valuation techniques may materially affect our financial position and results of operations.

Our financial position and results of operations may be adversely affected by the changes in the fair value in our redeemable shares with other preferential rights and the uncertainties in the related valuation techniques. Our redeemable shares with other preferential rights, recognized as our financial liabilities, are measured at fair value being determined based on unobservable inputs using valuation techniques. As of December 31, 2021, 2022 and 2023, our redeemable shares with other preferential rights amounted to nil, nil and RMB1,021 million, respectively. In 2021, 2022 and 2023, we recorded loss on fair value change of redeemable shares with other preferential rights of nil, nil and RMB75.8 million, respectively. For details, see Notes 26 and 32(c) to the Accountants' Report included in Appendix I to this Prospectus.

Judgement and estimation are required in establishing the relevant valuation techniques and inputs, which are unobservable and inherently involve a certain degree of uncertainty. Changes in assumptions relating to these factors could result in the material adjustments to the fair value of the redeemable shares with other preferential rights, which may in turn have a material adverse effect on our financial position and results of operations.

Share-based compensation expenses may cause shareholding dilution to our existing Shareholders and have a material and adverse effect on our financial performance.

During the Track Record Period, share-based payments were made to certain key management personnel pursuant to the share award agreements for incentive purposes. The fair value of the awarded shares at the grant date with reference to the valuer's valuation was charged as share-based compensation expenses and recognized in profit or loss for the period during which the awarded shares were granted, as all awarded shares under the share award agreements were immediately vested on the grant date. To further incentivize our directors, senior management and key employees to contribute to us, we may grant additional share-based compensation in the future. Issuance of additional Shares with respect to such share-based payment may dilute the shareholding percentage of our existing Shareholders. Expenses incurred with respect to such share-based payment may also increase our operating expenses and therefore have a material and adverse effect on our financial performance.

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Developments in the labor market, increases in labor costs or any possible labor unrest may adversely affect our business and results of operations.

Our business requires a substantial number of personnel. Any failure to retain stable and dedicated labor by us may lead to disruption to our business operations. Although we have not experienced any labor shortage to date, we have observed an overall tightening and increasingly competitive labor market. We have experienced, and expect to continue to experience, increases in labor costs due to increases in salary, social benefits and employee headcount. We compete with other companies in our industry and labor-intensive industries for labor, and we may not be able to offer competitive remuneration and benefits compared to them. If we are unable to manage and control our labor costs, our business and results of operations may be materially and adversely affected.

We are subject to various risks relating to Third-party Payment Arrangement.

During the Track Record Period, certain of our franchisees (individual or collectively, the “**Relevant Customer(s)**”) settled their payments with us through the accounts of third parties designated by these Relevant Customers (the “**Third-party Payment Arrangement**”). In 2021, 2022 and the four months ended April 30, 2023, the aggregate amount of payment from designated third parties to our Group was RMB1,384.3 million, RMB1,507.1 million and RMB520.6 million, respectively, representing approximately 32.2%, 31.4% and 27.2% of the total payments received from all customers, respectively. Our Group had ceased the Third-party Payment Arrangement by April 30, 2023.

We were subject to various risks relating to such Third-party Payment Arrangement during the Track Record Period, such as (i) possible claims from third-party payors for return of funds as they were not contractually indebted to us and possible claims from liquidators of third-party payors and (ii) potential money laundering risks as we have limited knowledge about the source and purpose of the funds utilized by the third-party payors. In the event of any claims from third-party payors or their liquidators, or legal proceedings (whether civil or criminal) instituted or brought against us to demand return of the relevant payment or for violation or noncompliance of laws and regulations, we will have to spend significant financial and managerial resources to defend against such claims and legal proceedings, and we may be forced to comply with the court ruling and return the payment for the products that we sold and services that we provided. For details, see “Business—Risk Management and Internal Control—Third-party Payment Arrangement.”

There are risks related to the payment methods through third party channels.

Consumers may purchase products at ChaPanda stores using a variety of payment methods through third-party payment channels, including Weixin Pay, Alipay and Union Pay, and there are certain risks in relation to the foregoing payment methods, including but not limited to the following:

- the service fees paid to payment service providers may increase over time;

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- there might be incidents of fraud, security breaches and other illegal activities in those payment methods; and
- there might be fines, increased expenses or the loss of ability to use payment methods if ChaPanda stores fail to comply with rules, regulations and requirements governing electronic funds transfers.

In addition, we do not have control over the security measures of third-party online payment platform service providers. Security breaches of the online payment platforms could result in litigation and possible liability for failing to secure confidential user information and could damage our reputation. Any leak of confidential information, breach of network security or other misappropriation or misuse of personal information could cause interruptions in the business operation of ChaPanda stores and subject them to increased costs, litigation and other liabilities, which could negatively affect our financial and operating results and damage our reputation.

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

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

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

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

Taking into account cash generated from operating activities and the estimated net proceeds we expect to receive from the Global Offering, our Directors are of the view that we will have available sufficient working capital to meet our present requirements and for at least the next 12 months from the date of this Prospectus. We may, however, require additional cash resources to finance our continued growth or other future developments, including any investments or acquisitions we may decide to pursue. To the extent that our funding requirements exceed our financial resources, we will be required to seek additional financing or to defer planned expenditures. There can be no assurance that we can obtain additional funds on terms acceptable to us, or at all. In addition, our ability to raise additional funds in the future is subject to a variety of uncertainties, including, but not limited to:

- our future financial condition, results of operations and cash flows;
- general market conditions for capital raising and debt financing activities; and
- economic, political and other conditions in China and elsewhere.

Furthermore, if we raise additional funds through equity or equity-linked financings, your equity interest in us may be diluted. Alternatively, if we raise additional funds by incurring debt obligations, we may be subject to various covenants under the relevant debt instruments that may, among other things, restrict our ability to pay dividends or obtain additional financing. If we cannot obtain sufficient capital on acceptable terms, our business, financial condition and prospects may be materially and adversely affected.

Our commercial success depends significantly on our ability to operate without infringing upon, misappropriating or otherwise violating the intellectual property rights of third parties.

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate intellectual property rights held by third parties. We may be subject to legal proceedings and claims relating to the intellectual property rights of others in the future. There could also be existing intellectual property of which we are not aware that our products may inadvertently infringe. If we are found to have violated the intellectual property rights of others, we may be subject to liability for our infringement activities or may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives of our own. In addition, we may incur significant expenses, and may be forced to divert management's time and other resources from our business and operations to defend against these infringement claims, regardless of their merits. Successful infringement or licensing claims made against us may result in significant monetary liabilities and may materially disrupt our business and operations by restricting or prohibiting our use of the intellectual property in question, and our business, financial position and results of operations could be materially and adversely affected.

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We may be required to pay the outstanding amount of contributions of social insurance and housing provident funds and subject to late payments and fines imposed by relevant governmental authorities.

During the Track Record Period, there were certain noncompliance incidents in relation to social insurance and housing provident funds as follows: (i) we had not made social insurance and housing provident funds for some of our employees in full in accordance with the relevant PRC laws and regulations. In 2021, 2022 and 2023, we made provisions of approximately RMB11.9 million, RMB14.4 million and RMB20.0 million, respectively; (ii) we engaged a third-party human resource agency to pay social insurance and housing provident funds for a small number of employees. For the shortfall of social insurance, we may be subject to the following legal consequences: (i) to compensate for the shortfall within a prescribed period and to pay a daily overdue charge of 0.05% of the delayed payment amount, and (ii) to pay a fine of one to three times of the overdue amount if such payment is not made within the stipulated period. For the shortfall of housing provident funds, we may be subject to the following legal consequences: (i) to compensate for the shortfall within a prescribed period, and (ii) an application may be made to the PRC courts for compulsory enforcement if the payment is not made within such time limit. We might be subject to additional contribution, late payment fee and/or penalties imposed by the relevant PRC authorities if the third-party human resource agency failed to pay the social insurance or housing provident funds for the relevant employees in full amount and/or in a timely manner, or if the validity of such arrangements are challenged by competent PRC authorities. We might also be subject to potential labor disputes arising from such arrangements with the relevant employees.

As of the Latest Practicable Date, no administrative action or penalty had been imposed by the relevant regulatory authorities with respect to our social insurance and housing provident fund contributions, nor had we received any order to settle the deficit amount. As of the Latest Practicable Date, we were not aware of any material complaint filed by any of our employees regarding our social insurance and housing provident fund policy. The maximum potential penalties that we may be subject to for the shortfall for social insurance during the Track Record Period would be approximately RMB102.9 million. As advised by our PRC Legal Advisor, based on the interviews with the relevant competent local governmental authorities, in accordance with the existing applicable laws, regulations and policies, the likelihood that we would be subject to administrative penalties for the shortfall of social insurance and housing provident funds is remote. For details of these noncompliance incidents, see “Business—Legal Proceedings and Non-compliance.” We cannot assure you that the relevant governmental authorities will not require us to pay the outstanding amount and impose late fees or fines, pecuniary penalties or other administrative actions on us. If we are otherwise subject to investigations related to noncompliance with labor laws and are imposed severe penalties or incur significant legal fees in connection with labor law disputes or investigations, our business, financial condition and results of operations may be adversely affected.

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Any failure to comply with data privacy, protection and information security laws could damage our reputation and we could suffer a loss of revenue, incur substantial additional costs and become subject to litigation and regulatory scrutiny.

Our business processes subject us to risks inherent to handling and protecting a large volume of data, especially consumers' personal data. In particular, we face a number of challenges relating to data security and privacy, including but not limited to:

- protecting the data in and hosted on our system, including against attacks on our system by outside parties, data leakage or fraudulent behavior or improper use by our employees or business partners;
- addressing concerns, challenges, negative publicity and litigation related to data security and privacy, collection, use and actual or perceived sharing (including sharing among our own businesses, with business partners or regulators), safety, security and other factors that may arise from our existing businesses or new businesses or new technologies; and
- complying with applicable laws and regulations relating to the collection, use, storage, transfer, disclosure and security of personal data, including requests from data subjects and compliance requirements in accordance with applicable laws and regulations.

Our efforts to protect our members' personal information may not always be sufficient or effective. Any improper handling of our consumers' personal information as a result of any misconduct by our employees or any information leakage due to external factors, such as unauthorized access to our consumer database by hackers, could result in civil or regulatory liabilities which may subject us to significant legal, financial and operational consequences.

We are subject to laws and regulations relating to the collection, storage, use, processing, transmission, retention, security and transfer of personal information and other data. See also "Regulatory Overview—Regulations on Cyber Security, Information Security, Privacy and Data Protection" and "Business—User Privacy and Data Security—Cybersecurity Review" for details. The interpretation and application of laws, regulations and standards on data protection and privacy shall be in compliance with the then effective laws and regulations. We cannot assure you that our data privacy and protection measures are, and will be, always considered sufficient under applicable laws and regulations. We may be subject to investigations and inspections by government authorities regarding our compliance with laws and regulations on data privacy, and we cannot assure you that our practices will always fully comply with all applicable rules and regulatory requirements. In addition, laws, regulations and standards on data protection and privacy continue to develop and may vary from jurisdiction to jurisdiction. Complying with emerging and changing international requirements may cause us to incur substantial costs or require us to change our business practices. Additionally, the integrity of our data privacy and protection measures is also subject to risks of systemic failure, interruption, inadequacy, security breaches or cyberattacks. If we are unable to comply with the

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then applicable laws and regulations, or to address any data privacy and protection concerns, such actual or alleged failures could damage our reputation, impact our ability to manage digital operations and could subject us to significant legal, financial and operational consequences.

RISKS RELATING TO DOING BUSINESS IN THE PRC

We may be subject to the approval or other requirements of the CSRC or other PRC governmental authorities in connection with future capital raising activities.

We cannot assure you that any new rules or regulations promulgated in the future will not impose additional requirements or restrictions on us or our financing activities. If it is determined in the future that approval from or filing with the CSRC or other regulatory authorities or other procedures are required, we may fail to obtain such approval, perform such filing procedures or meet such other requirements in a timely manner or at all. We may face sanctions by the CSRC or other PRC regulatory authorities for failure to seek CSRC approval or other government authorization, or perform filing procedures, for this Global Offering or our future financing activities, and these regulatory authorities may impose fines and penalties on us, limit our operating activities in the PRC, limit our ability to pay dividends outside the PRC, delay or restrict the repatriation of the proceeds from the Global Offering into the PRC or take other actions to restrict our financing activities, which could have a material adverse effect on our business.

Changes in economic, political and social conditions could have a material adverse effect on our business and operations.

We are headquartered in Sichuan Province, China and substantially all of our operations are conducted in China. Accordingly, our business, financial condition and results of operations may be influenced by the economic, political and social conditions in China. China's food and beverage market in general is affected by macro-economic factors, including changes in international, national, regional and local economic conditions, employment levels, consumer demand and discretionary spending. The PRC government has implemented various measures to encourage, and to guide, the economic growth and the allocation of resources, some of which may result in uncertainties to us.

You should assess the legal protections you are entitled to under legal system in China.

The legal system in China is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. The laws and regulations in China is subject to further revisions or interpretations from time to time. New laws, regulations, guidelines and interpretations that are promulgated in the future may affect the rights and obligations of the parties involved. Therefore, you should assess the legal protections you are entitled to under legal system in China.

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Investors may experience difficulties in effecting service of legal process and enforcing judgments against us and our Directors, Supervisors and management.

We are a company incorporated under the laws of the PRC and a majority of our assets and subsidiaries are located in the PRC. The majority of our Directors, Supervisors and senior management reside within the PRC. The assets of these Directors, Supervisors and senior management also may be located within the PRC. As a result, it may not be possible to effect service of process upon most of our Directors, Supervisors and senior management outside the PRC.

Although we will be subject to the Listing Rules and the Codes on Takeovers and Mergers and Share Repurchases of Hong Kong upon the listing of our H Shares on the Stock Exchange, the holders of H Shares will not be able to bring actions on the basis of violations of the Listing Rules and must rely on the Stock Exchange to enforce its rules. The Listing Rules and the Codes on Takeovers and Mergers and Share Repurchases of Hong Kong do not have the force of law in Hong Kong.

Fluctuations in the value of the Renminbi and other currencies may have a material adverse impact on your investment.

During the Track Record Period, substantially all of our revenue and expenditures were denominated in Renminbi, while the net proceeds from the Global Offering will be in Hong Kong dollars. Fluctuations in the exchange rate between the Renminbi and the Hong Kong dollar will affect the relative purchasing power in Renminbi in terms of the proceeds from the Global Offering. Fluctuations in the exchange rate may also cause us to incur foreign exchange losses and affect the relative value of any dividend issued by our PRC subsidiaries. In addition, appreciation or depreciation in the value of the Renminbi relative to the Hong Kong dollar or U.S. dollar would affect our financial results in Hong Kong dollar or U.S. dollar terms without giving effect to any underlying change in our business or results of operations.

We are subject to the currency exchange control system.

The conversion of RMB is subject to applicable laws and regulations in the PRC. It cannot be guaranteed that under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the licenses to carry out foreign exchange business.

Under existing foreign exchange regulations, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will

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continue in the future. In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to shareholders or to satisfy any other foreign exchange requirements, or to capitalize our capital expenditure plans, and even our business, operating results and financial condition, may be affected.

Our operations are subject to PRC tax laws and regulations.

We are subject to periodic examinations on fulfillment of our tax obligation under the PRC tax laws and regulations by PRC tax authorities. Although we believe that in the past, we have acted in compliance with the requirements under the relevant PRC tax laws and regulations in all material aspects and established effective internal control measures in relation to accounting regularities, we cannot assure you that future examinations by PRC tax authorities would not result in fines, other penalties or action that could adversely affect our business, financial condition and results of operations, as well as our reputation.

The preferential tax treatment that we enjoyed may be changed or terminated.

During the Track Record Period, some of our subsidiaries were entitled to preferential income tax rates pursuant to the relevant tax regulations. For example, during the Track Record Period, certain entities within our Group enjoyed preferential EIT tax rate of 15% as they were engaged in “the Encouraged Industries in the Western Region.” For details, see Note 9 to the Accountants’ Report included in Appendix I to this Prospectus. Preferential tax treatments and other incentives granted to us by PRC governmental authorities are subject to review and renewal and may be adjusted or revoked in the future. We cannot guarantee you that the preferential tax treatments and other incentives to which our PRC subsidiaries are currently entitled would be kept valid or successfully renewed. There can be no assurance that the local tax authorities will not, in the future, change their position and discontinue any of our current tax treatments. The discontinuation of any of our current tax treatments could materially increase our tax obligations and adversely impact our net income.

Holders of our H Shares may be subject to PRC income tax obligations.

Under the current PRC tax laws and regulations, non-PRC resident individuals and non-PRC resident enterprises are subject to different tax obligations with respect to the dividends paid to them by us and the gains realized upon the sale or other disposition of H Shares.

Non-PRC resident individuals are required to pay PRC individual income tax at a 20% rate for the income derived in China under the IIT Law and its implementation guidelines. Accordingly, we are required to withhold such tax from dividend payments, unless applicable tax treaties between China and the jurisdiction in which the foreign individual resides reduce or provide an exemption for the relevant tax obligations. However, pursuant to the Circular on Certain Policy Questions Concerning Individual Income Tax (《財政部、國家稅務總局關於個人所得稅若干政策問題的通知》) (Cai Shui Zi [1994] No. 020) issued by the MOF and SAT on May 13, 1994, the income gained by individual foreigners from dividends and bonuses of

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enterprises with foreign investment are exempted from individual income tax for the time being. In addition, under the IIT Law and its implementation regulations, non-PRC resident individual holders of H shares are subject to individual income tax at a rate of 20% on gains realized upon the sale or other disposition of H shares. However, pursuant to the Circular of Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from the Transfer of Shares (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) (Cai Shui Zi [1998] No. 61) issued by the MOF and the SAT on March 30, 1998, from January 1, 1997, the income of individuals from the transfer of the shares of listed enterprises continues to be exempted from individual income tax.

As of the Latest Practicable Date, no aforesaid provisions had expressly provided whether individual income tax shall be levied from non-PRC resident individual holders on the transfer of shares in PRC resident enterprises listed on overseas stock exchanges, and to our knowledge, no such individual income tax was levied by PRC tax authorities in practice. However, there is no assurance that the PRC tax authorities will not change these practices which could result in levying income tax on non-PRC resident individual holders on gains from the sale of H shares.

For non-PRC resident enterprises that do not have establishments or premises in China, and for those that have establishments or premises in China but whose income is not related to such establishments or premises, under the EIT Law and its implementation regulations, dividends paid by us and gains realized by such foreign enterprises upon the sale or other disposition of H Shares are subject to PRC enterprise income tax at a 10% rate. In accordance with the Circular on Issues Relating to Withholding of Enterprise Income Tax by PRC Resident Enterprises on Dividends Paid to Overseas Non-PRC Resident Enterprise Shareholders of H Shares (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (Guo Shui Han [2008] No. 897) issued by SAT on November 6, 2008, the withholding tax rate for dividends payable to non-PRC resident enterprise holders of H Shares will be 10% and we intend to withhold tax at a rate of 10% from dividends paid to non-PRC resident enterprise holders of our H Shares (including HKSCC Nominees). Non-PRC resident enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty or arrangement will be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the applicable treaty rate, and payment of such refund will be subject to the PRC tax authorities' approval.

Despite the arrangements mentioned above, the interpretation and application of applicable PRC tax laws and regulations by the competent tax authorities shall be in accordance with the then effective laws and regulations, and new taxes may be imposed which may adversely affect the value of your investment in our H Shares.

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RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our H Shares and the liquidity and market price of our H Shares may be volatile.

Prior to the completion of the Global Offering, there has been no public market for our H Shares. There can be no guarantee that an active trading market for our H Shares will develop or be sustained after the completion of the Global Offering. The Offer Price is the result of negotiations between our Company and the Sole Overall Coordinator (for itself and on behalf of the Underwriters), which may not be indicative of the price at which our H Shares will be traded following completion of the Global Offering. The market price of our H Shares may drop below the Offer Price at any time after completion of the Global Offering.

The trading price of our H Shares may be volatile, which could result in substantial losses to you.

The trading price of our H Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in mainland China that have listed their securities in Hong Kong may affect the volatility in the price of and trading volumes for our H Shares. A number of mainland China-based companies have listed their securities, and some are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards mainland China-based companies listed in Hong Kong and consequently may impact the trading performance of our H Shares. Pursuant to the applicable PRC law, within the 12 months following the Listing Date, all existing Shareholders (including the Pre-IPO Investors) could not dispose of any of the Shares held by them. Due to such lock-up requirement, the liquidity and trading volume of the H Shares in the short term following the Global Offering may be significantly affected. These factors may significantly affect the market price and volatility of our H Shares, regardless of our actual operating performance.

Future sales or perceived sales of substantial amounts of our H Shares in the public market could have a material adverse effect on the price of our H Shares and our ability to raise additional capital in the future.

The market price of our H Shares could decline as a result of future sales of a substantial number of our H Shares or other securities relating to our H Shares in the public market, or the issuance of new shares or other securities, or the perception that such sales or issuances may occur. Future sales, or anticipated sales, of substantial amounts of our securities, including any future offerings, could also materially and adversely affect our ability to raise capital at a

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specific time and on terms favorable to us. In addition, our Shareholders may experience dilution in their holdings if we issue more securities in the future. New shares or shares-linked securities issued by us may also confer rights and privileges that take priority over those conferred by the H Shares.

You will incur immediate and substantial dilution if the Offer Price of the Offer Shares is higher than the net tangible asset value per H Share and may experience further dilution if we issue additional Shares in the future.

The Offer Price of the Offer Shares is higher than the net tangible asset value per Share immediately prior to the Global Offering. Therefore, purchasers of the Offer Shares in the Global Offering will experience an immediate dilution in pro forma consolidated net tangible asset value. There can be no assurance that if we were to immediately liquidate after the Global Offering, any assets will be distributed to Shareholders after the creditors' claims. To expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of the Offer Shares may experience dilution in the net tangible asset value per Share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share at that time.

Our Controlling Shareholders have significant influence over us and their interests may not always be aligned with the interest of our other Shareholders.

Immediately upon the completion of the Global Offering, without taking into account any Shares which may be issued pursuant to the exercise of the Over-Allotment Option, our Controlling Shareholders will control approximately 82.73% of the voting power at our general meetings. Our Controlling Shareholders will, through their voting power at the Shareholders' meetings and their delegates on the Board, have significant influence over our business and affairs, including decisions in respect of mergers or other business combinations, acquisition or disposition of assets, issuance of additional Shares or other equity securities, timing and amount of dividend payments, and our management. Our Controlling Shareholders may not act in the best interests of our minority Shareholders. In addition, without the approval of our Controlling Shareholders, we could be prevented from entering into transactions that could be beneficial to us. This concentration of ownership may also discourage, delay or prevent a change in control of our Company, which could deprive our Shareholders of an opportunity to receive a premium for the Shares as part of a sale of our Company and may significantly reduce the price of our H Shares.

Our historical dividends may not be indicative of our future dividend policy, and there can be no assurance that we will declare and distribute any amount of dividends in the future.

As a holding company, our ability to declare future dividends will depend on the availability of dividends, if any, received from us and our other PRC operating subsidiaries. Under PRC law and the constitutional documents of our PRC operating subsidiaries, dividends may be paid only out of distributable profits, which refer to after-tax profits as determined under PRC GAAP less any recovery of accumulated losses and required allocations to statutory

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capital reserve funds. Any distributable profits that are not distributed in a given year are retained and become available for distribution in subsequent years. The calculation of our distributable profits under PRC GAAP differs in certain respects from the calculation under IFRS. In addition, as stipulated by our Articles, distributable profits are recognized as our net profit determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, our Company and our PRC operating subsidiaries may not be able to pay a dividend in a given year if our Company or our PRC operating subsidiaries do not have distributable profits as determined under PRC GAAP even if they have profits as determined under IFRS. See “Financial Information—Dividends” and Note 12 to the Accountants’ Report included in Appendix I to this Prospectus for details of our dividend policy and dividend payment.

There can be no assurance that future dividends will be declared or paid. The declaration, payment and amount of any future dividends are subject to the discretion of our Directors, after taking into account our results of operations, financial condition, cash requirements and availability and other factors as they may deem relevant, and subject to the approval at a Shareholders’ meeting. We may not have sufficient or any profits to enable us to make dividend distributions to our Shareholders in the future, even if our financial statements indicate that our operations have been profitable.

Certain statistics contained in this Prospectus are derived from a third-party report and publicly available official sources.

This Prospectus, particularly the section headed “Industry Overview,” contains information and statistics relating to the freshly-made tea shop market in China. Such information and statistics have been derived from various official government and other publications and from a third-party report commissioned by us. However, we cannot guarantee the quality or reliability of such source materials. Information and statistics from official government sources have not been independently verified by us or any other parties involved in the Global Offering and no representation is given as to their accuracy. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as or consistent with similar statistics presented elsewhere, and such information may not be complete or up-to-date. In any event, you should consider carefully the importance placed on such information or statistics.

You should read the entire Prospectus carefully and should not rely on any information contained in press articles or other media regarding us and the Global Offering.

We strongly caution you not to rely on any information contained in press articles or other media regarding us and the Global Offering. Prior to the publication of this Prospectus, there has been press and media coverage regarding us, our business, our industry and the Global Offering. There may be additional media coverage regarding us, our business, our industry and the Global Offering subsequent to the date of this Prospectus but prior to the completion of the Global Offering. Such press and media coverage may include references to certain information

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that does not appear in this Prospectus, including certain operating and financial information and projections, valuations and other information. None of us or any other person involved in the Global Offering has authorized the disclosure of any such information in the press or media and none of us accepts any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. Our Company, the Sole Sponsor, the Sole Overall Coordinator, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our and their respective directors, supervisors, officers, representatives, employees, advisers or any other persons or parties involved in the Global Offering make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this Prospectus, our Company, the Sole Sponsor, the Sole Overall Coordinator, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our and their respective directors, supervisors, officers, representatives, employees, advisers or any other persons or parties involved in the Global Offering disclaim responsibility for it, and you should not rely on such information.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This Prospectus, for which our Directors (including any proposed Director who is named as such in this Prospectus) collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information to the public with regard to the Group. Our Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this Prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this Prospectus misleading.

CSRC FILING

On December 20, 2023, the CSRC has issued a notification on our Company's completion of the PRC filing procedures for the listing of our H Shares on the Stock Exchange and the Global Offering. As advised by our PRC Legal Advisor, our Company has completed all necessary filings with the CSRC in the PRC in relation to the Global Offering and the Listing.

UNDERWRITING AND INFORMATION ON THE GLOBAL OFFERING

This Prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. The Global Offering comprises the Hong Kong Public Offering of initially 14,776,400 Offer Shares and the International Offering of initially 132,987,000 Offer Shares (taking into account the Share Subdivision, and subject to, in each case, reallocation on the basis referred to under the section headed "Structure of the Global Offering" in this Prospectus and, in case of the International Offering, to any exercise of the Over-Allotment Option).

The listing of our Shares on the Stock Exchange is sponsored by the Sole Sponsor and the Global Offering is managed by the Sole Overall Coordinator. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Underwriting Agreement relating to the International Offering is expected to be entered into on or around April 18, 2024. Further information regarding the Underwriters and the Underwriting Agreements are set out in the section headed "Underwriting" in this Prospectus.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this Prospectus and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this Prospectus and any information or representation not contained herein and therein must not be relied upon as having been authorized by the Company, the Sole Sponsor, the Sole Overall Coordinator, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, and Capital Market Intermediaries, any of their respective directors, officers, employees, partners, agents, or advisers or any other party involved in the Global Offering.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Neither the delivery of this Prospectus nor any subscription or acquisition made under it shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this Prospectus or imply that the information contained in this Prospectus is correct as of any date subsequent to the date of this Prospectus.

Further information regarding the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering,” and the procedures for applying for our Hong Kong Offer Shares are set out in the section headed “How to Apply for the Hong Kong Offer Shares” in this Prospectus.

INFORMATION ON THE CONVERSION OF UNLISTED SHARES INTO H SHARES

The Company has applied and completed the filings for conversion of 1,329,870,850 Unlisted Shares (taking into account the Share Subdivision) held by all the existing Shareholders into H shares. See the sections headed “History, Reorganization and Corporate Structure” and “Share Capital” for details of the Shareholders and their interests in the Company and the relevant procedures for conversion of Unlisted Shares into H Shares. Such H Shares to be converted from the Unlisted Shares are restricted from trading for a period of one year after the Listing. The relevant filing and registration procedures in relation to the conversion of the Unlisted Shares have been completed on December 20, 2023.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his/her acquisition of the Hong Kong Offer Shares to, confirm that he/she is aware of the restrictions on offers and sales of the Shares described in this Prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong, and no action has been taken to permit the distribution of this Prospectus in any jurisdiction other than Hong Kong. Accordingly, without limitation to the following, this Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this Prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Hong Kong Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the United States.

Persons applying for or purchasing H Shares under the Global Offering are deemed, by their making an application or purchase, to have represented that they are not associates of any of our Directors, Supervisors or existing Shareholder or a nominee of any of the foregoing.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

APPLICATION FOR LISTING OF THE H SHARE ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the granting of the listing of, and permission to deal in, the H Shares to be issued by us pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-Allotment Option) and the H Shares to be converted from the Unlisted Shares.

Dealings in the H Shares on the Stock Exchange are expected to commence on Tuesday, April 23, 2024. No part of our share capital was listed on or dealt in on any other stock exchange and no such listing or permission to list was being or proposed to be sought on the Stock Exchange or any other stock exchange as of the date of this Prospectus. All the Offer Shares will be registered on our H Share register of members in order to enable them to be traded on the Stock Exchange.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, our H Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to the Company by or on behalf of the Stock Exchange.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers as to the taxation implications of subscribing for, purchasing, holding or disposal of, and/or dealing in the Offer Shares or exercising rights attached to them. None of us, the Sole Sponsor, the Sole Overall Coordinator, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, and the Capital Market Intermediaries, any of their respective directors, officers, employees, partners, agents, advisers or representatives or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchasing, holding, disposition of, or dealing in, the Offer Shares or exercising any rights attached to them.

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-Allotment Option and stabilization are set out under the sections headed “Underwriting” and “Structure of the Global Offering” in this Prospectus.

H SHARE REGISTER OF MEMBERS AND HONG KONG STAMP DUTY

All of the H Shares issued pursuant to applications made in the Hong Kong Public Offering will be registered on our H Share register of members to be maintained in Hong Kong by our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong. Our principal register of members will be maintained by us at our head office in the PRC.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Dealings in the H Shares registered in our H Share register of members will be subject to the Hong Kong stamp duty. See “Statutory and General Information—6. Other Information—H. Taxation of Holders of H Share” in Appendix VI to this Prospectus. Investors should seek professional tax advice for further details of Hong Kong stamp duty.

Unless otherwise determined by our Board, dividends will be paid to Shareholders whose names are listed on our H Share register of members in Hong Kong, by ordinary post, at the Shareholders’ risk in Hong Kong dollars to the registered address of each Shareholder.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Offer Shares on the Stock Exchange and our compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second settlement day after any trading day. All activities under CCASS are subject to the General Rules of HKSCC and HKSCC Operational Procedures in effect from time to time. All necessary arrangements have been made for the H Shares to be admitted into CCASS.

Investors should seek the advice of their stockbrokers or other professional advisers for details of the settlement arrangements and how such arrangements will affect your rights and interests as such arrangements may affect their rights and interests.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for Hong Kong Offer Shares are set out in the section headed “How to Apply for the Hong Kong Offer Shares” in this Prospectus.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this Prospectus.

EXCHANGE RATE CONVERSION

Solely for your convenience, this Prospectus contains translations among certain amounts denominated in RMB, Hong Kong dollars and USD. No representation is made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all. Unless indicated otherwise, (i) the translations between RMB and USD were made at the rate of RMB7.09490 to US\$1.00, being the PBOC rate prevailing on April 3, 2024, (ii) the translations between Hong Kong dollars and RMB were made at the rate of RMB0.90629 to HK\$1.00, being the PBOC rate prevailing on April 3, 2024; and (iii) the translations between US dollars and Hong Kong dollars were made at the rate of HK\$7.82851 to US\$1.00. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

LANGUAGE

If there is any inconsistency between this Prospectus and the Chinese translation of this Prospectus, this Prospectus shall prevail. However, the English names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations and the like are translations of their Chinese names and are included for identification purposes only. If there is any inconsistency, the Chinese name prevails.

ROUNDING

Certain amounts and percentage figures included in this Prospectus have been subject to rounding adjustments, or have been rounded to one or two decimal places. Any discrepancies in any table, chart or elsewhere between totals and sums of amounts listed therein are due to rounding.

MARKET SHARE DATA CONVENTION

The statistical and market share information contained in this Prospectus has been derived from official government publications and other sources, including information or data provided by Frost & Sullivan. Unless otherwise indicated, the information has not been verified by us independently. This statistical information may not be consistent with other statistical information from other sources within or outside the PRC. While reasonable caution has been made in the process of reproducing the data and statistics extracted from such official government publications or other sources, our Company, the Sole Sponsor, the Sole Overall Coordinator, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our and their respective directors, supervisors, officers, representatives, employees, advisers or any other persons or parties involved in the Global Offering make no representation to the appropriateness, accuracy, completeness or reliability of any such statistical and market share information.

WAIVERS

In preparation for the Global Offering, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules and exemption from compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance:

WAIVER IN RESPECT OF MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, our Company must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Rule 19A.15 of the Listing Rules further provides that the requirement in Rule 8.12 of the Listing Rules may be waived by having regard to, among other considerations, our arrangements for maintaining regular communication with the Stock Exchange.

We do not have sufficient management presence in Hong Kong for the purposes of satisfying the requirements under Rule 8.12 of the Listing Rules. Our Group's management, business operations and assets are primarily based outside Hong Kong. The principal management headquarters and senior management of our Group are primarily based in China. Our Directors consider that either by means of relocation of our existing our executive Directors or the appointment of executive Directors who will be ordinarily resident in Hong Kong would not be beneficial to, or appropriate for, our Group and therefore would not be in the best interests of our Company and our Shareholders as a whole. Accordingly, pursuant to Rule 19A.15 of the Listing Rules, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rule 8.12 and Rule 19A.15 of the Listing Rules. We will ensure that there is a regular and effective communication between us and the Stock Exchange by way of the following arrangements:

- (a) pursuant to Rule 3.05 of the Listing Rules, we have appointed and will continue to maintain two authorized representatives, who will act as our principal channel of communication with the Stock Exchange and ensure that our Company complies with the Listing Rules at all times. The two authorized representatives are Mr. Chen Keyuan (“**Mr. Chen**”), our executive Director and head of the legal and internal control center of the Group, and Mr. Lee Chung Shing (“**Mr. Lee**”), a joint company secretary of our Company. Each of our authorized representatives will be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by phone and email. Each of the authorized representatives is authorized to communicate on our behalf with the Stock Exchange;
- (b) both authorized representatives have means to contact all of our Directors (including our independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. Our Directors who are not ordinarily resident in Hong Kong possess or can apply for valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time when required. To enhance communication between the Stock Exchange, our authorized representatives and our Directors, we

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have implemented a policy that (i) each Director has provided their respective contact details (including phone number and e-mail address) to the authorized representatives; (ii) in the event that a Director expects to travel or is otherwise out of office, he/she will endeavour to provide his/her phone number of the place of his/her accommodation to the authorized representatives or maintain an open line of communication via his/her mobile phone; and (iii) each of our Directors has provided their respective mobile phone numbers, office phone numbers, e-mail addresses and fax numbers (if applicable) to the Stock Exchange pursuant to paragraph 10 of Chapter 3.10 under the Guide for New Listing Applicants published by the Stock Exchange;

- (c) we have appointed Guotai Junan Capital Limited as our compliance adviser (the “**Compliance Adviser**”) pursuant to Rule 3A.19 of the Listing Rules for a period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date. The Compliance Adviser will have access at all times to our Authorized Representatives, our Directors and our senior management as prescribed by Rule 3A.23 of the Listing Rules, who will act as the additional channel of communication with the Stock Exchange when the Authorized Representatives are not available. Our Company shall ensure that our Authorized Representatives, Directors and our senior management members will timely provide such information and assistance as the Compliance Adviser may need or may reasonably request in connection with the performance of the Compliance Adviser’s duties as set forth in the Listing Rules;
- (d) we have provided the Stock Exchange with the names, mobile phone numbers, office phone numbers, fax numbers and email addresses of at least two of the Compliance Adviser’s officers who will act as our Compliance Adviser’s contact persons between the Stock Exchange and our Company. We will inform the Stock Exchange as soon as practicable in respect of any change of authorized representatives and/or the Compliance Adviser;
- (e) we will appoint other professional advisors (including legal advisors in Hong Kong) after the Listing to assist us in dealing with any questions which may be raised by the Stock Exchange and to ensure that there will be prompt and effective communication with the Stock Exchange; and
- (f) our Company has designated our staff members as the communication officer at our headquarters after the Listing who will be responsible for maintaining day-to-day communication with Mr. Lee and our Company’s professional advisors in Hong Kong, including our legal advisors in Hong Kong and the Compliance Adviser, to keep abreast of any correspondences and/or enquiries from the Stock Exchange and report to our executive Directors to further facilitate communication between the Stock Exchange and our Company.

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WAIVER IN RESPECT OF APPOINTMENT OF JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, we must appoint a company secretary who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary. Note 1 to Rule 3.28 of the Listing Rules provides that the Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a member of The Hong Kong Chartered Governance Institute;
- (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); and
- (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Note 2 to Rule 3.28 of the Listing Rules further provides that the Stock Exchange considers the following factors in assessing the “relevant experience” of the individual:

- (a) length of employment with the issuer and other issuers and the roles he/she played;
- (b) familiarity with the Listing Rules and other relevant laws and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

Our Company has appointed Mr. Xue Zenghui (“**Mr. Xue**”), as one of our joint company secretaries. Mr. Xue has extensive experience in financing and investment services. The Company believes that it would be in the best interests of the Company and the corporate governance of the Group to have as its joint company secretary a person such as Mr. Xue, who is an employee of the Company and who has day-to-day knowledge of the Company’s affairs. Mr. Xue has the necessary nexus to the Board and close working relationship with management of the Company in order to perform the function of a joint company secretary and to take the necessary actions in the most effective and efficient manner. However, Mr. Xue presently does not possess any of the qualifications under Rules 3.28 and 8.17 of the Listing Rules, and may not be able to solely fulfill the requirements of the Listing Rules. Therefore, we have appointed Mr. Lee Chung Shing (“**Mr. Lee**”), an associate member of the Hong Kong Institute of Certified Public Accountant and a fellow member of the Association of Chartered Certified Accountants, who fully meets the requirements stipulated under Rules 3.28 and 8.17 of the Listing Rules to act as the other joint company secretary and to provide assistance to Mr. Xue for an initial period of three years from the Listing Date to enable Mr. Xue to acquire the “relevant experience” under Note 2 to Rule 3.28 of the Listing Rules so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Listing Rules.

WAIVERS

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules such that Mr. Xue may be appointed as a joint company secretary of our Company. The waiver is valid for an initial period of three years from the Listing Date, and is granted on the condition that Mr. Lee will assist Mr. Xue to discharge the duties and responsibilities as company secretary and assist Mr. Xue in acquiring the relevant experience as required under Rules 3.28 and 8.17 of the Listing Rules. Mr. Lee will also assist Mr. Xue in organizing Board meetings and Shareholders' meetings of our Company as well as other matters of our Company which are incidental to the duties of a company secretary. Mr. Lee is expected to assist Mr. Xue and will maintain regular contact with Mr. Xue, the Directors, the Supervisors and the senior management of our Company. The waiver will be revoked immediately if Mr. Lee ceases to provide assistance to Mr. Xue as a joint company secretary for the three-year period after the Listing or where there are material breaches of the Listing Rules by our Company. In addition, Mr. Xue will comply with the annual professional training requirement under Rule 3.29 of the Listing Rules and will enhance his knowledge of the Listing Rules during the three-year period from the Listing. Mr. Xue will also be assisted by (a) the Compliance Adviser of our Company, particularly in relation to compliance with the Listing Rules; and (b) the Hong Kong legal advisors of our Company, on matters concerning our Company's ongoing compliance with the Listing Rules and the applicable laws and regulations.

Before the expiration of the initial three-year period, the qualifications of Mr. Xue will be re-evaluated to determine whether the requirements as stipulated in Rules 3.28 and 8.17 of the Listing Rules can be satisfied and whether the need for ongoing assistance will continue. We will liaise with the Stock Exchange to enable it to assess whether Mr. Xue, having benefited from the assistance of Mr. Lee for the preceding three years, will have acquired the skills necessary to carry out the duties of company secretary and the relevant experience within the meaning of Note 2 to Rule 3.28 of the Listing Rules so that a further waiver will not be necessary.

WAIVER IN RELATION TO PUBLIC FLOAT

Rule 8.08(1)(a) of the Listing Rules requires that there must be an open market for the securities for which listing is sought, and that a sufficient public float of an issuer's listed securities shall be maintained. Generally, at least 25% of an issuer's total issued share capital must at all times be held by the public. Pursuant to Rule 8.08(1)(d) of the Listing Rules, the Stock Exchange may, subject to certain conditions and at its discretion, accept a lower percentage of between 15% and 25% in the case of issuers with an expected market capitalization at the time of listing of over HK\$10 billion.

Based on the Offer Price of HK\$17.50 per H Share, the Company expects that its market capitalization at the time of the Listing will be approximately HK\$25.86 billion, which will be significantly higher than HK\$10 billion.

WAIVERS

Accordingly, we have applied to the Stock Exchange to exercise its discretion under Rule 8.08(1)(d) of the Listing Rules to grant, and the Stock Exchange has granted, a waiver from strict compliance with the minimum public float requirement under Rule 8.08(1)(a) of the Listing Rules so that the minimum percentage of the Shares from time to time to be held in public hands will be the higher of (i) 15.31% of the total issued share capital of our Company (assuming the conversion of Unlisted Shares into H Shares is completed and the Over-allotment Option is not exercised); or (ii) such percentage of Shares to be held by the public H Shareholders immediately after the completion of the Global Offering and the last exercise of the Over-allotment Option.

In support for the application of the waiver, we have confirmed to the Stock Exchange that:

- (a) we have an expected market capitalization at the time of Listing of over HK\$10 billion;
- (b) there will be an open market in the H Shares offered, and the quantity and extent of their distribution would enable the market to operate properly with a lower percentage of public float;
- (c) we will make appropriate disclosure of the lower prescribed percentage of public float as approved by the Stock Exchange in this Prospectus;
- (d) we will implement appropriate measures and mechanisms to ensure continuous maintenance of the minimum public float prescribed by the Stock Exchange; and
- (e) we will confirm sufficiency of public float in our successive annual reports after the Listing.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
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Executive Directors

Mr. Wang Xiaokun (王霄鋸)	No. 3001, Floor 30, Unit 1, Building 26 No. 228 Liucheng Liaoyuan Road Wenjiang District Chengdu, Sichuan PRC	Chinese
Mr. Wang Hongxue (汪紅學)	No. 5, Floor 4, Unit 1, Building 3 No. 63, Zhengbei Middle Street Tianfu New District Chengdu, Sichuan PRC	Chinese
Ms. Dai Li (戴利)	No. 48, Group 13, Jigong Village Fenghuang Township, Da'an District Zigong, Sichuan PRC	Chinese
Mr. Chen Keyuan (陳克遠)	No. 621, Floor 6, Unit 4, Building 2 No. 8, Section 1 of Xisanhuan Road Wuhou District, Chengdu Sichuan, PRC	Chinese

Non-Executive Director

Dr. Chen Da (陳達)	No. 900 West Yan'An Road Changning District Shanghai PRC	Chinese
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DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
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Executive Directors**Independent Non-Executive Directors**

Mr. Yeung Chi Tat (楊志達)	Unit E, 60/F, Tower 3, Vision City 1 Yeung Uk Road Hong Kong	Chinese (Hong Kong)
Dr. Tang Yong (唐勇)	Room 503, Unit 1, Building 1 Vanke Shiguangrunyuan No. 199 East Section of Gaodian Road, Pidu District Chengdu, Sichuan PRC	Chinese
Ms. Cheng Li (程麗)	10A, 1902, South Zone Pingguo Community No. 32 Baiziwan Road Chaoyang District, Beijing PRC	Chinese

SUPERVISORS

Name	Address	Nationality
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Ms. Liu Weihong (劉洧宏)	No. 3001, Floor 30, Unit 1, Building 26 No. 228 Liucheng Liaoyuan Road Wenjiang District Chengdu, Sichuan PRC	Chinese
Mr. Zhu Mingxing (朱明星)	No. 1308, Unit 1, Building 1, Meili Hejiang No. 8 Tianxianqiao South Road Jinjiang District Chengdu, Sichuan PRC	Chinese
Mr. Zhang Yu (張禹)	No. 1-2-401, Linglong County No. 58, Jinlu 4th Road Tiefu Section, Wuhou Avenue Wuhou District Chengdu, Sichuan PRC	Chinese

For details with respect to our Directors and Supervisors, see “Directors, Supervisors and Senior Management” in this Prospectus.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

**Sole Sponsor, Sponsor – OC and
Sole Overall Coordinator**

**China International Capital Corporation
Hong Kong Securities Limited**
29/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Joint Global Coordinators

**China International Capital Corporation
Hong Kong Securities Limited**
29/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Citigroup Global Markets Asia Limited
50/F, Champion Tower
3 Garden Road
Central
Hong Kong

Joint Bookrunners

**China International Capital Corporation
Hong Kong Securities Limited**
29/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Citigroup Global Markets Asia Limited
*(in relation to the Hong Kong Public
Offering)*
50/F, Champion Tower
3 Garden Road
Central
Hong Kong

Citigroup Global Markets Limited
(in relation to the International Offering)
33 Canada Square
Canary Wharf
London E14 5LB
United Kingdom

CMB International Capital Limited

45th Floor, Champion Tower
3 Garden Road
Central
Hong Kong

CCB International Capital Limited

12/F, CCB Tower
3 Connaught Road Central
Central
Hong Kong

**Shenwan Hongyuan Securities (H.K.)
Limited**

Level 6, Three Pacific Place
1 Queen's Road East
Hong Kong

**China Merchants Securities (HK)
Co., Limited**

48/F, One Exchange Square
8 Connaught Place
Central
Hong Kong

**Futu Securities International (Hong
Kong) Limited**

34/F, United Centre
No. 95 Queensway
Admiralty
Hong Kong

Tiger Brokers (HK) Global Limited

1/F
No. 308 Des Voeux Road Central
Sheung Wan
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Lead Managers

**China International Capital Corporation
Hong Kong Securities Limited**
29/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Citigroup Global Markets Asia Limited
*(in relation to the Hong Kong Public
Offering)*
50/F, Champion Tower
3 Garden Road
Central
Hong Kong

Citigroup Global Markets Limited
(in relation to the International Offering)
33 Canada Square
Canary Wharf
London E14 5LB
United Kingdom

CMB International Capital Limited
45th Floor, Champion Tower
3 Garden Road
Central
Hong Kong

CCB International Capital Limited
12/F, CCB Tower
3 Connaught Road Central
Central
Hong Kong

**Shenwan Hongyuan Securities (H.K.)
Limited**
Level 6, Three Pacific Place
1 Queen's Road East
Hong Kong

China Merchants Securities (HK)

Co., Limited

48/F, One Exchange Square
8 Connaught Place
Central
Hong Kong

**Futu Securities International (Hong
Kong) Limited**

34/F, United Centre
No. 95 Queensway
Admiralty
Hong Kong

Tiger Brokers (HK) Global Limited

1/F
No. 308 Des Voeux Road Central
Sheung Wan
Hong Kong

Fosun International Securities Limited

Suite 2101-2105
21/F, Champion Tower
3 Garden Road
Central
Hong Kong

Maxa Capital Limited

Unit 2602
26/F, Golden Centre
188 Des Voeux Road Central
Sheung Wan
Hong Kong

Space Securities Limited

Room A to C, 11/F, Kee Shing Centre
74-76 Kimberly Road, T.S.T.
Kowloon
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Capital Market Intermediaries

**China International Capital Corporation
Hong Kong Securities Limited**
29/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Citigroup Global Markets Asia Limited
*(in relation to the Hong Kong Public
Offering)*
50/F, Champion Tower
3 Garden Road
Central
Hong Kong

Citigroup Global Markets Limited
(in relation to the International Offering)
33 Canada Square
Canary Wharf
London E14 5LB
United Kingdom

CMB International Capital Limited
45th Floor, Champion Tower
3 Garden Road
Central
Hong Kong

CCB International Capital Limited
12/F, CCB Tower
3 Connaught Road Central
Central
Hong Kong

**Shenwan Hongyuan Securities (H.K.)
Limited**
Level 6, Three Pacific Place
1 Queen's Road East
Hong Kong

**China Merchants Securities (HK)
Co., Limited**

48/F, One Exchange Square
8 Connaught Place
Central
Hong Kong

**Futu Securities International (Hong
Kong) Limited**

34/F, United Centre
No. 95 Queensway
Admiralty
Hong Kong

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1/F
No. 308 Des Voeux Road Central
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Hong Kong

Fosun International Securities Limited

Suite 2101-2105
21/F, Champion Tower
3 Garden Road
Central
Hong Kong

Maxa Capital Limited

Unit 2602
26/F, Golden Centre
188 Des Voeux Road Central
Sheung Wan
Hong Kong

Space Securities Limited

Room A to C, 11/F, Kee Shing Centre
74-76 Kimberly Road, T.S.T.
Kowloon
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal Advisors to our Company

As to Hong Kong law and United States law

Davis Polk & Wardwell

10th Floor, The Hong Kong Club Building
3A Chater Road
Hong Kong

As to PRC law

Jingtian & Gongcheng

34/F, Tower 3, China Central Place
77 Jianguo Road
Chaoyang District
Beijing
PRC

**Legal Advisors to the Sole Sponsor and
the Underwriters**

As to Hong Kong law and United States law

Clifford Chance

27/F, Jardine House
One Connaught Place
Central
Hong Kong

As to PRC law

King & Wood Mallesons

16th Floor, Tower 1, Chengdu IFS
No. 1 Section 3 Hong Xing Road
Chengdu, Sichuan
PRC

**Reporting Accountants and
Independent Auditor****Deloitte Touche Tohmatsu**

*Certified Public Accountants
Registered Public Interest Entity Auditor*
35/F, One Pacific Place
88 Queensway
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Industry Consultant

**Frost & Sullivan (Beijing) Inc., Shanghai
Branch Co.**

2504 Wheelock Square
1717 Nanjing West Road
Shanghai 200040
China

Receiving Bank

CMB Wing Lung Bank Limited

CMB Wing Lung Bank Building
45 Des Voeux Road Central
Hong Kong

CORPORATE INFORMATION

Registered Office	No. 201, Building 1 No. 12 South Tuanjie Road Qingbaijiang District Chengdu, Sichuan PRC
Headquarters and Principal Place of Business in the PRC	10/F, Unit 1, Building 1, Jiayu Financial Technology Center No. 166 Mingdu Road Wuhou District Chengdu, Sichuan PRC
Principal Place of Business in Hong Kong	46/F, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Company's Website	<u>www.chabaidao.com</u> <i>(The information contained in this website does not form part of this Prospectus)</i>
Joint Company Secretaries	Mr. Xue Zenghui (薛曾輝) 10/F, Unit 1, Building 1 Jiayu Financial Technology Center No. 166 Mingdu Road Wuhou District Chengdu, Sichuan PRC Mr. Lee Chung Shing (李忠成) <i>(CPA of HKICPA, FCCA of ACCA)</i> 46/F, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

CORPORATE INFORMATION

Authorized Representatives

Mr. Chen Keyuan (陳克遠)
No. 621, Floor 6, Unit 4, Building 2
No. 8, Section 1 of Xisanhuan Road
Wuhou District, Chengdu
Sichuan, PRC

Mr. Lee Chung Shing (李忠成)
46/F, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Audit Committee

Mr. Yeung Chi Tat (楊志達) (*Chairperson*)
Ms. Cheng Li (程麗)
Dr. Chen Da (陳達)

Remuneration Committee

Ms. Cheng Li (程麗) (*Chairperson*)
Mr. Wang Xiaokun (王霄鋨)
Dr. Tang Yong (唐勇)

Nomination Committee

Mr. Wang Xiaokun (王霄鋨) (*Chairperson*)
Ms. Cheng Li (程麗)
Dr. Tang Yong (唐勇)

Compliance Adviser

Guotai Junan Capital Limited
26/F-28/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Central, Hong Kong

H Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Principal Bank

**China Construction Bank
Chengdu Jinhe Sub-branch**
No. 66, Dongyu Street, Jinjiang District
Chengdu, Sichuan
PRC

INDUSTRY OVERVIEW

The information and statistics set out in this section and other sections of this Prospectus were extracted from the Frost & Sullivan Report prepared by Frost & Sullivan, which was commissioned by us, and from various official government publications and other publicly available publications. We engaged Frost & Sullivan to prepare the Frost & Sullivan Report, an independent industry report, in connection with the Global Offering. The information from official government sources has not been independently verified by us, the Sole Sponsor, the Sole Overall Coordinator, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our and their respective directors, supervisors, officers, representatives, employees, advisers or any other persons or parties involved in the Global Offering, and no representation is given as to its accuracy.

SOURCE AND RELIABILITY OF INFORMATION

We have commissioned Frost & Sullivan, an Independent Third Party, to conduct a study of China's non-alcoholic beverage industry, beverage shop industry and freshly-made tea shop industry. We agreed to pay Frost & Sullivan a fee of RMB1,790,000 for the preparation of the Frost & Sullivan Report, and our Directors consider that such fee reflects market rates and are of the view that the payment of the fee does not affect the fairness of conclusions drawn in the Frost & Sullivan Report. Founded in 1961, Frost & Sullivan has over 45 global offices with more than 3,000 industry consultants, market research analysts, technology analysts and economists.

RESEARCH METHODOLOGY

During the preparation of the Frost & Sullivan Report, Frost & Sullivan conducted primary research that involved discussing the status of the industry with industry participants and industry experts, as well as secondary research that involved reviewing company reports, independent research reports and Frost & Sullivan's own database.

Our Directors have confirmed that there has been no adverse change in the market situation since the date of the Frost & Sullivan Report which may qualify, contradict, or have impact on the information of this section.

BASIS AND ASSUMPTION

The Frost & Sullivan Report was compiled based on the following assumptions: (i) China's and the overseas economy is likely to maintain steady growth in the next decade, as according to the National Bureau of Statistics and the International Monetary Fund ("IMF"), China's and the global nominal GDP is expected to maintain a CAGR of 5.8% and 4.7% from 2023 to 2033, and (ii) China's social, economic, and political environment is likely to remain stable in the forecast period. According to the National Bureau of Statistics, in China, the per capita annual disposal income increased with a CAGR of 6.8% from 2018 to 2023 and is

INDUSTRY OVERVIEW

expected to grow with a CAGR of 6.0% from 2024 to 2028. Additionally, the urbanization rate in China increased from 59.6% in 2018 to 66.2% in 2023, and is expected to reach 73.5% in 2028. The increase in per capita annual disposal income and urbanization rate will improve consumers' spending ability and lead to a favorable environment for the opening of freshly-made tea shops in major shopping districts and commercial areas. All of these factors will drive the growth of China's freshly-made tea shop industry.

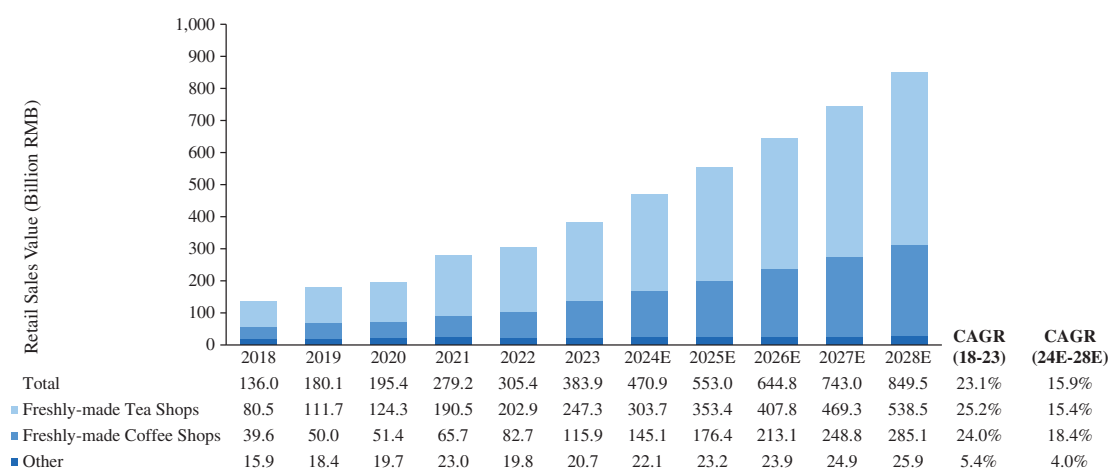
ANALYSIS OF CHINA'S BEVERAGE SHOP INDUSTRY

Market Size of China's Beverage Shop Industry

The evolving consumer demands creates abundant development opportunities in the beverage shop industry. The total market size of China's beverage shop industry experienced an upward trend from RMB136.0 billion in 2018 to RMB383.9 billion in 2023, representing a CAGR of 23.1%.

Currently, the two most prevailing types of beverage shops in China's beverage shop industry are (i) freshly-made tea shops and (ii) freshly-made coffee shops. As tea is the traditional drink in China, the freshly-made tea shop industry have experienced a rapid development and expansion. The market size of freshly-made tea shop industry increased from RMB80.5 billion in 2018 to RMB247.3 billion in 2023 with a CAGR of 25.2%. The market share of freshly-made tea shop industry increased from 59.2% in 2018 to 64.4% in 2023. In the foreseeable future, along with consumption upgrade and increasing demand for quality tea drinks, the market size of the freshly-made tea shop industry is expected to increase to RMB538.5 billion in 2028, occupying 63.4% of China's beverage shop industry in 2028.

Market Size of China's Beverage Shop Industry, Breakdown by Types, 2018 – 2028E



Source: Frost & Sullivan

Note: Others include juice shops, and shops with carbonated beverages or other beverages as their main products, which are mainly street shops.

INDUSTRY OVERVIEW

Market Drivers of China's Beverage Shop Industry

Increasing Disposable Income and Urbanization Rate and Consumption Upgrade: Over the past few years, spending on meals and drinks has experienced strong growth as urban residents seek to improve their living standards and increasingly dine out. This trend has been supported by the increasing disposable incomes and urbanization rate. In particular, the expanding middle class with strong spending power and increasing propensity to dine out is expected to drive the beverage shop industry in China. This consumption upgrade has led to diversified needs for catering services, including quality and healthy food, restaurant atmosphere, service quality and other social and leisure needs. Notably, freshly-made tea shops have emerged and increasingly occupied China's beverage shop industry in response to the evolving market demands in recent years.

Popularity of Online Food Delivery: As the penetration of mobile devices increases and Chinese consumers' pace of life becomes faster, the demand for online food delivery is expected to continue to grow, especially in China's beverage shop industry. In particular, beverage shops that offer both dine-in and delivery services are expected to benefit from the foregoing trend.

Innovation and Diversification in Dishes and Drinks: Beverage shops in China offer various kinds of beverages, such as coffee, freshly-made tea drinks and juice. In recent years, China's beverage shops have expanded the choices of ingredients and culinary methods, especially as Chinese consumers become more open to accepting new ideas and making beverages under new culinary concepts. For instance, beverage shops in China have created a number of new combinations of ingredients with coffee, milk tea, fresh fruits and even wines. This trend of creativity provides Chinese consumers more diversified choices and encourages them to purchase more frequently in beverages shops.

ANALYSIS OF CHINA'S FRESHLY-MADE TEA SHOP INDUSTRY

The upstream of the freshly-made tea shop industry comprises a variety of raw material suppliers, mainly providing different kinds of raw materials such as tea, fruit, dairy products and packaging materials which are necessary for the production of freshly-made tea drinks. The participants in the midstream of the freshly-made tea shop industry are freshly-made tea drink companies, which are responsible for the design, production and packaging of freshly-made tea drinks. These tea drinks are freshly made on the spot of tea shops, based on raw materials including tea, fruit, milk and various kinds of ingredients, such as pearl and coconut jelly. The main business models of freshly-made tea shops include self-operated model and franchise model. The downstream participants of the freshly-made tea shop industry are various sales channels, including offline stores, self-delivery platforms and third-party delivery platforms. Consumers now can choose to order their tea drinks online and receive them through in-store pickup or delivery.

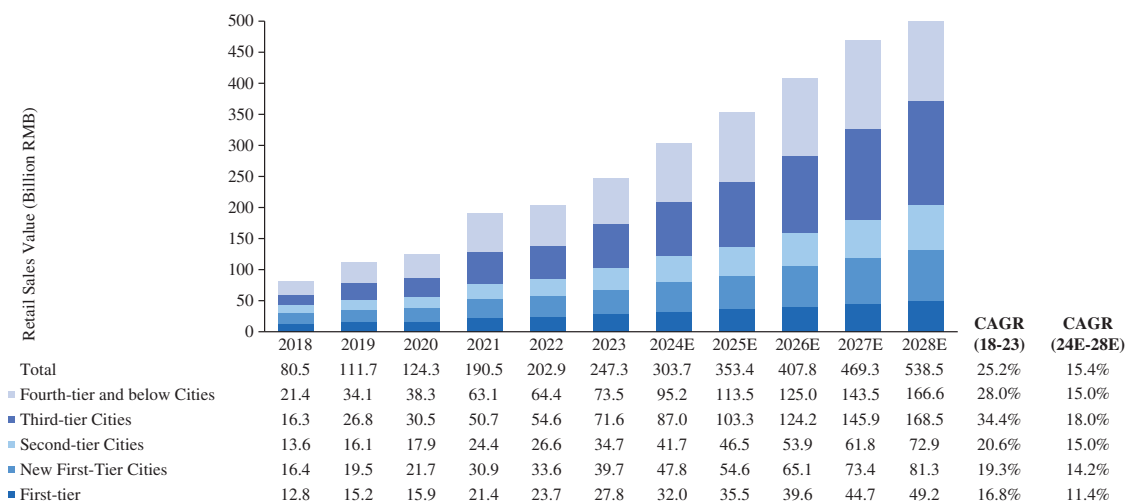
INDUSTRY OVERVIEW

Market Size of China’s Freshly-Made Tea Shop Industry

China’s freshly-made tea shop market can be divided by different city tiers. From 2018 to 2023, the freshly-made tea shop markets in new first-tier cities, third-tier cities and fourth-tier and below cities have witnessed rapid growth from RMB16.4 billion, RMB16.3 billion and RMB21.4 billion in 2018 to RMB39.7 billion, RMB71.6 billion and RMB73.5 billion in 2023, respectively, representing CAGRs of 19.3%, 34.4% and 28.0%, respectively.

In the foreseeable future, the freshly-made tea shop market in second-tier cities, third-tier cities, and fourth-tier and below cities are expected to further grow with CAGRs of 15.0%, 18.0% and 15.0% from 2024 to 2028, respectively, along with the rapid development of the whole market.

**Market Size of China’s Freshly-Made Tea Shop Market,
Breakdown by City Tier, 2018 – 2028E**



Source: Frost & Sullivan

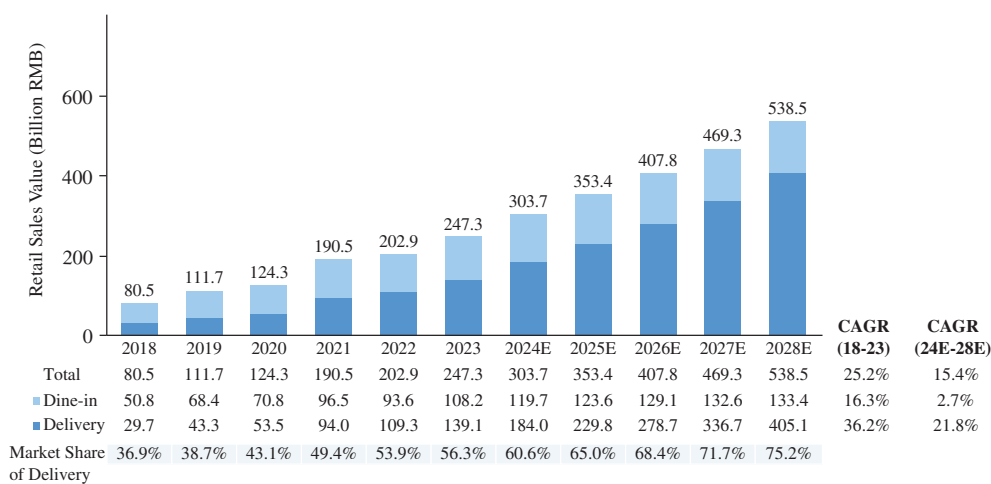
In 2023, freshly-made tea shop chain brand occupied 64.7% market share in China’s freshly-made tea shop market and the penetration rate of freshly-made tea shop chain brand is expected to grow to 73.5% by 2028.

Online food delivery in China has witnessed a fast growth during the past several years, driven by the increased popularity of online food delivery platforms and apps, as well as changes in lifestyles and dining preferences especially in young populations. The demand for online food delivery is expected to continue to grow with the increasing penetration of mobile devices and the expedited pace of modern lifestyles in China.

INDUSTRY OVERVIEW

The retail sales value realized through online food delivery in China’s freshly-made tea shop market increased from RMB29.7 billion in 2018 to RMB139.1 billion in 2023 with a CAGR of 36.2%, representing approximately 56.3% of the total retail sales value in China’s freshly-made tea shop market. The retail sales value realized through online food delivery in China’s freshly-made tea shop market is expected to reach RMB405.1 billion in 2028 with a CAGR of 21.8% from 2024 to 2028.

Market Size and Market Share of China’s Freshly-Made Tea Shop Market, Breakdown by Dine-in and Delivery, 2018 – 2028E



Source: Frost & Sullivan

Competitive Landscape of China’s Freshly-Made Tea Shop Industry

China’s freshly-made tea shop market is fragmented. There are approximately 3,000 freshly-made tea shop brands in China’s freshly-made tea shop market. The top five players collectively accounted for approximately 40.2% of market share in terms of retail sales value in 2023. The Group was the third-largest freshly-made tea drink company in China with RMB16.9 billion of retail sales value, occupying around 6.8% market share in 2023.

INDUSTRY OVERVIEW

Ranking and Market Share of Top Five Players in China's Freshly-Made Tea Shop Market in Terms of Retail Sales Value, 2023

Ranking	Group	Retail Sales Value in 2023 (RMB Billion)	Market Share in 2023 (%)	Number of Stores 2023	Number of Covered Cities	Price Range
1	Company A	44.0	17.8%	~31,600	~360	4-12
2	Company B	19.2	7.8%	~9,000	~200	6-20
3	The Group	16.9	6.8%	7,801	344	6-22
4	Company C	10.4	4.2%	~7,800	~340	7-21
5	Company D	9.0	3.6%	~3,200	~305	8-20

Note: The market players' data are based on public information and estimations derived from expert interviews. Due to confidentiality of each player, there may be deviation from their internal financial data.

Company A: Established in 1997, this company is a private company headquartered in Zhengzhou, Henan province, China. This company serves various types of products, including ice cream, milk tea, fruit tea, fresh tea, and coffee. This company has over 30,000 stores.

Company B: Established in 2010, this company is a private company headquartered in Taizhou, Zhejiang province, China. This company serves various types of products, including milk tea, coffee, fruit tea, fresh tea, and snacks. This company has over 9,000 stores.

Company C: Established in 2013, this company is a private company headquartered in Shanghai, China. This company serves various types of products, including fruit tea and milk tea. This company has over 7,500 stores.

Company D: Established in 2012, this company is a private company headquartered in Shenzhen, China. This company serves various types of products including freshly-made tea drinks. This company has over 3,200 stores.

Source: Frost & Sullivan

The Group covered 344 cities and has 10.6% of stores in first-tier cities, 26.9% of stores in new first-tier cities, 20.9% of stores in second-tier cities, 19.4% of stores in third-tier cities and 22.2% of stores in fourth-tier and below cities in 2023. Compared to other leading players in China's freshly-made tea shop market, the Group's distribution in each city tier is relatively even, presenting a more diversified distribution.

INDUSTRY OVERVIEW

Store Distribution by City Tier of Top Five Players in China's Freshly-Made Tea Shop Market, 2023

Ranking	Group	First-tier cities (%)	New first-tier cities (%)	Second-tier cities (%)	Third-tier cities (%)	Fourth-tier and below cities (%)
1	Company A	~5%	~19%	~19%	~25%	~32%
2	Company B	~3%	~18%	~30%	~26%	~23%
3	The Group	10.6%	26.9%	20.9%	19.4%	22.2%
4	Company C	~7%	~21%	~22%	~21%	~28%
5	Company D	~17%	~21%	~21%	~21%	~20%

Source: Frost & Sullivan

Market Drivers of China's Freshly-Made Tea Shop Industry

Enhanced Product Development Capabilities and Marketing Initiatives: To cater for evolving market demand, freshly-made tea drink brands make efforts on product development and marketing initiatives. In particular, freshly-made tea drink brands offer a wide range of products to meet consumers' demand for new recipes and unique experiences, such as mixing tea bases with different kinds of fruits. Leading freshly-made tea drink brands constantly experiment with new flavors and ingredients to serve diverse tastes, while incorporating local ingredients from different regions into their product development. In terms of marketing initiatives, many freshly-made tea drink brands have co-branded with famous TV series, anime or cartoons to increase attractiveness to customers. Together, these factors drive the development of China's freshly-made tea shop market.

Increasing Disposable Income and Urbanization Rate: In China, the per capita annual disposal income increased from RMB28.2 thousand to RMB39.2 thousand from 2018 to 2023 with a CAGR of 6.8%. Also, per capita annual disposal income in new first-tier and second-tier cities in China has increased from RMB40.6 thousand and RMB34.9 thousand in 2018, respectively, to RMB55.0 thousand and RMB49.8 thousand in 2023 with CAGRs of 6.3% and 7.4%, respectively. In addition, the urbanization rate in China increased from 59.6% in 2018 to 66.2% in 2023. With continuously increasing disposal income and urbanization rate, consumers now have a higher standard for the taste and quality of food and tea drinks. Consumers prefer tea drinks made from quality tea leaves instead of milk tea powder or tea dregs. With the heightened product standards and evolving consumer demands, freshly-made tea shops need to provide new flavors of their products to attract consumers. With the continuous innovation of freshly-made tea shops, China's freshly-made tea shops market has experienced rapid growth.

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Development of Delivery Service and Online Order: The penetration rate of China's mobile internet users increased from 58.5% in 2018 to 80.2% in 2023. A growing number of consumers prefer to order food and drink through their mobile phones. China's fast-paced lifestyle also boosts the development of delivery service, which creates various channels for China's freshly-made tea shops to sell their products. The development of delivery service and online order systems allows China's freshly-made tea shops to increase their sales volume, thereby driving the freshly-made tea shop market to keep growing in the next few years.

Opportunities of China's Freshly-Made Tea Shop Industry

Brand Awareness Enhancement: (i) Brand reputation is the key factor to differentiate from other players in the market with a large number of participants and no market dominator. Participants of China's freshly-made tea shop industry need to improve and strengthen their brand reputation to compete with all other market players. Freshly-made tea shops are also continuously increasing their brand awareness and the repurchase rate to establish a strong brand stickiness for consumers in the market. (ii) Freshly-made tea shops can attract new consumers and maintain loyal consumer base with more bestselling products and enhanced marketing efforts. Since most consumers are willing to try new products, players with strong brand reputation and innovative products are expected to attract their consumers to repurchase more often.

Technology Upgrade and Digitalization: (i) A wide range of new technologies in relation to freshly-made tea shops such as digital payment and online ordering systems have become more pervasive and have made it more convenient and efficient for the transaction between consumers and freshly-made tea shops. In addition, those tea shops are able to collect and analyze consumer behavioral data to launch targeted marketing campaigns, increase consumer stickiness and enhance brand loyalty. With these advanced technologies and digital functions, freshly-made tea shops are improving their business performance and operation. (ii) In addition, freshly-made tea shops also have built their online platforms to enrich the shopping scenarios and provide a more convenient shopping experience for consumers. Freshly-made tea shops are able to establish their private traffic pool through online apps and to provide more customized products for consumers. Therefore, the development of technology and digitalization is expected to be a major market driver that helps freshly-made tea shops improve operating and management efficiency.

Product Innovation and Product Offering: Continuous product innovation has become a strong driving force for the development of the freshly-made tea shop market. To meet the needs of new generation consumers, freshly-made tea shops are constantly innovating in terms of raw materials, products, packagings, sales and marketing methods. In addition, China's freshly-made tea shops have been constantly innovating their product offerings and delivering new consumption experience for consumers with products such as milk-cap tea, health-supplement tea and mixed fruit tea. In addition, along with the increasing health awareness, consumers tend to purchase low-calorie and low-sugar products, which also brings potential business development opportunities for existing freshly-made tea shops. With more diversity in tea drink products, the freshly-made tea shop market is expected to have more growth opportunities in the future.

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Industry Consolidation: With the development of Internet and online apps with review functions, consumers now can easily share their opinions with each other. More and more consumers are attracted to leading brands in the market who enjoy high reputation and offer quality products. In terms of collective retail sales value, market share of the top five players increased from 36.3% in 2022 to 40.2% in 2023. Hence, leading freshly-made tea shops are expected to gain larger market shares and the market is expected to be more concentrated.

Franchise Model that Enables Rapid Growth for Market Participants: The franchise model has gained popularity in the freshly-made tea shop industry, particularly for leading companies seeking rapid expansion. Under the franchise model, franchisees can take advantage of the established brand recognition and marketing efforts of the brand operators, also receive training and ongoing support to help them run their businesses. This model has been proven successful in the freshly-made tea shop industry. The franchise model also delivers various benefits for the franchisors, such as the increases of brand exposure and customer loyalty, as well as entering into new markets without assuming the risks and costs in relation to opening new stores. Overall, the franchise model has become an increasingly popular way for freshly-made tea shops to expand their business and reach new consumers. With careful planning and management, franchise model can deliver win-win situation for both franchisors and franchisees.

Challenges of China's Freshly-Made Tea Shop Industry

Rising Labor Costs: Human resource is a key factor in the freshly-made tea shop industry. As the economy develops, labor costs in China have kept increasing in recent years. The average annual salary of employees in the freshly-made tea shop industry increased from RMB39.6 thousand to RMB49.3 thousand from 2018 to 2023 at a CAGR of 4.5%. Going forward, the average annual salary of employees in the freshly-made tea shop market is expected to increase along with the growing nominal GDP in China. The rising labor cost is likely to pose challenges to the market development.

Fierce Competition: The freshly-made tea shop industry in China is highly competitive. There are approximately 3,000 freshly-made tea shop brands with approximately 420,000 stores in China's freshly-made tea shop market. In 2023, the market size of China's freshly-made tea shop market was RMB247.3 billion, with the top five players collectively accounting for approximately 40.2% of the market share in terms of retail sales value. The competition may be increasingly intense in the future due to the growing number of freshly-made tea shop brands and the lack of clear differentiation in product offerings, pricing and other key aspects among these brands. The proximity of freshly-made tea shops under different brands in adjacent areas also contributes to heightened competition. The competition among freshly-made tea shops was fierce. Among the top ten shopping areas in China, which are ranked based on factors such as the population size of the business district, transportation facilities and business scale, there are approximately 50 freshly-made tea shops within a one-kilometer distance from each shopping area's center, and among the top ten shopping malls in China, which are ranked by the sales value, an average of ten freshly-made tea shops can be found within each shopping mall.

Entry Barriers of China's Freshly-Made Tea Shop Industry

Franchisee Management: The scale expansion by opening up franchising is accompanied by significant challenges, including franchisee management, franchisee profitability expectations, supply chain support capabilities and quality control management of key raw materials. While the established brands usually have proper management modes, experienced management personnel and well-designed management system, it takes time for new market entrants and emerging brands to gain experience and finding suitable franchisee management model.

Brand Awareness: In general, the brand awareness of a freshly-made tea shop is highly subject to its leading products. A product with nationwide popularity has the ability to change the trend in China's freshly-made tea shop market. Meanwhile, the well-known market players may prefer to collaborate with freshly-made tea shops with high brand recognition in the market. For the new market entrants, it is hard for them to establish relationships and brand awareness in a short period of time.

Standardization and Regulatory Compliance: As freshly-made tea shops grow in size, it becomes more difficult to ensure that all tea shops carry out standardized operations, especially with respect to food quality, food safety, hygiene and service quality. It is difficult to ensure consistent product taste and flavor across hundreds of tea shops. In addition, it is challenging to manage a large freshly-made tea shop network with more employees and ensure that all tea shops and staff comply with the laws and regulations of multiple jurisdictions. In this situation, good and functional standardization and regulation management of a freshly-made tea shop is very crucial for the brand to expand in the market. Therefore, new market entrants are expected to experience difficulties in maintaining the standardization process while growing fast in China.

Supply Chain Management: In China's freshly-made tea shop market, to sustain its business in the market, efficient and effective supply chain management is very important for every market participant to provide quality products and reduce related operating cost. To ensure the fresh and natural taste of their products, leading players cooperate with stable suppliers or set up their own farms and orchards to provide raw materials. Good supply chain management allows freshly-made tea shops to achieve better performance and monetization efficiency. For new market entrants, it takes relatively longer to build up a stable supply chain management system if they wish to expand their business nationwide.

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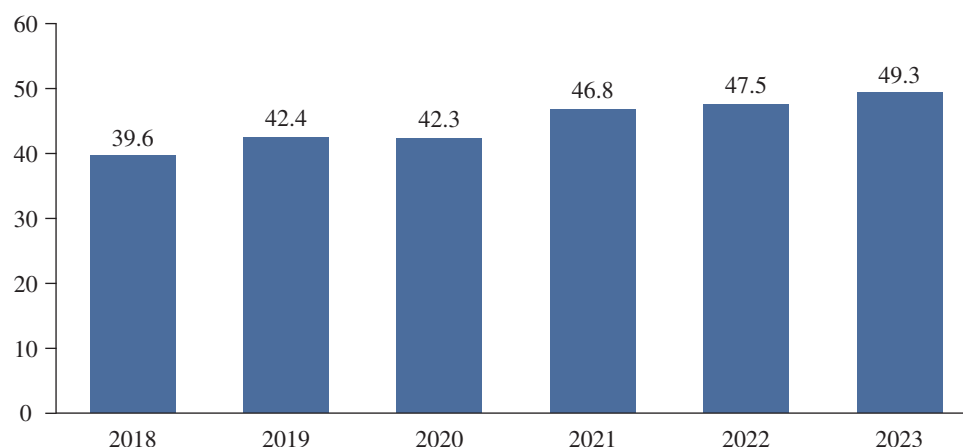
Store Location Selection: Selecting a good location is an essential step for a freshly-made tea shop to succeed in the first place. A great location is able to bring larger consumer traffic and potential higher sales. Usually, freshly-made tea shops are likely to be opened in the center of shopping malls or on the first floor, where most consumers walk by during their stay. Those large shopping malls also favor to cooperate with notable freshly-made tea shops to bring more consumers to the shopping malls. However, new market entrants are less attractive for both consumers and shopping centers; therefore, it is difficult for new entrants to choose a preferable location for their freshly-made tea shops.

Cost Analysis of China's Freshly-Made Tea Shop Industry

In line with the growing macro economy, the annual income of employees in the freshly-made tea shop market in China has increased steadily from 2018 to 2023. Labor cost is expected to keep the growing trend in the coming five years due to the developing macro economy, growing disposable income and inflation. Going forward, the average annual salary of employees in the freshly-made tea shop market is expected to increase along with the growing nominal GDP in China.

Average Annual Salary of Employees in Freshly-Made Tea Shop Market (China), 2018-2023

Average Annual Salary
(Thousand RMB)

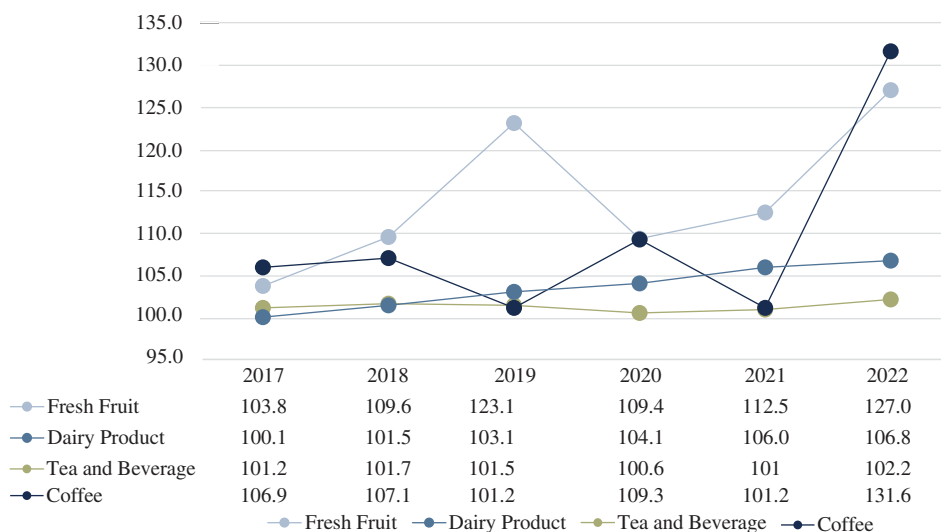


Source: Frost & Sullivan, National Bureau of Statistics

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Three major types of raw materials of freshly-made tea shops used in the process of making freshly-made tea drinks are fresh fruit, dairy products, and tea and beverage. Along with the stable growth of China's CPI, CPI on fresh fruit has increased from 103.8 in 2017 to 127.0 in 2022 and CPI on dairy products has increased consistently from 100.1 to 106.8 from 2017 to 2022. CPI on tea and beverage has increased from 101.2 in 2017 to 102.2 in 2022. CPI on coffee has increased from 106.9 in 2017 to 131.6 in 2022.

CPI (2016 Base) on Raw Materials (China), 2017-2022



Source: Frost & Sullivan, National Bureau of Statistics

Note:

- (1) CPI refers to 2016-base CPI;
- (2) CPI on coffee refers to import price index for coffee in China

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Our business operations are based in the PRC and are subject to extensive supervision and regulation by the PRC government. This section summarizes the major laws, rules and regulations which may impact key aspects of our business.

REGULATIONS ON FOREIGN INVESTMENT

The establishment, operation and management of companies in China are governed by the PRC Company Law (《中華人民共和國公司法》), as revised in 1999, 2004, 2005, 2013, 2018 and 2023. According to the PRC Company Law, companies established in the PRC are either limited liability companies or joint stock limited liability companies. The PRC Company Law applies to both PRC domestic companies and foreign investment companies. On December 30, 2019, MOFCOM and SAMR promulgated the Measures for the Reporting of Foreign Investment Information (《外商投資信息報告辦法》) which came into effect on January 1, 2020, repealing the Provisional Administrative Measures on Establishment and Modifications (Filing) for Foreign Investment Enterprises (《外商投資企業設立及變更備案管理暫行辦法》). Where foreign investors carry out investment activities directly or indirectly within China, foreign investors or foreign-funded enterprises shall report investment information to commerce departments. On December 27, 2021, MOFCOM and NDRC promulgated the Special Administrative Measures (Negative List) for Foreign Investment Access (Edition 2021) (《外商投資准入特別管理措施(負面清單)(2021年版)》), or the Negative List (2021), which became effective on January 1, 2022. The catering services and general food production and sales were not included in the Negative List (2021). Fields that were not included in the Negative List (2021) shall be regulated according to the principle of equal treatment of domestic and foreign investments.

On March 15, 2019, the SCNPC approved the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》), and on December 26, 2019, the State Council promulgated the Implementing Rules of the Foreign Investment Law (《中華人民共和國外商投資法實施條例》), or the Implementing Rules, to further clarify and elaborate the relevant provisions of the Foreign Investment Law. The Foreign Investment Law and the Implementing Rules both took effect on January 1, 2020 and replaced three previous major laws on foreign investments in China, namely the Sino-foreign Equity Joint Venture Law (《中華人民共和國中外合資經營企業法》), the Sino-foreign Cooperative Joint Venture Law (《中華人民共和國中外合作經營企業法》) and the Wholly Foreign-owned Enterprise Law (《中華人民共和國外資企業法》), together with their respective implementing rules. Pursuant to the Foreign Investment Law, “foreign investments” refer to investment activities conducted by foreign investors (including foreign natural persons, foreign enterprises or other foreign organizations) directly or indirectly in the PRC, which include any of the following circumstances: (i) foreign investors setting up foreign-invested enterprises in the PRC solely or jointly with other investors, (ii) foreign investors obtaining shares, equity interests, property portions or other similar rights and interests of enterprises within the PRC, (iii) foreign investors investing in new projects in the PRC solely or jointly with other investors, and (iv) investment of other methods as specified in laws, administrative regulations, or as stipulated by the State Council. The Implementing Rules introduce a see-through principle and further provide that foreign-invested enterprises that invest in the PRC shall also be governed by the Foreign Investment Law and the Implementing Rules.

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REGULATIONS ON FOOD SERVICE INDUSTRY IN THE PRC

Food Safety Law and Implementation Rules

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

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

In accordance with the Food Safety Law of the PRC and the Implementation Rules of the Food Safety Law, the State Council establishes the Food Safety Committee, which is responsible for analyzing the food safety situation, researching, planning, coordinating and guiding food safety work, proposing major policy measures for food safety supervision and management, and overseeing the implementation of food safety supervision and management responsibilities. Engaging in food production and operation activities without obtaining a food production and operation license shall result in the confiscation of illegal gains, as well as the food and items such as tools, equipment, and raw materials used for illegal production and operation, by the food safety supervision and management department. If the value of the food products involved in the illegal production and operation is less than RMB10,000, a fine of no less than RMB 50,000 but no more than RMB100,000 shall be imposed. If the value of the food products involved is RMB10,000 or more, a fine shall be imposed ranging from ten times to twenty times the value of the goods.

Food Operation Licensing

According to the Administrative Measures for Food Operation Licensing and Record-filing (《食品經營許可和備案管理辦法》), which was promulgated on June 15, 2023 by SAMR and took effect on December 1, 2023, entities involved in food selling and catering services within the PRC shall obtain the food operation license which is valid for five years. Applications of food operation licenses shall be filed according to food operators' types of operation and classification of operation projects. Food operators shall display their original food operation licenses outstandingly at their sites of operation. If the licensing items which are indicated on a food operation license change, the food operator shall, within ten business days after the changes take place, apply with the SAMR which originally issued the license for alteration of the operation license. Engaging in food operation activities without a valid food operation license incurs penalties made by local market regulatory authorities at or above the county level according to Article 122 of the Food Safety Law.

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Food Recall

The Administrative Measures for Food Recall (《食品召回管理辦法》) was promulgated by China Food and Drug Administration on March 11, 2015 and was most recently amended on October 23, 2020. According to the Administrative Measures for Food Recall, a food producer or business operator shall assume primary responsibilities for food safety by establishing a sound management system, collecting and analyzing food safety information and performing legal duties of the cease of production and operation as well as recall and disposal of unsafe food. Where a food producer finds that its production of food does not comply with the food safety standards, it shall cease the production, recall the food on the market for sale, notify the relevant producers and operators, as well as consumers, and record the recalling and notification at once. Where a food operator finds that the food traded by it does not comply with the food safety standards, it shall immediately cease the trading, notify the relevant producers and operators, as well as consumers, and record the cessation of operation and notification. Where the food producers consider that the food shall be recalled, the food shall be recalled immediately. The food producers are required to take such measures as remedy, destruction and harmless treatment for the recalled food, and report the recalling and treatment of the recalled food to the quality supervision department at or above the county level. Where the food producers or operators fail to recall or cease trading of the food and thus fail to comply with the food safety standards in accordance with the provisions of the laws, the quality supervision, administration for industry and commerce, food and drug supervision and administration departments at and above the county level shall order them to recall or stop the sale.

Online Catering Services

According to Measures for the Supervision and Administration of the Safety of Food Offered through Online Catering Services (《網絡餐飲服務食品安全監督管理辦法》) effective on January 1, 2018 and subsequently amended on October 23, 2020, online catering service providers must have their own physical stores and must have obtained food business licenses according to the law. Online catering service providers shall carry out business activities pursuant to the business forms and business items specified on their own food business licenses, and shall not operate beyond their business scope specified on their own food business licenses.

Online Trading and E-Commerce

The E-Commerce Law of the People's Republic of China (《中華人民共和國電子商務法》) (the “**E-Commerce Law**”) was enacted on August 31, 2018, and took effect on January 1, 2019. It defines e-commerce as the sale of goods or services through the internet and other information networks. E-commerce operators, which can be individuals, legal entities, or non-legal entity organizations, are those who engage in these activities. This includes e-commerce platform operators, intra-platform operators, and operators who sell goods or provide services through their own websites and other network services. E-commerce operators must display their business license information and any relevant administrative license

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information related to their business on their homepage. They are required to provide comprehensive, accurate, and timely information about their goods or services to protect consumers' right to know and choose. False transactions and fabricated user reviews for misleading promotions are prohibited. The law also includes provisions on e-commerce contracts, dispute resolution, e-commerce development, and legal liabilities in e-commerce.

The Administrative Measures for Online Trading (《網絡交易監督管理辦法》) (the “**Measures for Online Trading**”), promulgated by the SAMR on March 15, 2021, and effective from May 1, 2021, stipulate that any business activity of selling goods or providing services through the Internet within the PRC Mainland must comply with PRC laws and the provisions of the Measures for Online Trading. Online trading operators must register for industrial and commercial purposes in accordance with the law. The goods sold or services provided by online trading operators must comply with requirements for personal and property safety and environmental protection. Online trading operators are prohibited from selling goods or providing services that are prohibited by law or regulation, harm national or public interests, or violate public order and good morals.

REGULATIONS ON FOOD IMPORT AND EXPORT INSPECTION AND QUARANTINE

Food Import and Export

Under the Food Safety Law as well as Implementing Rules on the Food Safety Law, the imported food, food additives and food-related products shall be consistent with the national food safety standards of China. A food importer shall apply for inspection with the import and export inspection and quarantine authority for the imported food and food additives, make truthful report on the relevant information of products, and attach qualified documents as provided by the laws and administrative regulations. The imported food, after arrival at the port, shall be stored in the place designated or approved by the import and export inspection and quarantine authority; where relocation is required, necessary safety protection measures shall be taken in accordance with the requirements of the import and export inspection and quarantine authority. Bulk imported food shall be subject to inspection at the port of discharge. The Administrative Department of Health under the State Council shall, in compliance with the provisions of Article 93 of the Food Safety Law, review the relevant national (regional) standards or international standards submitted by overseas exporters, overseas production enterprises or their entrusted importers, and then decide to tentatively apply and publish such standards as found in line with food safety requirements. Before the publication of such tentative applicable standards, no import shall be conducted regarding food without national food safety standards yet.

Pursuant to the Measures for the Supervision and Administration of Inspection and Quarantine of Inbound Fruits (《進境水果檢驗檢疫監督管理辦法》) promulgated by the State Administration of Quality Supervision Inspection and Quarantine (canceled) on January 5, 2005 and effective from July 5, 2005, and most recently amended by the General Administration of Customs on November 23, 2018 and effective from the same day, before

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entering into a trading contract or agreement for inbound fruits, an application for quarantine approval for inbound fruits shall be filed with the General Administration of Customs in accordance with relevant regulations and the License for Import Animal and Plant Quarantine of the PRC (《中華人民共和國進境動植物檢疫許可證》) shall be obtained. Inbound fruits shall be consistent with the relevant inspection and quarantine requirements. For example, other fruits not specified in the plant quarantine license shall not be mixed in or entrained; the name, source, name or code of the packing factory of fruits shall be tagged on the packing box in Chinese or English; quarantine pests, soil, and plant debris of branches and leaves prohibited in China shall not be brought in; and the volume of toxic and harmful substances examined shall not exceed as stipulated by relevant safety and health standards in China.

Foreign Trade

According to the Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) (“**Foreign Trade Law**”) promulgated by the SCNPC on May 12, 1994 and amended on December 30, 2022, since December 30, 2022, no registration of foreign trade operators is required. The PRC government allows the free import and export of goods and technologies, unless otherwise provided by laws and administrative regulations. Before December 30, 2022, pursuant to the pre-amendment Foreign Trade Law, a foreign trade operator who is engaged in the import and export of goods or technologies shall process the filing and registration with the foreign trade authority under the State Council or its entrusted agencies, unless otherwise provided by the laws, administrative regulations and requirements of the foreign trade authority under the State Council. Where a foreign trade operator fails to do so, Customs shall not handle the formalities for declaration and clearance of the goods imported or exported by the operator.

Customs Law

According to the Customs Law of the PRC (《中華人民共和國海關法》) adopted by the SCNPC on January 22, 1987, most recently amended on April 29, 2021 and effective from the same date, the Customs of the People’s Republic of China is the state’s entry and exit customs supervision and administration authority. According to the relevant laws and administrative regulations, Customs supervises the transportation vehicles, goods, luggages, postal articles and other articles entering and leaving the country, collects customs duties and other taxes and fees, prevents and counters smuggling, compiles customs statistics and handles other customs operations.

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According to the Regulations of PRC Customs on Administration of Recordation of Declaration Entities (《中華人民共和國海關報關單位備案管理規定》) adopted by the General Administration of Customs on November 19, 2021 and effective from January 1, 2022, customs declaration entities refer to the consignees and consignors of import and export goods and customs declaration enterprises recorded with the customs. If the consignees and consignors of import and export goods and customs declaration enterprises apply for recordation, they shall obtain the qualification of market entities; among them, if the consignees and consignors of import and export goods apply for recordation, they shall also obtain the recordation of the foreign trade operators. The recordation of the customs declaration entities is valid for a long period of time, while the temporary recordation is valid for one year, after the expiry reapplication of recordation can be made.

REGULATIONS ON PRODUCT QUALITY AND CONSUMER PROTECTIONS

Pursuant to the Product Quality Law of the PRC (《中華人民共和國產品質量法》) promulgated on February 22, 1993 and latest amended on December 29, 2018 by the SCNPC, the seller shall be responsible for the repair, replacement or return of the product sold if (i) the product sold does not possess the properties for use that it should possess, and no prior and clear indication is given of such a situation; (ii) the product sold does not conform to the applied product standard as carried on the product or its packaging; or (iii) the product sold does not conform to the quality indicated by such means as a product description or physical sample. If a consumer incurs losses as a result of purchased product, the seller shall compensate for such losses.

On May 28, 2020, the Civil Code of the PRC (《中華人民共和國民法典》) (the “**Civil Code**”) was adopted by the SCNPC, which became effective on January 1, 2021, according to which, a manufacturer or a commercial seller is subject to liability for harm to persons or property caused by the product defects. The infringed may seek compensation from the manufacturer or the commercial seller. Where the infringed seeks compensation from the commercial seller, the commercial seller shall have the right to make a claim against the liable manufacturer after it has made compensation.

The Law of the PRC on the Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》) was promulgated on October 31, 1993 and was amended on August 27, 2009 and October 25, 2013, to protect consumers’ rights when they purchase or use goods and accept services. All business operators must comply with this law when they manufacture or sell goods and/or provide services to consumers. Under the amendments made on October 25, 2013, all business operators must pay high attention to protecting consumers’ privacy and must strictly keep confidential any consumer information they obtain during their business operations.

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REGULATIONS ON CYBER SECURITY, INFORMATION SECURITY, PRIVACY AND DATA PROTECTION

On May 28, 2020, the SCNPC promulgated the Civil Code, which came into effect on January 1, 2021. Pursuant to the Civil Code, the personal information of a natural person shall be protected by the law. Any organization or individual that needs to obtain personal information of others shall obtain such information legally and ensure the security of such information, and shall not illegally collect, use, process or transmit personal information of others, or illegally purchase, sell, provide or make public the personal information of others.

The PRC Cyber Security Law (《中華人民共和國網絡安全法》) (the “**Cyber Security Law**”), which was promulgated by the SCNPC on November 7, 2016 and came into effect on June 1, 2017, requires a network operator, including internet information services providers among others, to adopt technical measures and other necessary measures in accordance with applicable laws and regulations as well as compulsory national and industrial standards to safeguard the safety and stability of network operations, effectively respond to network security incidents, prevent illegal and criminal activities, and maintain the integrity, confidentiality and availability of network data. The Cyber Security Law emphasizes that any individuals and organizations that use networks must not endanger network security or use networks to engage in unlawful activities such as those endangering national security, economic order and social order or infringing the reputation, privacy, intellectual property rights and other lawful rights and interests of others. The Cyber Security Law provides that: (i) to collect and use personal information, network operators shall follow the principles of legitimacy, rightfulness and necessity, disclose rules of data collection and use, clearly express the purposes, means and scope of collecting and using the information, and obtain the consent of the persons whose data is gathered; (ii) network operators shall neither gather personal information unrelated to the services they provide, nor gather or use personal information in violation of the provisions of laws and administrative regulations or the scopes of consent given by the persons whose data is gathered, and shall dispose of personal information they have saved in accordance with the provisions of laws and administrative regulations and agreements reached with users and (iii) network operators shall not divulge, tamper with or damage the personal information they have collected, and shall not provide the personal information to others without the consent of the persons whose data is collected. However, if the information has been processed and cannot be recovered and thus it is impossible to match such information with specific persons, such circumstance is an exception. Furthermore, under the Cyber Security Law, network operators of critical information infrastructure (the “**CII Operator**”) generally shall, during their operations in the PRC, store the personal information and important data collected and produced within the territory of the PRC. Any violation of the provisions and requirements under the Cyber Security Law may subject a network operator to warnings, fines, confiscation of illegal gains, revocation of licenses, cancellation of filings, closedown of websites or even criminal liabilities.

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On December 15, 2019, the CAC promulgated the Provisions on the Management of Network Information Content Ecology (《網絡信息內容生態治理規定》) (the “**CAC Order No. 5**”), which became effective on March 1, 2020, to further strengthen the regulation and management of network information content. Pursuant to these provisions, each network information content service platform is required, among others, (i) not to disseminate any information prohibited by laws and regulations, such as information jeopardizing national security; (ii) to strengthen the examination of advertisements published on such network information content service platform; (iii) to promulgate management rules and platform convention, improve user agreement, clarify users’ rights and obligations and perform management responsibilities required by laws, regulations, rules and convention; (iv) to establish convenient channels for complaints and reports; and (v) to prepare an annual work report regarding its management of network information content ecology. In addition, a network information content service platform must not, among others, (i) utilize new technologies and applications, such as deep-learning and virtual reality, to engage in activities prohibited by laws and regulations; (ii) engage in online traffic fraud, malicious traffic rerouting and other activities related to fraudulent account, illegal transaction account or maneuver of users’ account; and (iii) infringe a third party’s legitimate rights or seek illegal interests by way of interfering with information display.

The Personal Information Protection Law of the PRC (《中華人民共和國個人信息保護法》) (the “**Personal Information Protection Law**”) was promulgated by the SCNPC on August 20, 2021 and came into effect on November 1, 2021. Instead of relying solely on “notification and consent” as established in the Cyber Security Law, the Personal Information Protection Law reiterates the circumstances under which a personal information processor could process personal information and the requirements for such circumstances, such as when (i) the individual’s consent has been obtained; (ii) the processing is necessary for the conclusion or performance of a contract to which the individual is a party; (iii) the processing is necessary to fulfill statutory duties and statutory obligations; (iv) the processing is necessary to respond to public health emergencies or protect a natural person’s life, health and property safety under emergency circumstances; (v) the personal information that has been made public is processed within a reasonable scope in accordance with this law; (vi) personal information is processed within a reasonable scope to conduct news reporting, public opinion-based supervision and other activities in the public interest; or (vii) under any other circumstance as provided by any law or regulation. It also stipulates the obligations of a personal information processor. Any violation of the provisions and requirements under the Personal Information Protection Law may subject a personal information processor to rectifications, warnings, fines, suspension of the related business, revocation of licenses, being entered into the relevant credit record or even criminal liabilities.

Pursuant to the Personal Information Protection Law, personal information processors shall take necessary measures to ensure the security of the personal information processed. The Personal Information Protection Law provides the rights of data subjects, including the right to information, right to object, right to restriction of processing, right of access, right to portability, right to rectification, right to erasure, right to ask for explanation concerning the processing rules and rights of close relatives of a dead person.

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The Personal Information Protection Law requires that the CII Operators, as well as processors who process personal information that reaches a certain threshold, must store personal information within the territory of China. Where cross-border transfer of personal information is indeed necessary, such transfer must pass a security assessment organized by the CAC. Other personal information processors may conduct cross-border transfer of personal information upon satisfying one of the following requirements: (i) passing the security assessment by the CAC; (ii) obtaining certification of data security by a professional body recognized by the CAC; (iii) entering into an agreement with the overseas recipient with provisions governing the rights and obligations of the parties based on a template contract to be released by the CAC; or (iv) other requirements as provided by relevant laws and regulations.

Processors shall also conduct a personal information protection impact assessment in advance when processing sensitive personal information, using personal information to conduct automated decision-making, entrusting personal information processing, providing personal information to other personal information processors, or disclosing personal information, providing personal information abroad, and conducting other personal information processing activities with a major influence on individuals.

For purposes of ensuring the security of the supply chain for critical information infrastructure (the “CII”) and maintaining national security, the CAC and the NDRC, the MIIT, the Ministry of Public Security, the Ministry of State Security, the Ministry of Finance (the “MOF”), the Ministry of Commerce (the “MOFCOM”), the People’s Bank of China (the “PBOC”), the SAMR, the National Radio and Television Administration, the CSRC and the National Administration of State Secrets Protection and State Cipher Code Administration jointly promulgated the Measures for Cyber Security Review (《網絡安全審查辦法》) (the “**Cyber Security Review**”) on December 28, 2021 which came into effect on February 15, 2022. The Cyber Security Review specifies that the procurement of network products and services by CII Operators and the activities of data process carried out by online platform operators, that raise or may raise “national security” concerns are subject to strict cyber security review by the Office of Cyber Security Review established by the CAC. Before the CII Operator procures network products and services, it should assess the potential risk of national security that may be caused by the use of such products and services. If such use of products and services may give rise to national security concerns, it should apply for a cyber security review by the Cyber Security Review Office and a report of analysis of the potential effect on national security shall be submitted when the application is made. In addition, an online platform operator that possess the personal data of at least one million users must apply for cyber security review by the Cyber Security Review Office if it plans on listing companies in foreign countries. The Cyber Security Review Office may voluntarily conduct a cyber security review if any network products and services, activities of data process or listing of companies overseas affects or may affect national security. Pursuant to the Cyber Security Review, any violation shall be punished in accordance with the Cyber Security Law and the Data Security Law, the sanctions under which include, among others, government enforcement actions and investigations, fines, penalties and suspension of our noncompliant operations.

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In addition, on November 14, 2021, the Administration Regulations on Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) (the “**Cyber Data Security Draft**”) was proposed by the CAC for public comments until December 13, 2021. The draft measures reiterates that data processors which process the personal information of at least one million users must apply for a cyber security review if they plan the listing of companies in foreign countries, and the draft measures further require the data processors that carry out the following activities to apply for cyber security review in accordance with the relevant laws and regulations: (i) the merger, reorganization or division of internet platform operators that have gathered a large number of data resources related to national security, economic development and public interests that affect or may affect national security; (ii) the listing of the data processor in Hong Kong affects or may affect the national security; and (iii) other data processing activities that affect or may affect national security.

Since the CAC is still seeking comments on the Cyber Data Security Draft from the public, the Cyber Data Security Draft (especially its operative provisions) and its anticipated adoption or effective date are subject to further changes with substantial uncertainty.

The Administrative Provisions on Security Vulnerability of Network Products (《網絡產品安全漏洞管理規定》) (the “**Provisions**”) was jointly promulgated by the MIIT, the CAC and the Ministry of Public Security on July 12, 2021 and became effective on September 1, 2021. Network product providers, network operators as well as organizations or individuals engaging in the discovery, collection, release and other activities of network product security vulnerability are subject to the Provisions and shall establish channels to receive information of security vulnerability of their respective network products and shall examine and fix such security vulnerability in a timely manner. In response to the Cyber Security Law, network product providers are required to report relevant information of security vulnerability of network products with the MIIT within two days and to provide technical support for network product users. Network operators shall take measures to examine and fix security vulnerability after discovering or knowing that their networks, information systems or equipment have security loopholes. According to the Provisions, the breaching parties may be subject to monetary fine as regulated in accordance with the Cyber Security Law. Since the Provisions is relatively new, uncertainties still exist in relation to its interpretation and implementation.

On January 23, 2019, the CAC, the MIIT, the Ministry of Public Security, and the SAMR jointly issued the Notice on Special Governance of Illegal Collection and Use of Personal Information via Apps (《關於開展App違法違規收集使用個人信息專項治理的公告》), which restates the requirement of legal collection and use of personal information, encourages app operators to conduct security certifications, and encourages search engines and app stores to clearly mark and recommend those certified apps.

On November 28, 2019, the CAC, MIIT, the Ministry of Public Security and SAMR jointly issued the Measures to Identify Illegal Collection and Usage of Personal Information by Apps (《App違法違規收集使用個人信息行為認定方法》), which came into effect on the same day and lists six types of illegal collection and usage of personal information, including “non-disclosure of collection and use rules,” “failure to expressly state the purpose, method

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and scope of collecting and using personal information,” “collection or use of personal information without the consent of users,” “collection of personal information unrelated to the services they provide in violation of the principle of necessity,” “provision of personal information without consent,” “failure to provide the function of deleting or correcting personal information in accordance with the law” and “failure to disclose the information such as ways of filing complaints and whistleblowing reports.”

On July 22, 2020, the MIIT issued the Notice of Ministry of Industry and Information Technology on Carrying out Special Rectification Actions in Depth against the Infringement upon Users’ Rights and Interests by Apps (《工業和信息化部關於開展縱深推進APP侵害用戶權益專項整治行動的通知》), which lists four types of illegal collection and usage of personal information, including “illegally processing personal information of users by the App and the SDK,” “setting up obstacles and frequently harassing users,” “cheating and misleading users” and “inadequate implementation of application distribution platforms’ responsibilities.”

On July 7, 2022, the CAC promulgated the Measures on the Security Assessment of Cross-border Data Transfer (《數據出境安全評估辦法》) (the “**Measures on CBDT**”), which took effect on September 1, 2022. According to the Measures on CBDT, the data processor that provides personal information or important data collected and generated in the course of business operations in the Chinese mainland to overseas recipients, in any of the following circumstances, shall apply for cross-border data transfer security assessment: (i) data processor provides important data abroad; (ii) critical information infrastructure operators (“**CIIO**”) or the data processor that has processed the personal information of over one million people provides personal information abroad; (iii) data processor that has provided the personal information of over 100,000 people or the sensitive personal information of over 10,000 people cumulatively since January 1 of the previous year, provides personal information abroad; and (iv) any other circumstance where an application for the security assessment of cross-border data transfer is required by the national cyberspace administration.

The mobile internet applications are specifically regulated by the Administrative Provisions on Mobile Internet Application Information Services (《移動互聯網應用程序信息服務管理規定》) (the “**Mobile Application Administrative Provisions**”), which was promulgated by the CAC on June 28, 2016 and amended on August 1, 2022. Pursuant to the Mobile Application Administrative Provisions, application information service providers shall obtain the relevant qualifications prescribed by laws and regulations, strictly implement their information security management responsibilities and carry out certain duties, including establishing and completing users’ real identity authentication mechanism and information content management mechanism. An app provider shall, when handling personal information, follow the principles of legality, legitimacy, necessity and integrity, have clear and reasonable purposes, disclose processing rules, comply with relevant provisions on the scope of necessary personal information, regulate personal information processing activities, and take necessary measures to protect the security of personal information, and shall not force users to agree on the processing of personal information for any reason or refuse users’ use of its basic functions and services due to users’ disagreement on providing non-essential personal information.

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In December 2011, the MIIT issued Several Provisions on Regulating the Market Order of Internet Information Services (《規範互聯網信息服務市場秩序若干規定》), which provides that an internet information service provider may not collect any user's personal information or provide any such information to third parties without such user's consent. Pursuant to the Several Provisions on Regulating the Market Order of Internet Information Services, internet information service providers are required to, among others, (i) expressly inform the users of the method, content and purpose of the collection and processing of such users' personal information and may only collect such information necessary for the provision of its services; and (ii) properly maintain the users' personal information, and in case of any leak or possible leak of a user's personal information, online lending service providers must take immediate remedial measures and, in severe circumstances, make an immediate report to the telecommunications regulatory authority.

Pursuant to the Decision on Strengthening the Protection of Online Information (《關於加強網絡信息保護的決定》), issued by the SCNPC in December 2012, and the Order for the Protection of Telecommunication and Internet User Personal Information (《電信和互聯網用戶個人信息保護規定》) issued by the MIIT in July 2013, any collection and use of any user's personal information must be subject to the consent of the user, and abide by the applicable law, rationality and necessity of the business and fall within the specified purposes, methods and scopes in the applicable laws. Personal information processors shall take necessary measures to ensure the security of the personal information processed, and the rights of data subjects include the right to rectification and right to erasure.

On August 22, 2019, the CAC issued the Provisions on the Cyber Protection of Children's Personal Information (《兒童個人信息網絡保護規定》), which became effective on October 1, 2019 and applies to the collection, storage, use, transfer and disclosure of the personal information of minors under the age of 14, or children, via the internet. Where a personal information processor collects or uses a child's personal information, it shall formulate special personal information processing rules and obtain the consent of the child's parents or other guardians.

REGULATIONS ON WORK SAFETY

Under relevant construction safety laws and regulations, including the PRC Work Safety Law (《中華人民共和國安全生產法》), which was promulgated by the SCNPC on June 29, 2002, last amended on June 10, 2021, and effective on September 1, 2021, production and operating business entities must establish objectives and measures for work safety and improve the working environment and conditions for workers in a planned and systematic way. A work safety protection scheme must also be set up to implement the work safety job responsibility system. In addition, production and operating business entities must arrange work safety training and provide their employees with protective equipment that meets the national or industrial standards. Automobile and components manufacturers are subject to such environment protection and work safety requirements.

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REGULATIONS ON THE SANITATION OF THE PUBLIC ASSEMBLY VENUE

The Regulation on the Administration of Sanitation in Public Places (《公共場所衛生管理條例》) effective on April 1, 1987 and as amended on February 6, 2016 and April 23, 2019, and the Implementation Rules of the Regulation on the Administration of Sanitation in Public Places (《公共場所衛生管理條例實施細則》) effective on May 1, 2011 and as amended on January 19, 2016 and December 26, 2017, were promulgated by the Ministry of Health (later known as National Health Commission of the People's Republic of China), respectively. The regulations were adopted to create favorable and sanitary conditions for the public assembly venues, prevent disease transmission and safeguard people's health. Depending on the requirements of the local health and family planning administrations, a restaurant is required to obtain a public assembly venue hygiene license from the local health authority after it applies for a business license to operate its business. The Decision of the State Council on the Integration of Sanitary Permits and Food Business Licenses in Public Places for Restaurant Services (《國務院關於整合調整餐飲服務場所的公共場所衛生許可證和食品經營許可證的決定》), which was promulgated by the State Council on February 3, 2016, cancels the hygiene permits issued by the local health authorities for four kinds of public places, including restaurants, cafes, bars and teahouses, and integrates the contents of the food safety into the food operation licenses issued by the food and drug regulatory authorities.

REGULATIONS ON FIRE PREVENTION

According to the Fire Prevention Law of the People's Republic of China (《中華人民共和國消防法》) promulgated by the SCNPC on April 29, 1998 and recently amended on April 29, 2021, and the Interim Provisions on the Administration of Examination and Acceptance of Fire Prevention Design of Construction Projects (《建設工程消防設計審查驗收管理暫行規定》) promulgated by the Ministry of Housing and Urban-Rural Development on April 1, 2020 and effective on June 1, 2020, and most recently amended on August 21, 2023, special construction projects that have not passed the fire prevention inspection or the fire prevention inspection are prohibited from being put into use. Construction projects other than special construction projects shall go through the fire safety acceptance filing, and the competent housing and urban-rural development authorities shall conduct random inspections on the fire safety acceptance of other construction projects filed. If the construction projects fail to pass the random inspection on fire safety acceptance, such projects shall be stopped.

REGULATIONS ON FRANCHISED COMMERCIAL OPERATION

Franchised operation is subject to the supervision and administration of the Ministry of Commerce and its local competent commercial departments. These activities are currently regulated by the Regulations on the Administration of Commercial Franchised Operation (《商業特許經營管理條例》) promulgated by the State Council on February 6, 2007 and implemented from May 1, 2007, which was supplemented by the Administrative Measures for the Record-filing of Commercial Franchises (《商業特許經營備案管理辦法》) issued by the Ministry of Commerce on April 30, 2007, amended on December 12, 2011 and effective from February 1, 2012 and most recently amended on December 29, 2023, and the Administrative Measures for the Information Disclosure of Commercial Franchise (《商業特許經營信息披露管理辦法》) issued by the Ministry of Commerce on April 30, 2007, and most recently amended on February 23, 2012 and effective from April 1, 2012.

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According to the above-mentioned applicable regulations, franchisers may engage in franchised operation activities on conditions that they shall have a mature operation model and be capable of providing continuous operation guidance and training services for franchisees, as well as owning at least two direct-sale stores in China with the operation period being more than one year. Where franchisers fail to conduct franchised activities in accordance with the above provisions, punishment may be imposed, such as confiscating the illegal proceeds and imposing a fine of above RMB100,000 but less than RMB500,000, and an announcement will be made by the Ministry of Commerce or the local competent department of commerce. The franchise contract shall specify certain necessary provisions concerning terms, the right to terminate and payment.

Franchisers shall submit the business license, a draft of the franchise contract and other documents to the provincial competent commercial department where they are registered within 15 days from the date of the initial signing of the franchise contract with franchisees within China. Where a franchiser engages in franchised activities within the scope of two or more provincial areas, it shall file with the Ministry of Commerce. Filing shall be performed by the franchisers complying with the above applicable regulations through the information management system for commerce franchises established by the Ministry of Commerce in accordance with the provisions of the measures. In addition, franchisers shall file with the commercial department concerning the execution, cancellation, renewal and amendment of franchise agreements before March 31 of every year.

In case of any changes to franchisers' filing information, such changes shall also be filed with the relevant commercial department after occurrence. Where franchisers fail to file in accordance with such regulations, relevant commercial departments may order the franchiser to file within a stipulated period and impose a fine of more than RMB10,000 but less than RMB50,000. Failure to file within the stipulated period may render a fine of more than RMB50,000 but less than RMB100,000, and a public announcement.

REGULATIONS ON ENVIRONMENTAL PROTECTION

Environmental Protection Law

The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), or the Environmental Protection Law, was promulgated and effective on December 26, 1989, and most recently revised on April 24, 2014. The Environmental Protection Law has been formulated for the purpose of protecting and improving both the living and the ecological environment, preventing and controlling pollution and other public hazards and safeguarding people's health. According to the provisions of the Environmental Protection Law, in addition to other applicable laws and regulations of the PRC, the Ministry of Environmental Protection and its local counterparts are responsible for administering and supervising environmental protection matters. Pursuant to the Environmental Protection Law, construction projects that have environmental impact shall be subject to an environmental impact assessment.

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Installations for the prevention and control of pollution in construction projects must be designed, built and commissioned together with the principal construction plan of the project. Such installations shall not be dismantled or left idle without authorization from the competent government agencies.

Consequences of violations of the Environmental Protection Law include warnings, fines, rectification within a time limit, forced shutdown, or criminal punishment.

Laws on Environment Impact Assessment

Pursuant to the Law of the People's Republic of China on Environment Impact Assessment (《中華人民共和國環境影響評價法》) issued on October 28, 2002 and most recently amended on December 29, 2018, the State Council implemented an environmental impact assessment, or EIA, to classify construction projects according to the impact of the construction projects on the environment. Constructing entities shall prepare an environmental impact report, or an EIR, or an environmental impact statement, or an EIS, or fill out the EIR Form according to the following rules: (i) for projects with potentially serious environmental impacts, an EIR shall be prepared to provide a comprehensive assessment of their environmental impacts; (ii) for projects with potentially mild environmental impacts, an EIS shall be prepared to provide an analysis or specialized assessment of the environmental impacts; and (iii) for projects with very small environmental impacts, an EIS is not required but an EIR form shall be completed.

On November 30, 2020, the Ministry of Ecology and Environment of the PRC promulgated the Classified Administration Catalog of Environmental Impact Assessments for Construction Projects (2021 version) (《建設項目環境影響評價分類管理名錄(2021年版)》), or Classified Administration Catalog (2021 version), which became effective on January 1, 2021. According to Classified Administration Catalog (2021 version), food and beverage services are not included in the management of EIA of construction projects.

REGULATIONS ON INTELLECTUAL PROPERTY RIGHTS

Trademark Law

Registered trademarks are protected under the Trademark Law of the PRC (《中華人民共和國商標法》) promulgated on August 23, 1982 and latest amended on April 23, 2019, and related rules and regulations. Trademarks are registered with the State Intellectual Property Office, formerly the Trademark Office of the SAIC. Where registration is sought for a trademark that is identical or similar to another trademark which has already been registered or given preliminary examination and approval for use in the same or similar category of commodities or services, the application for registration of this trademark may be rejected. Trademark registrations are effective for 10 years, unless otherwise revoked.

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Patent Law

The Patent Law of the People's Republic of China (《中華人民共和國專利法》) promulgated by the Standing Committee of the NPC on March 12, 1984 and most recently amended on October 17, 2020 and effective from June 1, 2021, and its implementation rules (《中華人民共和國專利法實施細則》), which were promulgated by the China Patent Office on January 19, 1985 and most recently amended by the State Council on January 9, 2010 and effective from February 1, 2010, provide for three types of patents: “invention,” “utility model” and “design.” “Invention” refers to any new technical solution in relation to a product, or a process or improvement thereof; “utility model” refers to any new technical solution relating to the shape, structure, or their combination, of a product, which is suitable for practical use; “design” refers to a new design that is aesthetic and suitable for industrial application for the overall or partial shape, pattern or its combination of products, as well as the combination of color, shape and pattern. The validity period of patent for an “invention” is 20 years, while the validity period of patent for a “utility model” is 10 years and that of a “design” is 15 years, from the date of application.

Copyright Law

Pursuant to the Copyright Law of the People's Republic of China (《中華人民共和國著作權法》) promulgated by the SCNPC on September 7, 1990 and most recently amended on November 11, 2020 and effective from June 1, 2021, Chinese citizens, legal persons or unincorporated organizations shall, whether published or not, enjoy copyright in their works in accordance with the law. Unless otherwise provided in the Copyright Law of the People's Republic of China and other related system, laws and regulations, reproducing, distributing, performing, projecting, broadcasting or compiling a work or communicating the same to the public via an information network without permission from the owner of the copyright therein shall constitute infringements of copyrights. The infringer shall, according to the circumstances of the case, undertake to cease the infringement, eliminate impact, and offer an apology, pay damages and other civil liabilities. In exercising the rights, copyright owners and copyright-related rights holders shall not be in violation to the Constitution and laws nor prejudice to public interests. According to the Measures for the Registration of Computer Software Copyright issued by the Ministry of Machine Building and Electronics Industry (《計算機軟件著作權登記辦法》) (currently incorporated into the Ministry of Industry and Information Technology) on April 6, 1992 and most recently amended by the National Copyright Administration on February 20, 2002 and effective from the same date, and the Regulations on Protection of Computer Software (《計算機軟件保護條例》) promulgated by the State Council on June 4, 1991 and most recently amended on January 30, 2013 and effective from March 1, 2013, the State Copyright Administration shall be responsible for the administration of software copyright registration nationwide, and the China Copyright Protection Center is recognized as the software registration authority. Applicants of computer software copyright satisfying the requirements of the Measures for the Registration of Computer Software Copyright and the Regulations on Protection of Computer Software will be issued a registration certificate by the China Copyright Protection Center.

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Domain Names

Pursuant to the Measures for the Administration of Internet Domain Names (《互聯網域名管理辦法》) promulgated by the Ministry of Industry and Information Technology on August 24, 2017 and effective from November 1, 2017, the Ministry of Industry and Information Technology supervises and administers domain services nationwide. The principle of “first come, first serve” is followed for the domain name registration service. Applicants of domain name registration shall provide the domain name registration authority with true, accurate and complete information about the identity of the domain name holder for registration purpose, and sign a registration agreement with it. After completing the domain name registration, the applicant becomes the holder of the domain name registered by him/her/it.

REGULATIONS ON LABOR AND SOCIAL INSURANCE

Labor Law and Labor Contracts Law

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

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

Labor Dispatch

According to the Interim Provisions on Labor Dispatch (《勞務派遣暫行規定》) issued on January 24, 2014 and implemented on March 1, 2014 by the Ministry of Human Resources and Social Security, employers may only use dispatched workers for temporary, ancillary or substitute positions. The aforementioned temporary positions shall mean positions lasting for no more than six months; ancillary positions shall mean positions of non-major business that serve positions of major business; and substitute positions shall mean positions that can be substituted by other workers for a certain period of time during which the workers who originally hold such positions are unable to work as a result of full-time study, being on leave or other reasons. According to the Interim Provisions on Labor Dispatch, employers should strictly control the number of dispatched workers, and the number of the dispatched workers shall not exceed 10% of the total amount of their employees.

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Pursuant to the Interim Provision on Labor Dispatch, the Labor Contract Law of the PRC and the Implementation Rules of the Labor Contract Law of the PRC, employers who fail to comply with the relevant requirements on labor dispatch shall be ordered by the labor administrative authorities to make rectification within a stipulated period. Where rectification is not made within the stipulated period, employers may be subject to a penalty ranging from RMB5,000 to RMB10,000 per dispatched worker exceeding the 10% threshold.

Social Insurance and Housing Provident Fund

Pursuant to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) which was promulgated on October 28, 2010 and with effect from July 1, 2011 and latest amended on December 29, 2018, and the Interim Regulations on the Collection of Social Insurance Fees (《社會保險費徵繳暫行條例》) issued by the State Council on January 22, 1999 and last amended on March 24, 2019, employees shall participate in basic pension insurance, basic medical insurance and unemployment insurance. Basic pension, medical and unemployment insurance contributions shall be paid by both employers and employees. Employees shall also participate in work-related injury insurance and maternity insurance. Work-related injury insurance and maternity insurance contributions shall be paid by employers rather than employees. Pursuant to the Notice of the General Office of the State Council on Issuing the Plan for the Pilot Program of Combined Implementation of Maternity Insurance and Basic Medical Insurance for Employees (《國務院辦公廳關於印發<生育保險和職工基本醫療保險合併實施試點方案>的通知》) and the Opinions of the General Office of the State Council on Comprehensively Promoting the Implementation of the Combination of Maternity Insurance and Basic Medical Insurance for Employees (《國務院辦公廳關於全面推進生育保險和職工基本醫療保險合併實施的意見》) promulgated on January 19, 2017 and March 6, 2019, respectively, maternity insurance and basic medical insurance for employees shall be consolidated. According to the Social Insurance Law of PRC, employers must carry out social insurance registration at the local social insurance agency, provide social insurance and pay or withhold the relevant social insurance premiums for or on behalf of employees. For employers failing to conduct social insurance registration, the administrative department of social insurance shall order them to make corrections within a prescribed time limit; if they fail to do so within the time limit, employers shall have to pay a penalty over one time but no more than three times of the amount of the social insurance premium payable by them. Where an employer fails to pay social insurance premiums in full or on time, the social insurance premium collection agency shall order it to pay or make up the balance within a prescribed time limit, and shall impose a daily late fee at the rate of 0.05% of the outstanding amount from the due date; if still failing to pay within the time limit prescribed, a fine of one time to three times the amount in default will be imposed on them by the competent administrative department.

Pursuant to the Regulations on the Administration of Housing Provident Fund (《住房公積金管理條例》) which was promulgated on April 3, 1999 and amended on March 24, 2002 and March 24, 2019, employers shall timely pay the housing provident fund in full and overdue or insufficient payment shall be prohibited. Employers shall process the housing fund payment and deposit registration in the housing provident fund administrative center. For enterprises who violate the above laws and regulations and fail to apply for housing provident fund deposit

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registration or open housing provident fund accounts for their employees, the housing provident fund administrative center shall order the relevant enterprises to make corrections within a designated period. Those enterprises failing to process registration provident fund accounts for their employees within designated period shall be subject to a fine ranging from RMB10,000 to RMB50,000. When enterprises violate those provisions and fail to pay the housing provident fund in full amount as due, the housing provident fund administrative center will order such enterprises to pay up the amount within a prescribed period; if those enterprises still fail to comply with the regulations upon the expiration of the above-mentioned time limit, further application will be made to the People's Court for mandatory enforcement.

Pursuant to the Reform Plan of the State Tax and Local Tax Collection Administration System (《國稅地稅徵管體制改革方案》), which was promulgated by the General Office of the Communist Party of China and the General Office of the State Council of the PRC on July 20, 2018, from January 1, 2019, all the social insurance premiums including the premiums of the basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance will be collected by the tax authorities. According to the Notice of the General Office of the State Taxation Administration on Conducting the Relevant Work Concerning the Administration of Collection of Social Insurance Premiums in a Steady, Orderly and Effective Manner (《國家稅務總局辦公廳關於穩妥有序做好社會保險費徵管有關工作的通知》) promulgated on September 13, 2018 and the Urgent Notice of the General Office of the Ministry of Human Resources and Social Security on Implementing the Spirit of the Executive Meeting of the State Council in Stabilizing the Collection of Social Insurance Premiums (《人力資源和社會保障部辦公廳關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知》) promulgated on September 21, 2018, all the local authorities responsible for the collection of social insurance are strictly forbidden to conduct self collection of historical unpaid social insurance contributions from enterprises. The Notice of the State Administration of Taxation on Implementing the Several Measures to Further Support and Serve the Development of Private Economy (《國家稅務總局關於實施進一步支持和服務民營經濟發展若干措施的通知》) promulgated on November 16, 2018, repeats that tax authorities at all levels may not organize self-collection of arrears of taxpayers including private enterprises in the previous years.

REGULATIONS ON TAX IN THE PRC

Income Tax Law

According to the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) promulgated by the National People's Congress on March 16, 2007, and most recently amended on December 29, 2018 and effective from the same date and the Enterprise Income Tax Implementation Regulations (《中華人民共和國企業所得稅法實施條例》) promulgated by the State Council on December 6, 2007, and most recently amended on April 23, 2019 and effective from the same date, enterprises are divided into resident enterprises and non-resident enterprises. Resident enterprises are enterprises which are set up in China in accordance with the law, or which are set up in accordance with the law of a foreign country (region) but are actually under the administration of institutions in China. Non-resident enterprises are

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enterprises which are set up in accordance with the law of a foreign country (region) and whose actual administrative institution is not in China, but which have institutions or establishments in China, or have no such institutions or establishments but have income generated from inside China. Resident enterprises are subject to a uniform 25% enterprise income tax rate on their worldwide income. The enterprise income tax rate is reduced by 20% for qualifying small low-profit enterprises. The high-tech enterprises that need full support from the PRC's government will enjoy a 15% tax rate reduction for Enterprise Income Tax.

Value-Added Tax

Pursuant to the Provisional Regulations on Value-Added Tax of the People's Republic of China (《中華人民共和國增值稅暫行條例》), which was promulgated by the State Council on December 13, 1993 and most recently amended on November 19, 2017 effective from the same date, and the Detailed Rules for the Implementation of the Interim Regulations of the People's Republic of China on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》) which was promulgated by the Ministry of Finance on December 25, 1993 and most recently amended on October 28, 2011, and effective from November 1, 2011, all entities or individuals in the PRC engaged in the sale of goods, processing services, repair and replacement services, and the provision of services, sales of intangible assets, real estate and importation of goods are required to pay value-added tax ("VAT"). Unless otherwise provided, taxpayers engaged in provision of services and sales of intangible assets are subject to a tax rate of 6%.

According to the Notice on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner (Caishui [2016] No. 36) (《關於全面推開營業稅改徵增值稅試點的通知》(財稅[2016]36號)) promulgated by the Ministry of Finance and the State Administration of Taxation promulgated on March 23, 2016 and effective from May 1, 2016, and amended on July 11, 2017, December 25, 2017 and March 20, 2019, respectively, with the approval of the State Council, as of May 1, 2016, the pilot program of replacing business tax with VAT shall be implemented across the country, all business tax taxpayers in the construction industry, the real estate industry, the financial industry, and the living service industry shall be included in the scope of the pilot program, and the payment of business tax shall be replaced by the payment of VAT.

According to the Circular on Policies for Simplifying and Consolidating Value-Added Tax Rates (Cai Shui [2017] No. 37) (《關於簡併增值稅稅率有關政策的通知》(財稅[2017]37號)), announced by the Ministry of Finance and the State Administration of Taxation on April 28, 2017, and effective from July 1, 2017, the structure of value-added tax (VAT) rates will be simplified from July 1, 2017, and the 13% VAT rate will be canceled. The scope of goods with an 11% tax rate and the provisions for deducting input tax are specified.

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According to the Circular on Adjusting Value-Added Tax Rates of Ministry of Finance and the State Administration of Taxation (Cai Shui [2018] No. 32) (《財政部、稅務總局關於調整增值稅稅率的通知》(財稅[2018]32號)) announced by the Ministry of Finance and the State Administration of Taxation on April 4, 2018 and effective May 1, 2018, from May 1, 2018, where a taxpayer engages in a taxable sales activity for value-added tax (VAT) purpose or imports goods, the previous applicable 17% and 11% tax rates are adjusted to be 16% and 10% respectively.

According to the Announcement on Relevant Policies for Deepening Value-Added Tax Reform of the Ministry of Finance, the State Taxation Administration and the General Administration of Customs (《財政部、稅務總局、海關總署關於深化增值稅改革有關政策的公告》) (“**Announcement of the Ministry of Finance of the PRC, the State Taxation Administration and the General Administration of Customs of the PRC [2019] No. 39**”) announced by the Ministry of Finance, the State Taxation Administration, and the General Administration of Customs on March 20, 2019 and effective from April 1, 2019, with respect to VAT taxable sales or imported goods of a VAT general taxpayer, the originally applicable VAT rate of 16% shall be adjusted to 13%, and the originally applicable VAT rate of 10% shall be adjusted to 9%.

REGULATIONS ON M&A AND OVERSEAS LISTING

Under the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》, M&A rule), which were jointly adopted by six PRC regulatory authorities, including the CSRC, on August 8, 2006, and became effective on September 8, 2006, and most recently amended on June 22, 2009, a foreign investor is required to obtain necessary approvals when (i) such foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise. According to the M&A Rules, where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/her/him, acquires a domestic company which is related to or connected with it/her/him, approval from MOFCOM is required.

On February 17, 2023, with the approval of the State Council, the CSRC promulgated the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) and relevant five guidelines, which came into force on March 31, 2023.

REGULATORY OVERVIEW

According to the Trial Administrative Measures, (i) PRC domestic companies that seek to offer or list securities overseas, both directly and indirectly, should fulfill the filing procedure and submit relevant information to the CSRC; if a domestic company fails to complete the filing procedure or conceals any material fact or falsifies any major content in its filing documents, such domestic company may be subject to administrative penalties, such as an order to rectify, warnings, fines, and its controlling shareholders, actual controllers, the person directly in charge and other directly liable persons may also be subject to administrative penalties, such as warnings and fines; (ii) domestic companies that seek to offer or list securities overseas directly are limited by shares offer or list securities in overseas securities markets; and (iii) any PRC company limited by shares is required to file with the CSRC within three business days after its application for overseas listing is submitted. Failure to complete the filing under the Trial Administrative Measures may subject a PRC domestic company to rectification ordered by the CSRC, a warning and a fine of RMB1 million to RMB10 million.

Besides, PRC domestic companies seeking to overseas offering and listing shall strictly comply with the laws, administrative regulations and relevant provisions of the PRC government on foreign investment, state-owned assets, industry regulation, overseas investment, etc., shall not disrupt domestic market order, and shall not harm national interests, public interest and the legitimate rights and interests of domestic investors. PRC domestic companies that conducts overseas offering and listing shall (i) formulate their articles of association, improve their internal control system and standardize their corporate governance, financial affairs and accounting activities in accordance with the PRC Company Law, the PRC Accounting Law and other PRC laws, administrative regulations and applicable provisions; (ii) abide by the legal system of the PRC on confidentiality and take necessary measures to implement the confidentiality responsibility, not divulge any state secret or the work secrets of state authorities, and also comply with laws, administrative regulations and the relevant provisions of the PRC where involved in the overseas provision of personal information and important data. In addition, the Trial Administrative Measures also provides the circumstances where the overseas offering and listing is explicitly prohibited, including: (i) such securities offering and listing are explicitly prohibited by specific PRC laws and regulations; (ii) such securities offering and listing constitute a threat to or endanger national security; (iii) the PRC domestic company, or its controlling shareholder(s) and the actual controller, have committed relevant crimes such as corruption, bribery, embezzlement, misappropriation of property or undermining the order of the socialist market economy during the latest three years; (iv) the PRC domestic company is currently under investigations for suspicion of criminal offenses or major violations of laws and regulations, and no conclusion has yet been made thereof; or (v) there are material ownership disputes over equity held by the controlling shareholder(s) or by other shareholder(s) that are controlled by the controlling shareholder(s) and/or the actual controller.

REGULATORY OVERVIEW

Full Circulation of H Shares

“Full Circulation” represents listing and circulating on the Stock Exchange of the domestic unlisted shares of an H-share listed company, including unlisted domestic shares held by domestic shareholders prior to overseas listing, unlisted domestic shares additionally issued after overseas listing, and unlisted shares held by foreign shareholders. On November 14, 2019, CSRC announced the Guidelines for the “Full Circulation” Program for Domestic Unlisted Shares of H-share Listed Companies (《H股公司境內未上市股份申請“全流通”業務指引》) (“**Guidelines for the ‘Full Circulation’**”), which were amended on August 10, 2023. As regulated in the Guidelines for “Full Circulation,” shareholders of domestic unlisted shares have the flexibility to jointly decide the amount and proportion of shares that will be included in the circulation application. This decision should be reached through mutual consultation, ensuring compliance with relevant laws, regulations and policies governing state-owned asset administration, foreign investment and industry regulation. Meanwhile, the H-share listed company corresponding to these shares may be authorized to file for “full circulation” with the CSRC. An unlisted domestic joint stock company may file with the CSRC for “full circulation” at the time of its initial public offering and listing overseas. After domestic unlisted shares are listed and circulated on the Stock Exchange, they may not be transferred back to China. Pursuant to the Trial Administrative Measures, which came into effect on March 31, 2023, for a domestic company directly offering and listing overseas, shareholders of its domestic unlisted shares applying to convert such shares into shares listed and traded on an overseas trading venue shall conform to relevant regulations promulgated by the CSRC. Additionally, they are required to authorize the domestic company to submit the conversion application to the CSRC on their behalf.

On December 31, 2019, China Securities Depository and Clearing Corporation Limited and Shenzhen Stock Exchange jointly announced the Measures for Implementation of H-share “Full Circulation” Business (the “**Measures for Implementation**”). The businesses of cross-border share transfer registration, maintenance of deposit and holding details, transaction entrustment and instruction transmission, settlement, management of settlement participants, services of nominal holders, etc., in relation to the H-share “Full Circulation” business, are subject to these Measures for Implementation.

REGULATIONS ON FOREIGN EXCHANGE

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations of the PRC (《中華人民共和國外匯管理條例》), which was promulgated by the State Council on January 29, 1996 and was latest amended on August 5, 2008. Pursuant to these regulations and other PRC rules and regulations on currency conversion, Renminbi is freely convertible for payments of current account items, such as trade- and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as direct investment, loan or investment in securities outside China unless prior approval of the State Administration of Foreign Exchange, (“**SAFE**”) or its local counterpart is obtained.

REGULATORY OVERVIEW

According to the Notice on Relevant Issue Concerning the Administration of Foreign Exchange for Overseas Listing (《關於境外上市外匯管理有關問題的通知》) issued by the SAFE on December 26, 2014, the domestic companies shall register the overseas listing with the foreign exchange control bureau located at its registered address in 15 working days after completion of the overseas listing and issuance. The funds raised by the domestic companies through overseas listing may be repatriated to China or deposited overseas, provided that the intended use of the fund shall be consistent with the contents of the document and other public disclosure documents.

On February 13, 2015, SAFE promulgated the Notice on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》), according to which, entities and individuals may apply for such foreign exchange registrations from qualified banks. The qualified banks, under the supervision of SAFE, may directly review the applications and conduct the registration. On March 30, 2015, SAFE promulgated the Circular on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise (《關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the “**SAFE Circular 19**”). According to the SAFE Circular 19, the foreign exchange capital of foreign-invested enterprises shall be subject to the Discretionary Foreign Exchange Settlement, which means that the foreign exchange capital in the capital account of a foreign-invested enterprise for which the rights and interests of monetary contribution have been confirmed by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) can be settled at the banks based on the actual operational needs of the foreign-invested enterprise, and if a foreign-invested enterprise needs to make further payment from such account, it still needs to provide supporting documents and proceed with the review process with the banks. Furthermore, the SAFE Circular 19 stipulates that the use of capital by foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises. The capital of a foreign-invested enterprise and capital in Renminbi obtained by the foreign-invested enterprise from foreign exchange settlement shall not be used for the following purposes: (i) directly or indirectly used for payments beyond the business scope of the enterprises or payments as prohibited by relevant laws and regulations; (ii) directly or indirectly used for investment in securities unless otherwise provided by the relevant laws and regulations; (iii) directly or indirectly used for granting entrust loans in Renminbi (unless permitted by the scope of business), repaying inter-enterprise borrowings (including advances by the third-party) or repaying the bank loans in Renminbi that have been sub-lent to third parties; or (iv) directly or indirectly used for expenses related to the purchase of real estate that is not for self-use (except for the foreign-invested real estate enterprises).

The Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment (《關於進一步改進和調整直接投資外匯管理政策的通知》) (the “**SAFE Circular 13**”) which became effective on June 1, 2015 and was amended on December 30, 2019, cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment and simplifies the procedure of foreign exchange-related registration. Pursuant to SAFE Circular 13, investors should register with banks for direct domestic investment and direct overseas investment.

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The Circular on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account (《關於改革和規範資本項目結匯管理政策的通知》) (the “SAFE Circular 16”) was promulgated by SAFE on June 9, 2016. Pursuant to the SAFE Circular 16, enterprises registered in the PRC may also convert their foreign debts from foreign currency to Renminbi on a self-discretionary basis. The SAFE Circular 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope or prohibited by PRC Laws, while such converted Renminbi shall not be provided as loans to its non-affiliated entities.

On January 26, 2017, SAFE promulgated the Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification (《關於進一步推進外匯管理改革完善真實合規性審核的通知》), which stipulates several capital control measures with respect to the outbound remittance of profit from domestic entities to offshore entities, including: (i) banks should check board resolutions regarding profit distribution, the original version of tax filing records, and audited financial statements pursuant to the principle of genuine transactions; and (ii) domestic entities should hold income to account for previous years’ losses before remitting the profits. Moreover, pursuant to this circular, domestic entities should make detailed explanations of the sources of capital and utilization arrangements, and provide board resolutions, contracts, and other proof when completing the registration procedures in connection with an outbound investment.

On October 23, 2019, the SAFE promulgated the Notice for Further Advancing the Facilitation of Cross-border Trade and Investment (《關於進一步促進跨境貿易投資便利化的通知》), which, among other things, allows all FIEs to use Renminbi converted from foreign currency denominated capital for equity investments in China, as long as the equity investment is genuine, does not violate applicable laws, and complies with the negative list on foreign investment.

According to the Circular of the State Administration for Foreign Exchange on Optimizing Foreign Exchange Administration to Support the Development of Foreign-related Business (《國家外匯管理局關於優化外匯管理支持涉外業務發展的通知》) promulgated and effective on April 10, 2020 by the SAFE, the reform of facilitating the payments of incomes under the capital accounts shall be promoted nationwide. Under the prerequisite of ensuring true and compliant use of funds and compliance with the prevailing administrative provisions on use of income from capital projects, enterprises which satisfy the criteria are allowed to use income under the capital account, such as capital funds, foreign debt and overseas listing, etc., for domestic payment, without the need to provide proof materials for veracity to the bank beforehand for each transaction.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OVERVIEW

In 2008, our Founders, Mr. Wang and Ms. Liu, launched the first ChaPanda store under the name of “Chabaidao (茶百道)” in Chengdu, Sichuan. Since then, we have started our ChaPanda voyage and have been rapidly expanding our network across China. After more than 15 years of development, we have expanded our store network and grown to be a leading freshly-made tea drink brand in China. For details of our store network, see “Business—Our ChaPanda Store Network.” Our rapid expansion of store network and fast growth in business were driven by our Founders and our senior management’s deep understanding and extensive management experience in the catering and tea drinks industry of China. For details, see the section headed “Directors, Supervisors and Senior Management.”

KEY MILESTONES

The following table summarizes the key development milestones of our Group:

<u>Year</u>	<u>Milestone</u>
2008	The first ChaPanda store under the name of “Chabaidao (茶百道)” was launched in Chengdu, Sichuan.
2010	We registered the trademark of “Chabaidao (茶百道).” We launched Milk Herbal Jelly (牛奶燒仙草).
2013	We launched tiramisu milkshakes (提拉米蘇冰沙).
2018	We developed “DingDing Mao’er” (“丁丁貓”), our previous brand IP before “ChaCha” (“茶茶”), to establish our brand image and deepen our connection with consumers.
2019	The number of ChaPanda stores exceeded 500.
2020	We were named as the “Most Promising Brand with Rapid Growth Potential” in 2020 Ele.me Annual Brand Awards by Ele.me and Koubei, and “2020 Top 20 Enterprises in the Freshly-made Beverage Category” (“2020年度現調飲品20強企業”) by China Cuisine Association (中國烹飪協會).

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Year	Milestone
2021	<p>The number of ChaPanda stores exceeded 5,000.</p> <p>We were named as the “2021 China’s Most Commercially Valuable Catering Brand” (2021年度中國餐飲最具商業價值品牌), and obtained the “Red Eagle Award” (紅鷹獎) issued by Hongcan.com (紅餐網), the “Red Carp Award – 2021 Top 10 Tea Drinking Brands in China” (紅鯉獎–2021中國茶飲十大品牌), the “King of 10,000 Orders” issued by Canyandata (窄門餐眼) and the “2021 Consumer Favorite Brand” (2021年度消費者喜愛品牌) issued by Consumer Quality Network (消費質量網).</p>
2022	<p>We were named as the “Annual Best Brand” (年度最佳品牌) by Alibaba’s Local Services and the “Top 3 Store Growth for 2022-2023” (年度門店增長Top 3) by Canyandata (窄門餐眼); and obtained the “Annual Most Influential Brand Award” (年度最具影響力品牌獎) issued by Meituan and “China Beverage Innovation TOP 50 Annual Product Innovation Award” (中國飲品創變力TOP 50年度產品創新獎).</p>
2023	<p>We raised gross proceeds of RMB970 million from our Pre-IPO Investments.</p> <p>We implemented a comprehensive brand upgrade in which we launched our latest brand IP, “ChaCha,” among others.</p> <p>The number of ChaPanda stores exceeded 7,000.</p>

OUR SUBSIDIARIES

As of the Latest Practicable Date, we had a total of 23 subsidiaries. The following table sets out certain information of each of our subsidiaries as of the Latest Practicable Date.

No.	Name of company	Principal business activities	Shareholding controlled by the Company	Date and jurisdiction of establishment and commencement of business
1	Shuwei Tea Rhyme (蜀味茶韻).	Supply chain management	100%	January 12, 2021, PRC
2	Shuxin Zhiyuan (蜀信致遠).	Franchise management, marketing campaigns and operation	100%	January 14, 2021, PRC

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

No.	Name of company	Principal business activities	Shareholding controlled by the Company	Date and jurisdiction of establishment and commencement of business
3	ChaPanda Training (茶百道培訓)	Provision of trainings to franchisees	100%	September 18, 2021, PRC
4	Senmian New Materials (森冕新材料)	Production of biodegradable straws and packaging	67% ⁽¹⁾	May 6, 2021, PRC
5	Shuxin Anhe (蜀信安和)	Development of manufacturing facilities	100%	May 28, 2021, PRC
6	Shuxin Yuncha (蜀信雲茶)	IT services and maintenance	100%	August 10, 2021, PRC
7	Shucha Huwei (蜀茶滬味)	Sale of beverages	100%	June 7, 2021, PRC
8	Shuyunming Beverage (蜀韻茗飲品)	Sale of beverages	100%	January 29, 2021, PRC
9	Chadandang (茶擔當)	Provision for logistics and distribution service	100%	January 26, 2021, PRC
10	Xinyuming Beverage (欣芋茗飲品)	Sale of beverages	100%	March 12, 2021, PRC
11	Wencha Catering (溫茶餐飲)	Sale of beverages	100%	August 1, 2022, PRC
12	Xiangbin Liangwei (香檳靚味)	Sale of beverages	100%	July 26, 2022, PRC
13	ChaPanda E-commerce (茶百道電子商務)	Peripheral e-commerce business	100%	February 11, 2022, PRC
14	Shudu Chayi (蜀都茶驛)	Sale of beverages	100%	November 21, 2022, PRC
15	Cafrui Industrial (咖弗瑞實業)	Investment management	100%	April 24, 2023, PRC
16	Cafrui Consulting (咖弗瑞諮詢)	Franchise management, marketing campaigns and operation	100%	May 12, 2023, PRC
17	Chashanli Catering (茶山里餐飲)	Sale of beverages	100%	December 22, 2022, PRC
18	Shuka Catering (蜀咖餐飲)	Catering management	100%	September 8, 2023, PRC

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

No.	Name of company	Principal business activities	Shareholding controlled by the Company	Date and jurisdiction of establishment and commencement of business
19	Sichuan Shuxin Tongyuan (四川蜀信同源)	Investment management	100%	October 19, 2023, PRC
20	Beijing Shuxin (北京蜀信)	Investment management	100%	November 15, 2023, PRC
21	Qingheli Shuka (青和里蜀咖)	Catering services and sale of food	100%	December 5, 2023, PRC
22	Qingkou Tea (清口茶業)	Sale of food	67% ⁽²⁾	January 17, 2024, PRC
23	Dabaika (達百咖)	Catering management	100%	March 12, 2024, PRC

Note (1): As of the Latest Practicable Date, Senmian New Materials was held by the Company as to 67% and by an Independent Third Party (except for being a substantial shareholder thereof), Yibin Senqian Enterprise Management Co., Ltd. (宜賓森乾企業管理有限公司), as to 33%. As of the Latest Practicable Date, Yibin Senqian Enterprise Management Co., Ltd.* (宜賓森乾企業管理有限公司) is ultimately controlled by its director and general manager, Mr. Shang Faming (尚發明), who is also the director and general manager of Senmian New Materials and an Independent Third Party (except for the above mentioned relationships with Senmian New Materials).

Note (2): As of the Latest Practicable Date, Qingkou Tea was held by Sichuan Shuxin Tongyuan as to 67% and by an Independent Third Party (except for being a substantial shareholder thereof), Fuzhou Qingkou Ercha Tea Co., Ltd.* (福州市青口二茶茶業有限公司), as to 33%. As of the Latest Practicable Date, Fuzhou Qingkou Ercha Tea Co., Ltd.* (福州市青口二茶茶業有限公司) is ultimately controlled by its director and general manager, Mr. Lin Hong (林宏), who is also the director and general manager of Qingkou Tea and an Independent Third Party (except for the above mentioned relationships with Qingkou Tea).

ESTABLISHMENT, DEVELOPMENT AND REORGANIZATION OF OUR GROUP

A. Early Development of our Business before 2018

In 2008, our Founders launched our first ChaPanda store under the name of “Chabaidao (茶百道)” in Chengdu, Sichuan. Since then, we commenced our venture in the tea drinks business. In February 2017, ChaPanda Catering was established for the operation for our Group’s business.

B. Establishment of Holding Companies

In November 2018, as part of our continuous expansion, our Founders established Hengsheng Herui as one of the holding companies of our Group's business. Since its establishment, Hengsheng Herui has undergone certain shareholding changes for the purpose of incentivising and rewarding employees for their contribution. On December 31, 2020, for fund raising purposes, our Company was incorporated as a joint stock limited liability company under the laws of PRC with a registered capital of RMB100 million contributed as to 90% by Hengsheng Herui and 10% by Mr. Wang, as our promoters.

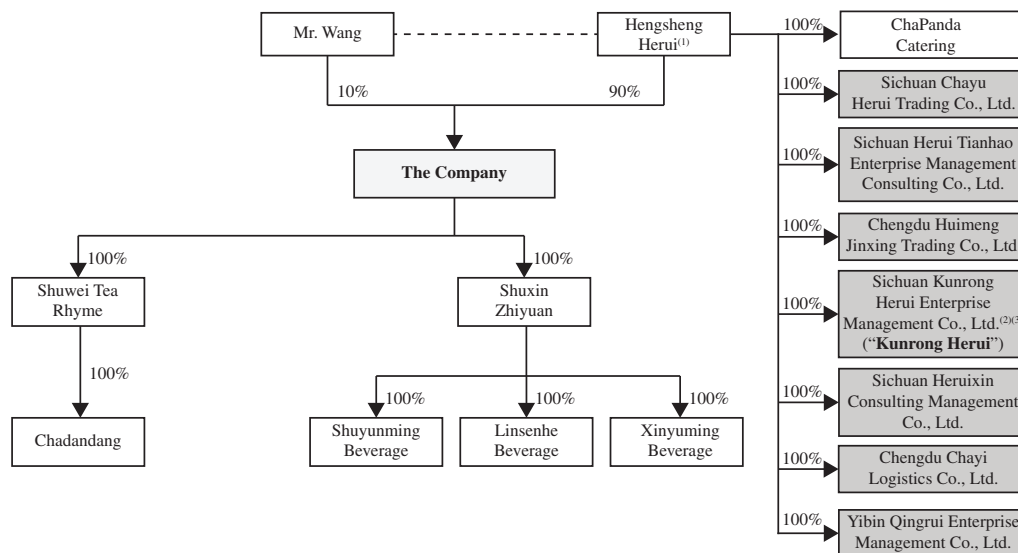
C. 2021 Business Reorganization

- 1. Background:** Prior to the 2021 Business Reorganization, we managed our ChaPanda stores in different geographical areas and cities in China primarily through locally established and managed subsidiaries and/or branches. As our ChaPanda network continued to expand nationwide, it became less efficient and more difficult to assure quality across the network when it was managed by the dispersedly-located and locally-managed entities. With a view to maximizing our operation efficiency and in line with the rapid expansion of our ChaPanda network, we began reorganizing our corporate group structure to centralize and integrate the management for our ChaPanda stores in early 2021 (the “**2021 Business Reorganization**”).

Leveraging the 2021 Business Reorganization, we organized our corporate structure based on their respective business functions. Each subsidiary of the Company became positioned to engage in a distinctive aspect of the Group's operations, such as franchisee management, supply chain management, staff trainings, packaging production, etc. With a process-based centralized corporate structure, each ChaPanda store is managed with unified and standardized operational and management processes. All these enable us to more effectively manage and supervise our (i) store operations, (ii) product and service supply and quality control, (iii) procurement, (iv) supply chain operation, (v) online ordering, (vi) market campaigns and (vii) personnel training, which in turn enable higher consistency in the delivery of our products and services, more efficient coordination and execution of the Group's business plans, and better business scalability for higher efficiency, profitability and sustainability. For more details of our centralized management system, see “Business—Our Store Operation Model” in this Prospectus.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Below is a diagram illustrating our structure immediately prior to the 2021 Business Reorganization.



Notes:

- (1) Immediately prior to the 2021 Business Reorganization, Hengsheng Herui was ultimately held as to 84.888% by Chengdu Jinboson, 8% by Ms. Dai Li, 4% by Mr. Wang Hongxue, 2% by Mr. Chen Keyuan and 1.112% by Ms. Gu Jilin, each through their respective wholly-owned investment vehicles. Ms. Gu Jilin was a director of the Company between May 2021 and August 2023. Ms. Gu Jilin resigned as a director of the Company in order to devote more time to her family and had confirmed that she has no dispute with the Group and/or the Board. There was no other matter that needs to be brought to the attention of the Shareholders in respect of her serving as a director of the Company in the relevant time and her resignation.
- (2) As part of the 2021 Business Reorganization, an indirect wholly-owned subsidiary of Kunrong Herui, namely Wuhan Chaxin, established on May 24, 2021 was subsequently transferred to our Company. For further details, see “—2. Principal steps.”
- (3) Certain entities controlled by Kunrong Herui were historically established through nominee arrangements for administrative convenience in the course of our rapid expansion. As of the Latest Practicable Date, each of the entities involving nominee arrangements had been deregistered and the Company was not aware of any dispute in relation to such arrangements.

2. Principal steps

- (a) **Business Injection:** On February 25, 2021, the Company and Hengsheng Herui entered into a reorganization agreement, pursuant to which Hengsheng Herui transferred its then-operational business, contracts, agreements, assets/liabilities, personnel, data and accounts to the Group (the “**Business Injection**”), which took effect from March 31, 2021. The total consideration of the Business Injection included (i) the transfer of certain fixed assets such as transportation or office equipments, at the total consideration of RMB2,780,471.94, which was determined based on the net book value of the relevant fixed assets at the relevant time; (ii) the transfer of inventories at the total consideration of RMB79,664,315.79, which was

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

determined based on the net book value of the relevant inventories at the relevant time; and (iii) the transfer of the relevant intellectual properties rights at nil consideration. Such consideration was determined after arm's length negotiation between the parties. Contracts and agreements signed and executed in the name of the then operating entities of Hengsheng Herui as of March 31, 2021 would be renewed by the Company and its subsidiaries within one year thereafter. As of the Latest Practicable Date, (i) the consideration for the above transfers had been fully settled; and (ii) the Business Injection had been duly completed. Our Directors considered that the Business Injection was conducted on normal commercial terms and are beneficial to the Group and the Shareholders as a whole.

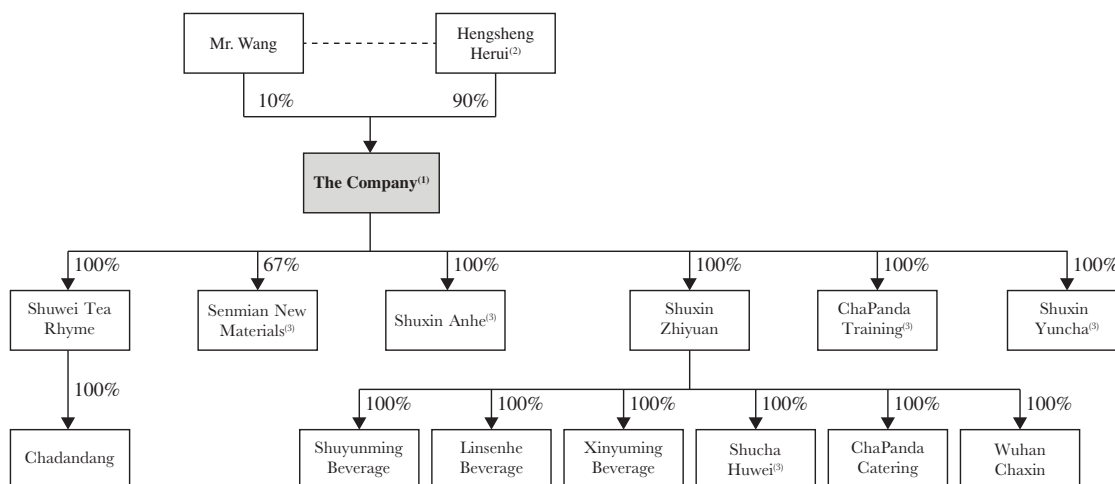
(b) **Equity transfers:** Based on the historical operation performance of the relevant subsidiaries, and the Group's business development needs, Shuxin Zhiyuan, a wholly-owned subsidiary of our Company, entered into (i) an equity transfer agreement with Hengsheng Herui on November 2, 2021, pursuant to which, Shuxin Zhiyuan, acquired 100% equity interests in ChaPanda Catering at a consideration of approximately RMB1 million. On November 2, 2021, the equity transfer of ChaPanda Catering was completed, and ChaPanda Catering became an indirectly wholly-owned subsidiary of the Company. The consideration was determined after arm's length negotiation, having taken into account the registered capital of ChaPanda Catering at the time of agreement and its net asset of approximately RMB1 million as at September 30, 2021 based on the its unaudited management accounts; and (ii) an equity transfer agreement with a wholly-owned subsidiary of Hengsheng Herui on January 13, 2022, pursuant to which, Shuxin Zhiyuan acquired 100% equity interests in Wuhan Chaxin at a consideration of RMB50,000. On January 13, 2022, the equity transfer of Wuhan Chaxin was completed, and Wuhan Chaxin became an indirectly wholly-owned subsidiary of the Company. The consideration was determined after arm's length negotiation, having taken into account the registered capital of Wuhan Chaxin at the time of agreement and its net asset of approximately RMB0.15 million as at December 31, 2021 based on the its unaudited management accounts.

(c) As of the Latest Practicable Date, none of Hengsheng Herui and its controlled entities were engaged in any substantive business. The companies and assets transferred to the Group as part of the 2021 Business Reorganization were consolidated under merger accounting as set out in Note 2 to the Accountants' Report before the 2021 Business Reorganization was completed.

3. **PRC regulatory requirements:** Our PRC Legal Advisor is of the view that the 2021 Business Reorganization does not violate the applicable PRC laws and regulations, and the relevant regulatory registrations or approvals necessary to effect the 2021 Business Reorganization had been obtained in accordance with the PRC laws and regulations.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

4. **Group structure after the 2021 Business Reorganization:** After the 2021 Business Reorganization, our business operations became operated by our Company and its subsidiaries, and Hengsheng Herui became a shareholding platform of our Founders, Ms. Dai Li, Mr. Wang Hongxue, Ms. Gu Jilin and Mr. Chen Keyuan. Below is a diagram illustrating our structure after the 2021 Business Reorganization.



Notes:

- (1) For details of all subsidiaries of the Company as of the Latest Practicable Date, see “—Corporate structure immediately before the Global Offering” and “—Our Subsidiaries” in this section.
- (2) Hengsheng Herui was ultimately held as to 84.888% by Chengdu Jinbosen, 7.78% by Ms. Dai Li, 3.78% by Mr. Wang Hongxue, 2.222% by Ms. Gu Jilin and 1.33% by Mr. Chen Keyuan.
- (3) Each of Senmian New Materials, Shuxin Anhe, ChaPanda Training, Shuxin Yuncha and Shucha Huwei was established by the Company after the commencement of the 2021 Business Reorganization. For details, please see “—Our subsidiaries” in this section.

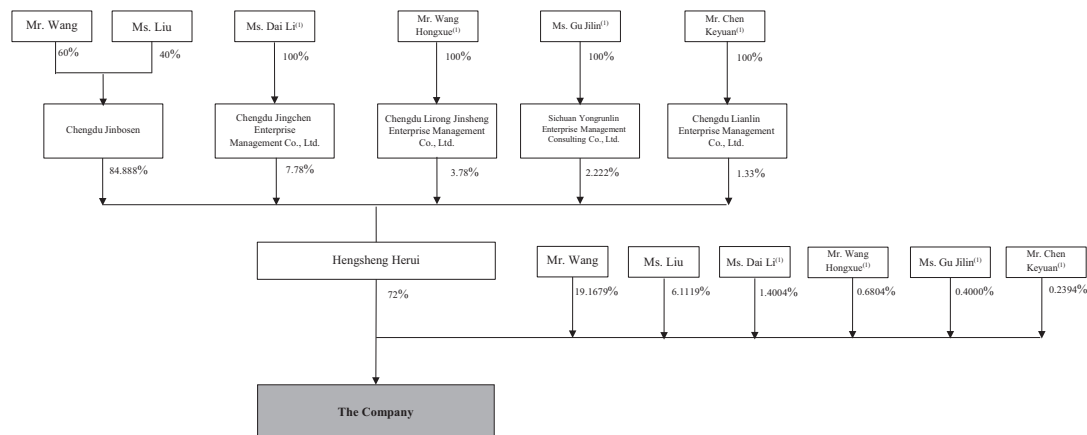
D. 2023 Shareholding Restructuring

Prior to the 2023 Shareholding Restructuring (as defined below), our Company was owned directly 90% by Hengsheng Herui and 10% by Mr. Wang. Hengsheng Herui was held as to 84.888% by Chengdu Jinbosen, 7.78% by Ms. Dai Li, 3.78% by Mr. Wang Hongxue, 2.222% by Ms. Gu Jilin and 1.33% by Mr. Chen Keyuan, each through their respective wholly-owned investment vehicles.

On May 5, 2023, we passed a shareholders’ resolution in relation to (i) the increase of the share capital of the Company from RMB100,000,000 to RMB125,000,000 and (ii) the subscription of the Shares by Mr. Wang, Ms. Liu, Ms. Dai Li, Mr. Wang Hongxue, Ms. Gu Jilin and Mr. Chen Keyuan (the “**2023 Shareholding Restructuring**”). On May 11, 2023, the Company issued a total of 25,000,000 Shares to Mr. Wang, Ms. Liu, Ms. Dai Li, Mr. Wang Hongxue, Ms. Gu Jilin and Mr. Chen Keyuan in such proportions that correspond to the respective percentages of the then equity interests ultimately held by them in the Company, at an aggregate consideration of RMB25,000,000. The subscription price was determined at par value of the registered capital increased. Our PRC Legal Advisor has confirmed that all the capital increases in connection with the 2023 Shareholding Restructuring have been properly and legally completed.

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Below is a diagram illustrating shareholding structure of the Company upon completion of the 2023 Shareholding Restructuring (without taking into account the subsequent shareholding changes and dilution effect of Pre-IPO Investments and the establishment of Pre-IPO Employee Incentive Platform).



Note:

- (1) Despite each of Ms. Dai Li, Mr. Wang Hongxue, Ms. Gu Jilin and Mr. Chen Keyuan (the “**Minority Shareholders**”) held minority equity interests in Hengsheng Herui through their respective wholly-owned investment vehicles during the Track Record Period, the Minority Shareholders are not considered as a group controlling shareholders with Mr. Wang and Ms. Liu, considering the following:
 - (i) During the Track Record Period, the Minority Shareholders, as employees of the Group, had been interested in Hengsheng Herui when they were granted incentive shares in Hengsheng Herui by the Founders, to reward their contribution to the development of the Group. Hengsheng Herui was an original holding vehicle of the Group’s business prior to the 2021 Business Reorganization. Only after such reorganization, the Minority Shareholders became holding the relevant equity interests in the Group indirectly through Hengsheng Herui.
 - (ii) Regardless of whether the Minority Shareholders hold their interests in the Company through Hengsheng Herui, or directly holding the Shares, none of the Minority Shareholders, as an employee of the Group, had been or will be in a position to control the Group individually or collectively. Each of the Minority Shareholders had individually held less than 10% voting power in Hengsheng Herui and in the Company, respectively.
 - (iii) None of Minority Shareholders is an associate of, or otherwise acting in concert with any of Mr. Wang, Ms. Liu and Chengdu Jinboson in connection with the management and operation of Hengsheng Herui. There was no arrangement or agreement among Minority Shareholders, Mr. Wang and Ms. Liu on the management of the Group and the exercise of their voting rights on general meetings involving key decisions with respect of Hengsheng Herui and the Company in any coordinated manner.
 - (iv) Each of the Minority Shareholders confirmed that during the Track Record Period, (a) they exercised their voting rights in Hengsheng Herui and in the Company independently based on their own assessment on the subject matters, and (b) there was no acting-in-concert arrangement with respect to their voting decision at general meetings of Hengsheng Herui or the Company among them. It is expected that they will continue exercising their respective voting right at the general meetings of Hengsheng Herui and the Company independently from other shareholders of Hengsheng Herui and the Company after the Listing.

E. Pre-IPO Investments

See “—Pre-IPO Investments” below for further information of shareholding changes in connection with the Pre-IPO Investments. Our PRC Legal Advisor has confirmed that, all the capital increases as described in this section were properly and legally completed and all necessary, filings and registrations from the relevant PRC authorities have been obtained and completed.

F. Pre-IPO Employee Incentive Scheme

In anticipation of the Listing, we have adopted the Pre-IPO Employee Incentive Scheme on June 27, 2023 and established a limited partnership, Sichuan Tongchuang Gongjin Enterprise Management Partnership (Limited Partnership) (四川同創共進企業管理合夥企業(有限合夥)) (“**Tongchuang Gongjin**”), as the pre-IPO employee incentive platform, with a view to improving the enthusiasm and creativity of the eligible participants of the Pre-IPO Employee Incentive Scheme (the “**Eligible Participants**”), promoting the sustainable growth of the performance of the Group, bringing value-added benefits to the Eligible Participants while enhancing the value of the Group, and thus realizing the common development of both the Eligible Participants and the Group.

Tongchuang Gongjin was established in the PRC as a limited partnership on July 31, 2023. Mr. Wang, as the sole general partner of Tongchuang Gongjin, is responsible for the management of Tongchuang Gongjin and exercising the voting rights attaching to the Shares held by Tongchuang Gongjin, in accordance with the partnership agreement entered into among the general and limited partners of Tongchuang Gongjin. Therefore, Tongchuang Gongjin and Mr. Wang, together with his associates, Ms. Liu, Chengdu Jinboson and Hengsheng Herui, are considered as a group of Controlling Shareholders.

As of the Latest Practicable Date, Mr. Wang held approximately 2.72% partnership interests in Tongchuang Gongjin, with the remaining interests being held by 25 limited partners of Tongchuang Gongjin, namely Mr. Zhu Mingxing, our Supervisor (holding approximately 22.77% interests of Tongchuang Gongjin), Mr. Zhang Yu, our Supervisor (holding approximately 1.02% interests of Tongchuang Gongjin), Mr. Zhang Rui, our senior management (holding approximately 16.99% interests of Tongchuang Gongjin), Ms. Yi Rui, our senior management (holding approximately 6.80% interests of Tongchuang Gongjin), Mr. Zhou Dapeng, our senior management (holding approximately 1.36% interests of Tongchuang Gongjin) and the other 20 current employees as limited partners who are not the Directors, Supervisors or senior management of our Company. The partnership interests held by each of these 20 other limited partners in Tongchuang Gongjin range from approximately 0.85% to 6.80%. For further details of the Pre-IPO Employee Incentive Scheme and Tongchuang Gongjin, see “Statutory and General Information—5. Pre-IPO Employee Incentive Scheme” in Appendix VI to this Prospectus.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

As of the Latest Practicable Date, Tongchuang Gongjin owned approximately 0.4802% of the issued Shares, and the Pre-IPO Employee Incentive Scheme does not involve the grant of new Shares or awards by the Company after the Listing.

G. Share Subdivision before the Listing

Pursuant to the resolutions of the Shareholders dated August 10, 2023, the Shares will be split on a one-for-ten basis immediately prior to the Listing, and the nominal value of the Shares will be changed from RMB1.0 each to RMB0.1 each (the “Share Subdivision”). Immediately after the Share Subdivision, the registered share capital of the Company will be RMB132,987,085 with 1,329,870,850 Shares in a nominal value of RMB0.1 each.

MAJOR ACQUISITIONS, DISPOSALS AND MERGERS

Except as disclosed in the paragraphs headed “C. 2021 Business Reorganization” in this section, we had not conducted any acquisitions, disposals or mergers since our inception that we considered to be material to us during the Track Record Period and up to the Latest Practicable Date.

PRE-IPO INVESTMENTS

Overview

On May 22, 2023, the Company, Shuwei Tea Rhyme (蜀味茶韻), Shuxin Zhiyuan (蜀信致遠), Hengsheng Herui, Mr. Wang, TOWER QUALITY LIMITED (“Tower Quality”), Shanghai Tanying Investment Partnership (Limited Partnership)* (上海檀英投資合夥企業(有限合夥)) (“LVC Tanying”), Suzhou Yuexiang Equity Investment Partnership (Limited Partnership)* (蘇州悅享股權投資合夥企業(有限合夥)) (“Suzhou Yuexiang”), Chengdu Xinjin Shengwang Jiaozi New Consumer Equity Investment Fund Partnership (Limited Partnership)* (成都新津昇望交子新消費股權投資基金合夥企業(有限合夥)) (“Xinjin Shengwang”) and Nanjing Yellow Tomato Equity Investment Partnership (Limited Partnership)* (南京黃番茄股權投資合夥企業(有限合夥)) (“Yellow Tomato LP”), entered into a capital increase agreement, pursuant to which, each of Tower Quality, LVC Tanying, Suzhou Yuexiang, Xinjin Shengwang and Yellow Tomato LP subscribed RMB6,060,606, RMB227,273, RMB303,030, RMB378,788 and RMB227,273 increased registered capital of the Company, at cash considerations of RMB800 million, RMB30 million, RMB40 million, RMB50 million and RMB30 million, respectively (the “May 2023 Financing”).

On June 19, 2023, the Company, Shuwei Tea Rhyme (蜀味茶韻), Shuxin Zhiyuan (蜀信致遠), Hengsheng Herui, Mr. Wang, CICC Tongfu (Quanzhou) Consumer Industry Venture Capital Fund Partnership (Limited Partnership)* (中金同富(泉州)消費產業創業投資基金合夥企業(有限合夥)) (“CICC Tongfu”) entered into a capital increase agreement, pursuant to which, CICC Tongfu subscribed RMB151,515 increased registered capital of the Company, at a cash consideration of RMB20 million (the “June 2023 Financing”).

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Principal terms of the Pre-IPO Investments and Pre-IPO Investors' rights

The below table summarizes the principal terms of the Pre-IPO Investments:

Amount of registered capital increased	RMB7,348,485
Amount of consideration paid	RMB970,000,000
Date of agreements	May 2023 Financing: May 22, 2023 June 2023 Financing: June 19, 2023
Date of full settlement of consideration	June 27, 2023
Cost per Share paid under the Pre-IPO Investments (approximation)⁽¹⁾	RMB13.20
Discount to the Offer Price (approximation)⁽²⁾	16.8%
Basis of determination of the valuation and consideration	The determination of the valuation and consideration is based on arm's-length negotiations between the relevant parties with reference to among others, (i) business performance of our Company in the previous year, (ii) the business value of the Company and its subsidiaries at the time of the Pre-IPO Investments, and (iii) the market conditions, the market value of comparable companies at the relevant time.
Lock-up Period	Pursuant to the applicable PRC law, within the 12 months following the Listing Date, the Shares issued by the Company prior to the Global Offering (including those held by the Pre-IPO Investors at the time of the Global Offering) are restricted from transfer.
Use of proceeds from the Pre-IPO Investments	We utilized the proceeds from the Pre-IPO Investments for the operations and general working capital purpose of our Group. As of the Latest Practicable Date, approximately 63.8% of the funds raised from the Pre-IPO Investments have been utilized.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Strategic benefits to our Company brought by the Pre-IPO Investors

At the time of the Pre-IPO Investments, our Directors were of the view that the Company would benefit from the additional capital provided by the Pre-IPO Investors' investments in the Company and their knowledge and experience, including but not limited to the following aspects: (i) our Pre-IPO Investors have provided valuable financing that served as additional working capital for our growth. We have been able to leverage their investment funds to enhance operation and supply chain management, and promote our product development and innovation; (ii) our Pre-IPO Investors could provide strategic and professional advice, allowing us to streamline our capital and management structure. Most of them are experienced professional institutional investors covering consumer goods, innovative consumption and new retail industries as well as food & beverage, catering and franchising businesses, who can contribute their unique perspectives on brand building and market expansion as well as their insight on our Group's corporate governance, financial reporting and internal control from their experiences with professionally investing in and managing portfolio companies. Additionally, by bringing in Dr. Chen Da from Tower Quality as our non-executive Director, our Board and the Group directly benefited from his strategic advice and extensive, first-hand knowledge in consumer goods and private equity investment industries; and (iii) the Pre-IPO Investments demonstrated the Pre-IPO Investors' confidence in the operation and development of our Group, and served as endorsements of our performance, strengths and prospects, and enhanced our branding, name recognition and standing in the food & beverage industry.

Notes:

- (1) The cost per Share is calculated and adjusted assuming the Share Subdivision is completed.
- (2) Calculated based on (i) the Offer Price of HK\$17.50 per H Share and (ii) the exchange rate as set out in "Information about this Prospectus and the Global Offering."

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Rights of the Pre-IPO Investors

According to the shareholders' agreement entered into among others, by the Company and the Pre-IPO Investors (the "**Shareholders Agreement**"), the Pre-IPO Investors have been granted certain special rights, including, among others, right of first refusal, right of co-sale, nomination right, preemptive rights, redemption rights, and information rights. Except for the redemption rights, all of such special rights will be automatically terminated pursuant to the Shareholders Agreement immediately upon the completion of a qualified initial public offering of the Company (which includes the Listing), or other earlier time as agreed among the parties.

The redemption rights shall be automatically terminated pursuant to the Shareholders Agreement upon the first submission of the application for a qualified initial public offering or other earlier time as agreed among the parties. Upon the earlier of (i) the Company voluntarily withdrew its application for a qualified initial public offering; (ii) the Company did not obtain the listing approval letter(s) from the relevant stock exchange within eighteen (18) months after the first submission of the application for a qualified initial public offering to the relevant stock exchange, or the sponsor(s) of the listing application withdrew its sponsorship; (iii) the Company's application for an initial public offering was rejected or returned by the relevant stock exchange; or (iv) the Company failed to complete the qualified initial public offering on the relevant stock exchange after it received the approval for the listing from the relevant stock exchange, the special rights so terminated shall be reinstated and restated.

Compliance with the Pre-IPO Investment Guidance

On the basis that (i) the consideration for the Pre-IPO Investments was irrevocably settled more than 28 clear days before the date of our first submission of the listing application to the Stock Exchange; and (ii) the special rights granted to the Pre-IPO Investors shall cease to be effective and be discontinued upon the qualified initial public offering (save for the redemption rights as described above), the Sole Sponsor confirms that the Pre-IPO Investments are in compliance with the Pre-IPO Investment Guidance (as defined in Chapter 4.2 under the Guide for New Listing Applicants published by the Stock Exchange).

Information about our Pre-IPO Investors

The background of our Pre-IPO Investors are set out below:

1. **Tower Quality:** Tower Quality is an investment vehicle without any substantial operating activities since its incorporation in form of a limited liability company incorporated in the British Virgin Islands, which is owned as to 97.98%, 1.00%, and 1.02% by Orchid Asia VIII, L.P., Orchid Asia VII Co-Investment Limited and PERA 1912 Orchid Asia Co-Investment Fund, L.P. respectively. Orchid Asia VIII, L.P. is controlled by OAVIII Holdings, L.P., which is in turn controlled by Orchid Asia VIII GP, Limited. Orchid Asia VIII GP, Limited is wholly owned by Orchid Asia V Group Management, Limited ("**Orchid Asia**"), which is in turn wholly owned by Orchid Asia V Group, Limited. Orchid Asia V Group, Limited is wholly owned by AREO

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Holdings Limited, which is wholly owned by Ms. Lam Lai Ming, an Independent Third Party. Orchid Asia V Group Management, Limited is a private equity investment group with a focus on investing in China and Asia. Dr. Chen Da, our non-executive Director was nominated by Tower Quality to the Board, and is currently a managing director of Orchid Asia Group Management, Limited (蘭馨亞洲投資集團). For details of Dr. Chen Da's work experience, see "Directors, Supervisors and Senior Management—Directors."

2. **Loyal Valley:** LVC Tanying and Suzhou Yuexiang are limited partnerships established in the PRC, which are investment vehicles established by Loyal Valley Capital. LVC Tanying is owned as to (i) 0.0002% by Shanghai Zhengxing Investment Management Co., Ltd.* (上海正心谷投資管理有限公司) (formerly Shanghai Shengge Asset Management Co., Ltd.*) ("Shanghai LVC") as general partner; and (ii) 99.9998% by Shanghai Lejin Investment Partnership (上海樂進投資合夥企業(有限合夥)) ("Shanghai Lejin") as limited partner, the general partner of Shanghai Lejin is also Shanghai LVC.

The general partner of Suzhou Yuexiang is also Shanghai LVC. Suzhou Yuexiang has 29 limited partners and none of which has more than 30.0% of partnership interest therein. Mr. Lin Lijun ("Mr. Lin") is the sole director and wholly owned Shanghai LVC.

Loyal Valley Capital is a private equity firm, with over US\$3.5 billion of assets under management, that mainly focuses on the following segments: new consumer (media, entertainment and education), healthcare and advanced manufacturing. It has investments in, without limitation, Bilibili Inc. (SEHK: 9626, NASDAQ: BILI), Cloud Music Inc. (SEHK: 9899), Shanghai Junshi Biosciences Co., Ltd. (上海君實生物醫藥科技股份有限公司) (SEHK: 1877) and InnoCare Pharma Limited (諾誠健華醫藥有限公司) (SEHK: 9969). To the best knowledge and information of the Company, each of Mr. Lin, LVC Tanying, Suzhou Yuexiang, Shanghai LVC, Shanghai Lejin, and the limited partners of Shanghai Lejin and Suzhou Yuexiang is an Independent Third Party.

3. **New Hope:** Xinjin Shengwang is a limited partnership established in the PRC, with approximately RMB1 billion of assets under management, that mainly focuses on food and beverage and other segments in consumer industry in China. Xinjin Shengwang is owned as to (i) approximately 1.19% by its general partner, Sichuan Heshun Shengwang Enterprise Management Center (Limited Partnership) (四川和順昇望企業管理中心 (有限合夥)), which is ultimately controlled by Mr. Liu Yonghao (劉永好); and (ii) approximately 98.81% by 13 limited partners, none of which holds more than 25% partnership interests in Xinjin Shengwang. All of these entities and Mr. Liu Yonghao (劉永好) are Independent Third Parties.

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4. **Tomato Private Equity:** Yellow Tomato LP is a limited partnership established in the PRC, focusing on investments in catering industry which is owned as to (i) approximately 0.03% by its sole general partner, Beijing Tomato Private Equity Management Company (北京番茄私募基金管理公司) (“**Beijing Tomato**”); and (ii) approximately 99.97% by its sole limited partner, Xiamen Welight Qichuang Equity Investment Partnership (Limited Partnership) (廈門微光啟創股權投資合夥企業(有限合夥)) (“**Xiamen Welight Qichuang**”), which is ultimately wholly owned by Mr. Wu Xiaoguang (吳宵光). Beijing Tomato is controlled by Mr. Qing Yong (卿永), an Independent Third Party. Xiamen Weiguang Qichuang is a limited partnership established in the PRC, which is owned as to (i) approximately 0.99% by its sole general partner, Xiamen Welight Enlightenment Investment Co., Ltd. (廈門微光啟明投資有限公司) (“**Xiamen Welight Investment**”); and (ii) approximately 99.01% by its sole limited partner, Welight Capital L.P. Welight Capital L.P. is an exempted limited partnership organized and existing under the laws of the Cayman Islands. The general partner of Welight Capital L.P. is Welight Capital Management Limited, which is ultimately controlled by Mr. Wu Xiaoguang (吳宵光). Each of Yellow Tomato LP, Beijing Tomato, Xiamen Welight Qichuang, Xiamen Welight Investment, Welight Capital L.P., Welight Capital Management Limited and Mr. Wu Xiaoguang is an Independent Third Party.
5. **CICC Tongfu:** CICC Tongfu is a limited partnership established in the PRC. It is a private equity fund under CICC Capital Management Co., Ltd. (中金資本運營有限公司) (“**CICC Capital**”). As of the Latest Practicable Date, CICC Tongfu is owned as to (a) 1.9% by its sole general partner, CICC Capital; and (b) 98.1% by its eight limited partners, including, (i) CICC Gongyu (Ningbo) Enterprise Investment Partnership (Limited Partnership) (“**CICC Gongyu**”) (中金共裕(寧波)創業投資合夥企業(有限合夥)) as to 30.14%, (ii) Quanzhou Jinjiang International Airport Co., Ltd. (泉州晉江國際機場股份有限公司) as to 19.96%, (iii) CICC Qisheng (Xinchang) Equity Investment Partnership Enterprise (Limited Partnership) (中金旗盛(新昌)股權投資合夥企業(有限合夥)) (“**CICC Qisheng**”) as to 9.98%, and (iv) an employee of CICC Capital as to 0.30%, among others. CICC Capital is a wholly owned private equity investment arm of China International Capital Corporation Limited (“**CICC Limited**”). CICC Capital currently manages RMB/USD private equity funds and fund of funds (FOF), with approximately RMB402 billion in assets under management (AUM) as of December 31, 2023.

CICC Limited is a premier China-based investment bank which is listed on the Stock Exchange (SEHK: 3908) and on the Shanghai Stock Exchange (SSE: 601995), which principally engages in investment banking, equities, wealth management, investment management and fixed income, commodities and currencies. Each of CICC Tongfu, CICC Gongyu and CICC Qisheng, being an associate of CICC Limited, a controlling shareholder of the Sole Sponsor, is regarded as a member of the sponsor group of the Sole Sponsor as defined under the Listing Rules. To the best knowledge and information of CICC Tongfu, save for CICC Gongyu, CICC Qisheng and an employee of CICC Capital, each of the other five limited partners of CICC Tongfu is independent of the Sole Sponsor.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

REASONS FOR THE LISTING

Our Company is seeking a listing of its H Shares on the Stock Exchange in order to establish a financing and capital operation platform in the international capital market, establish diversified financing channels, deepen the Company's brand influence and market awareness, optimize the investor structure, improve the internal governance structure and build a modern enterprise management system. For further details of our future plans, see "Future Plans and Use of Proceeds" in this Prospectus.

PUBLIC FLOAT

Upon completion of the Global Offering, assuming (i) all the existing 1,329,870,850 Unlisted Shares (taking into account the Share Subdivision) are converted into H Shares as applied in "Full Circulation," and (ii) the Over-Allotment Option is not exercised, a total of 1,251,386,500 H Shares (taking into account the Share Subdivision) to be held by certain of our Shareholders who are, or are indirectly controlled by, our core connected persons will not be counted towards the public float upon Listing. The remaining 226,247,350 Shares (represent approximately 15.31% of the issued Shares of the Company upon completion of Global Offering) will be held by the Pre-IPO Investors and other public Shareholders, and will be counted towards the public float of the Company.

Upon completion of the Global Offering, assuming (i) all the existing 1,329,870,850 Unlisted Shares (taking into account the Share Subdivision) are converted into H Shares as applied in "Full Circulation," and (ii) the Over-Allotment Option is fully exercised, the Pre-IPO Investors and other public Shareholders will collectively hold 248,411,350, representing approximately 16.56% of the Shares in issue upon the exercise of the Over-Allotment Option in full.

We have applied to the Stock Exchange to request the Stock Exchange to exercise its discretion under Rule 8.08(1)(d) of the Listing Rules and the Stock Exchange has granted the Company a waiver from strict compliance with the requirements of Rule 8.08(1)(a) of the Listing Rules. For details of the relevant waiver, please see "Waivers—Waiver in relation to Public Float."

The Shares held by all the existing Shareholders, being 1,329,870,850 Shares (taking into account the Share Subdivision) will be subject to lock-up for a period of 12 months commencing from the Listing Date pursuant to the applicable PRC laws. Therefore, upon completion of the Global Offering and assuming the Over-Allotment Option is not exercised, (i) 1,329,870,850 H Shares (representing 90% of the Company's total issued Shares) will be subject to lock-up from the Listing Date, and (ii) all other 147,763,400 H shares (representing 10% of the Company's total issued Shares) will not be subject to any lock-up undertaking or requirements and will be free float Shares of the Company. For more details, see "Share Capital."

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

CAPITALIZATION OF OUR COMPANY

The table below is a summary of the capitalization of our Company as of the Latest Practicable Date and the Listing Date (assuming the Over-Allotment Option is not exercised):

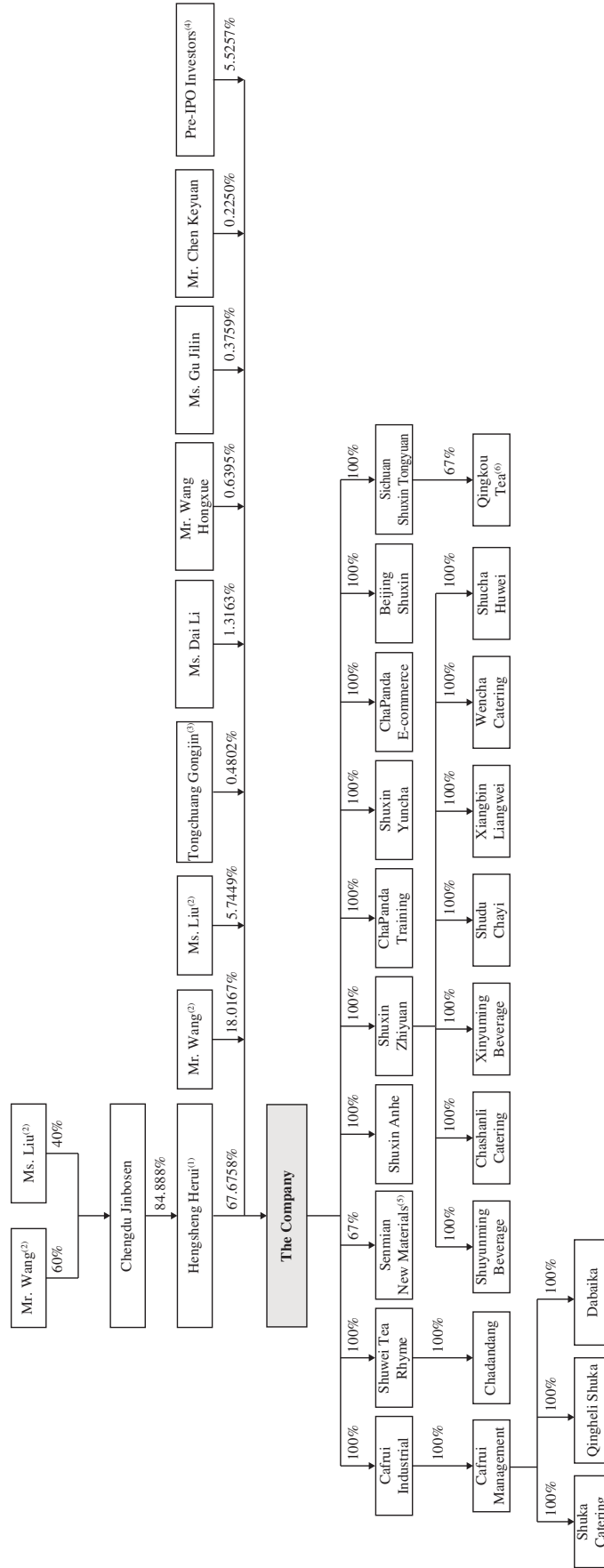
Name of Shareholder	As of the Latest Practicable Date without taking into account Share Subdivision			As of the Listing Date taking into account the Share Subdivision		
	Number of Shares	Description of Shares	Ownership percentage	Number of Shares ⁽¹⁾	Description of Shares	Ownership percentage
Hengsheng Herui ⁽²⁾	90,000,000	Unlisted Shares	67.6758%	900,000,000	H Shares	60.9082%
Mr. Wang	23,959,875	Unlisted Shares	18.0167%	239,598,750	H Shares	16.2150%
Ms. Liu	7,639,925	Unlisted Shares	5.7449%	76,399,250	H Shares	5.1704%
Tongchuang Gongjin	638,600	Unlisted Shares	0.4802%	6,386,000	H Shares	0.4322%
Ms. Dai Li	1,750,500	Unlisted Shares	1.3163%	17,505,000	H Shares	1.1847%
Mr. Wang Hongxue	850,500	Unlisted Shares	0.6395%	8,505,000	H Shares	0.5756%
Ms. Gu Jilin	499,950	Unlisted Shares	0.3759%	4,999,500	H Shares	0.3383%
Mr. Chen Keyuan	299,250	Unlisted Shares	0.2250%	2,992,500	H Shares	0.2025%
Pre-IPO Investors						
Tower Quality	6,060,606	Unlisted Shares	4.5573%	60,606,060	H Shares	4.1016%
LVC Tanying	227,273	Unlisted Shares	0.1709%	2,272,730	H Shares	0.1538%
Suzhou Yuexiang	303,030	Unlisted Shares	0.2279%	3,030,300	H Shares	0.2051%
Xinjin Shengwang	378,788	Unlisted Shares	0.2848%	3,787,880	H Shares	0.2563%
Yellow Tomato LP.	227,273	Unlisted Shares	0.1709%	2,272,730	H Shares	0.1538%
CICC Tongfu	151,515	Unlisted Shares	0.1139%	1,515,150	H Shares	0.1025%
Subtotal.	132,987,085	Unlisted Shares	100.0000%	1,329,870,850	H Shares	90.0000%
Public shareholders	–	–	–	147,763,400	H Shares	10.0000%
Total	132,987,085	Unlisted Shares	100.0000%	1,477,634,250	H Shares	100.0000%

Notes:

- (1) The 1,329,870,850 Unlisted Shares (taking into account the Share Subdivision) held by all existing Shareholders will be converted to H Shares upon Listing.
- (2) As of the Latest Practicable Date, Hengsheng Herui was held as to (i) 84.888% by Chengdu Jinboson, which is wholly owned by Mr. Wang and Ms. Liu collectively; (ii) 7.78% by Ms. Dai Li through her wholly-owned subsidiary, Chengdu Jingchen Enterprise Management Co., Ltd.* (成都晶辰企業管理有限公司); (iii) 3.78% by Mr. Wang Hongxue through his wholly-owned subsidiary, Chengdu Lirong Jinsheng Enterprise Management Co., Ltd.* (成都市麗蓉錦盛企業管理有限公司); (iv) 2.222% by Ms. Gu Jilin through her wholly-owned subsidiary, Sichuan Yongrunlin Enterprise Management Consulting Co., Ltd.* (四川永潤林企業管理諮詢有限公司); and (v) 1.33% by Mr. Chen Keyuan through his wholly-owned subsidiary, Chengdu Lianlin Enterprise Management Co., Ltd.* (成都聯林企業管理有限公司).

CORPORATE STRUCTURE IMMEDIATELY BEFORE THE GLOBAL OFFERING

The chart below sets out the corporate structure of our Group immediately before the Global Offering:



Notes:

- (1) As of the Latest Practicable Date, Hengsheng Herui was held as to 84.888% by Chengdu Jinbosen, 7.78% by Ms. Dai Li, 3.78% by Mr. Wang Hongxue, 2.222% by Ms. Gu Jilin and 1.33% by Mr. Chen Keyuan, through their respective wholly-owned investment vehicles.
- (2) Mr. Wang and Ms. Liu are spouses. Hengsheng Herui is a company directly owned as to 84.888% by Chengdu Jinbosen. Tongchuang Gongjin, our Pre-IPO Employee Incentive Platform is controlled by Mr. Wang as its sole general partner. Accordingly, Mr. Wang, Ms. Liu, Chengdu Jinbosen, Hengsheng Herui and Tongchuang Gongjin constitute a group of Controlling Shareholders (as defined under the Listing Rules) before the Listing.
- (3) See “—F: Pre-IPO Employee Incentive Scheme” in this section for details.
- (4) See “—Pre-IPO Investments—Information about our Pre-IPO Investors” and “—Capitalization of Our Company” for further details of Shareholders and their respective shareholdings.
- (5) As of the Latest Practicable Date, Sennian New Materials was held by the Company as to 67% and by Yibin Senqian Enterprise Management Co., Ltd.* (宜賓森乾企業管理有限公司), an Independent Third Party (except for being a substantial shareholder thereof), as to 33%. As of the Latest Practicable Date, Yibin Senqian Enterprise Management Co., Ltd.* (宜賓森乾企業管理有限公司) is ultimately controlled by its director and general manager, Mr. Shang Faming (尚發明), who is also the director and general manager of Sennian New Materials and an Independent Third Party (except for the above mentioned relationships with Sennian New Materials).
- (6) As of the Latest Practicable Date, Qingkou Tea was held by Sichuan Shuxin Tongyuan as to 67% and by an Independent Third Party (except for being a substantial shareholder thereof), Fuzhou Qingkou Ercha Tea Co., Ltd.* (福州市青口二茶茶業有限公司), as to 33%. As of the Latest Practicable Date, Fuzhou Qingkou Ercha Tea Co., Ltd.* (福州市青口二茶茶業有限公司) is ultimately controlled by its director and general manager, Mr. Lin Hong (林宏), who is also the director and general manager of Qingkou Tea and an Independent Third Party (except for the above mentioned relationships with Qingkou Tea).

Remark

The 1,329,870,850 Unlisted Shares (taking into account the Share Subdivision) held by all existing Shareholders will be converted into H Shares under the “full circulation” application upon completion of the Listing.

OVERVIEW

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

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 8,016 stores, spanning across 31 provinces and municipalities, covering all provinces and different tiers of cities in China. In 2023, the total retail sales value of ChaPanda stores reached approximately RMB16.9 billion.

With the increase in consumer spending, people's beverage preferences are evolving to encompass various dimensions. In the meantime, emerging technologies in China have enabled and driven the significant development of freshly-made tea shops in the key aspect of their business operation. For example, leveraging big data analytics, freshly-made tea shops optimize location planning and marketing strategies, targeting high-traffic areas and engaging consumers through diverse digital campaigns. Additionally, freshly-made tea shops leverage the convenience of online delivery services to reach a broader consumer base, enhancing accessibility and driving demand for freshly-made tea drinks. Benefiting from the foregoing factors, the freshly-made tea shop market in China has developed rapidly. According to Frost & Sullivan, the CAGR of China's freshly-made tea shop market was 25.2% from 2018 to 2023, significantly higher than the CAGR of China's soft beverage market of 4.4% for the same period. China's freshly-made tea shop market is also expected to have great growth potential in the coming years, with an estimated CAGR of 15.4% from 2024 to 2028.

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

BUSINESS

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

OUR COMPETITIVE STRENGTHS

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

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

Recent years have witnessed the increase in urbanization and per capita disposable income, as well as Chinese consumers' pursuit of health and quality. In addition, the trend of consumption upgrading and the growing recognition of traditional culture among young consumers continued in China's consumer sector. These factors drive the significant increase in the consumption frequency of freshly-made tea drinks and the growth of the freshly-made tea shop market in China. According to Frost & Sullivan, the market size of the freshly-made tea shop market in China in terms of retail sales value increased from RMB80.5 billion in 2018 to RMB247.3 billion in 2023, representing a CAGR of 25.2%, and is expected to reach RMB538.5 billion by 2028, with a CAGR of 15.4% from 2024 to 2028. The freshly-made tea shop market, with its significant growth potential and extensive development prospect, has served as the essential foundation for us to achieve sustained and rapid growth.

Product development brings differentiated and consistent consumer experience.

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

BUSINESS

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

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

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

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

Our brand is appealing to the young group.

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

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

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

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

BUSINESS

Benefiting from our strong brand influence, we have accumulated a large and loyal member base and are able to provide our members with premium and more convenient services through digital capabilities. Our membership has grown rapidly since we launched the ChaPanda Membership Program in February 2021, reaching over 103.1 million registered members as of the Latest Practicable Date. In the fourth quarter of 2023, we had 20.4 million active members. Our membership repurchase rate in the fourth quarter of 2023 reached 35.0%, which was higher than the industry average level. Going forward, we believe our consumer stickiness will continue to increase as more and more consumers consider purchasing ChaPanda products as part of their lifestyle.

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

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

Our proven business model allowed us to achieve rapid store network expansion during the Track Record Period, helping us build an extensive store network covering all of the provinces and municipalities in China. The number of ChaPanda stores in China expanded from 2,242 as of January 1, 2021 to 7,801 as of December 31, 2023, and further to 8,016 as of the Latest Practicable Date.

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

BUSINESS

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

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

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

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

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

BUSINESS

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

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

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

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

BUSINESS

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

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

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

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

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

We believe in the value of “innovation, win-win, integrity and responsibility,” as evidenced by our cooperative and mutually beneficial relationship with franchisees and our devoted attention to corporate social responsibility and public welfare. Our cooperation with Jasmine Industrial Park in Hengzhou, Guangxi Province (廣西橫州茉莉花產業項目) and Yunnan Fengqing Dianhong Tea Garden (雲南鳳慶滇紅茶園) created job opportunities for

local farmers and increased their income. We wholeheartedly shoulder our social responsibilities and have established the Sichuan Youth Development Foundation ChaPanda Special Public Welfare Fund (四川省青少年發展基金會茶百道愛心專項公益基金), which actively takes part in financial assistance projects, social practice projects, education condition improvement projects and other initiatives for teenagers in disadvantaged areas.

OUR GROWTH STRATEGIES

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

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

Our expansion strategies mainly include:

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

We will improve our supply chain capabilities.

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

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

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

We will enhance our delivery network by increasing the number of our warehousing facilities, such as central hubs and pre-positioned hubs close to ChaPanda stores, helping us complete delivery to offline stores in cost-efficient manner. As of the Latest Practicable Date, the average number of stores covered by a central hub and a pre-positioned hub was 366 and 166, respectively. Going forward, we intend to enhance the operating efficiency of our central hubs to cover more ChaPanda stores and increase the number of pre-positioned hubs closely located to ChaPanda stores. In the future, we expect the average number of stores covered by a central hub and a pre-positioned hub will be approximately 400 and 200, respectively. We will also expand the use of multi-temperature zones and increase shipment frequency.

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

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

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

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

We will strengthen product development and expand product matrix.

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

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

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

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

Going forward, we plan to adopt diversified marketing strategies to expand our brand recognition, especially those catering to the young generation's features, preferences and tastes. We plan to further develop our brand IP “ChaCha” to enhance our brand image and our connection with consumers. We also intend to commercialize our brand IP “ChaCha” by releasing themed merchandises, such as cultural products, lifestyle products, electronic

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accessories and souvenirs. We also plan to cooperate with other brands to create diversified and lively merchandises to further strengthen our brand image and establish a closer connection with consumers. We also plan to initiate online marketing programs to attract consumer traffic and increase consumer engagement.

BRAND AND PRODUCTS

Our Brand

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

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



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

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

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

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

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

Our Product Matrix

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

Classic Tea Drinks

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



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

Seasonal and Regional Tea Drinks

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



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

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

Product Development

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

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

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

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to detail enables us to incorporate distinct elements into our new products, further differentiating our offerings from those of our competitors. By consistently prioritizing product development and innovation, we continue to create quality tea drinks that delight our consumers and set us apart in the competitive catering and beverage industry.

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

- *Product Planning.* Our product development initiates with an in-depth analytical phase. We keenly observe the trending discussions among younger demographics, scrutinize the leading products across multiple brands and employ sophisticated big data methodologies to uncover and anticipate prevailing trends in tea drink flavors. Our team also prepares sample products, conducts blind testing and organizes demonstrations to gather valuable feedback.
- *Product Development.* After we decide the flavors, we begin to choose ingredients for the potential new products. In this process, we explore the taste of different combinations of ingredients and flavors based on various formulas and recipes. We determine the final recipes taking into account the feedback from consumers during sample testing. We work closely with our suppliers to ensure the supply of raw materials in our new products. We also hold internal testing sessions for new products before their official release.
- *Product Standardization.* Before new products are released, we take various measures to ensure the standardization and consistency in new products across ChaPanda network. For instance, we conduct specialized trainings for ChaPanda stores regarding the preparation, marketing strategies and quality requirements of our new products. We have store staff learn how to make new products and conduct tests on whether they make standardized products according to the product formula. We also conduct inspections on ChaPanda stores in relation to the quality and marketing efforts for new products.
- *Marketing Campaign.* To successfully launch our new products, we prepare targeted multi-channel marketing events and campaigns. We also conduct training sessions for our store staff on how to prepare and serve these new offerings.
- *Re-evaluation.* After the product launch, we place a strong emphasis on collecting consumer feedback to continuously refine and upgrade our offerings. This iterative process allows us to stay attuned to our consumers' preferences and make any necessary adjustments to our products.

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

Product Pricing

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

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

OUR CHAPANDA STORE NETWORK

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

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

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

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

Our ChaPanda store network in China comprises stores strategically dispersed across different tiers of cities. While maintaining our position in first-tier cities and new first-tier cities to enhance our brand identity and keep up with the ever-changing market trend, we have been penetrating and will continue to penetrate into lower-tier cities with promising potential for consumption growth. This deliberate distribution ensures that we reach a broad spectrum of consumers and establish brand visibility across all tiers of cities. The following table sets forth a breakdown of our store coverage by city tier in China as of December 31, 2021, 2022 and 2023.

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

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

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As of the Latest Practicable Date, the number of ChaPanda stores in China further increased to 8,016. In addition, the first ChaPanda store in overseas market was launched in January 2024 in Seoul, South Korea, which is operated under a specific brand license agreement with our third-party partner. Going forward, we aim to steadily grow our ChaPanda store network in both domestic and overseas markets.

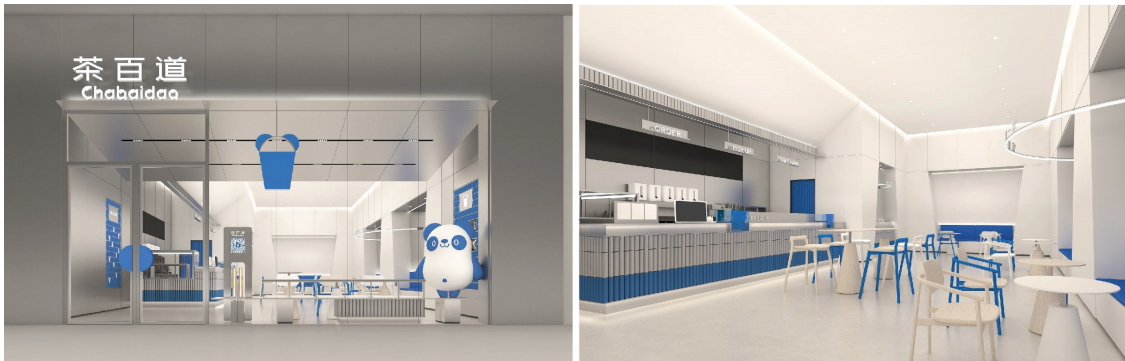
We adopt consistent decoration style, in-store layout and service quality across the ChaPanda store network. Our store design is featured with simplicity, quality and brand image, such as by using the symbol of “ChaCha.” Through our carefully designed store style and decoration, ChaPanda stores offer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

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



ChaPanda Store Design (2018 Version)



ChaPanda Store Design (2021 Version)



ChaPanda Store Design (2023 Version)

Store Location and Planning

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

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

For every potential ChaPanda store location, we seek locations where communities gather, often with characteristics such as well-designed business areas, favorable property conditions, excellent visibility and accessibility, high pedestrian traffic and a broad consumer base. To select the location for a new ChaPanda store, we generally require on-site evaluations of potential store locations by designated personnel at both headquarter level and regional level. Through our data analytic tools, we also arrange online evaluations in areas which we do not have local teams for store locations. Our franchisees will propose location selection and we are entitled to approve the site selection for every ChaPanda store. For more information, see “—Our Store Operation Model—Our Franchise Model—Onboarding Process—Store Location Selection, Training and Store Decoration” in this section.

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

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

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

The fast-growing freshly-made tea shop market in China is faced with intense competition. See “Industry Overview—Analysis of China’s Freshly-Made Tea Shop Industry—Challenges of China’s Freshly-Made Tea Shop Industry” for details about the fierce competition in the market. With the growing number of freshly-made tea brands and tea shops in China, our strategy to expand our store network may lead to competition both among ChaPanda stores and against our competitors. It is possible that the existing ChaPanda stores or our competitors might have already taken up the desired locations for new ChaPanda stores and our competitors may enter into these areas after our existing stores have been established, and our measures to minimize the risk of cannibalization within our network and competition against competitors might have limitations. See “Risk Factors—Risks Relating to Our Business and Industry—The industry in which we operate is highly competitive. We are faced with increasingly intense competition with other leading players within China’s freshly-made tea shop industry” for a discussion of the risks relating to competition and cannibalization.

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How We Prevent Cannibalization among ChaPanda Stores

With respect to the competition among ChaPanda stores, we actively develop and implement strategies to mitigate the cannibalization effect on existing ChaPanda stores during our expansion of store network in areas where we have already established a presence. These strategies involve, among others, our careful market analysis of areas for penetration, and new product development and diversification. In our nationwide analysis of areas for penetration, we diligently explore and identify potential locations for opening stores, creating an extensive reserve for new store placements. Our selection of new store locations are based on the store location and planning analysis. As illustrated above, we use data analytics to analyze target markets for potential store locations. Factors considered include business conditions, pedestrian traffic, rental costs, and the presence of ChaPanda stores in neighboring areas. We offer recommendations to franchisees, who can choose from our suggestions or propose alternative locations, subject to our approval. We carefully select new store locations based on local consumer demand, ensuring both new and existing stores are adequately supported. Our thorough analysis of consumer traffic and commercial area characteristics helps ensure that each store has adequate access to customer demands to ensure profitability of ChaPanda stores. We also establish protective distances and implement standardized management practices across our store network, providing our franchisees with equal resources and opportunities for growth. Such protective distances are kept between new and existing ChaPanda stores based on various factors such as commercial conditions, consumer traffic, business viability and the size of local population. Additionally, our ongoing introduction of new product offerings with distinct ingredients also helps us to further grow our market demand and consumer base, capturing new market opportunities and supporting the overall healthy development of our business.

How We Address Competitions against Our Competitors

There are numerous brands engaging freshly-made tea shops business in China. Consumers have a broad array of choices that align with their preferences and budgetary considerations. In order to enhance the effectiveness of our strategies to better compete with our competitors, we intend to further expand our presence in the third-tier, fourth-tier and below cities. Currently, the ChaPanda stores in these cities constitutes a smaller proportion of our total store network as compared to our competitors, which we believe provides us with ample potential to expand our footprint there. We intend to capture the growth opportunities in the third-tier, fourth-tier and below cities by offering diversified product offering with competitive pricing and leveraging our brand awareness. We also aim to amplify our market penetration by identifying untapped areas with potential demand through data analytics, rapidly establishing presence in key locations with high visibility, and providing consistent access to fresh and quality raw materials through our robust supply chain. For instance, we provide incentive to existing franchisees to encourage them to open new stores and expand our geographical presence by providing one-off reduction of non-refundable upfront initial fees to franchisees, the amount of which is based on their operating performance, number of stores and length of relationship with us.

The proximity of freshly-made tea shops under different brands in adjacent areas also contributes to heightened competition. The competition among freshly-made tea shops was fierce. According to Frost & Sullivan, among the top ten shopping areas in China, which are ranked based on factors such as the population size of the business district, transportation facilities and business scale, there are approximately 50 freshly-made tea shops within a one-kilometer distance from each shopping area's center, and among the top ten shopping malls in China, which are ranked by the sales value, an average of ten freshly-made tea shops can be found within each shopping mall. If an increasing number of new stores are launched by our competitors in close proximity to existing ChaPanda stores, our store operation and performance might be negatively impacted, especially if our competitors' new stores gain strong momentum during the initial phase. We advocate a range of measures to support ChaPanda stores in such competitive scenarios. For instance, in the event that our competitors establish new stores near existing ChaPanda stores and initiate sales campaigns to attract consumer traffic, or if we aim to incentivize existing franchisees to open additional stores in a specific area, we will launch sales initiatives to improve store sales. During these sales initiatives, customers may receive discounts on certain items ordered through online delivery platforms where we bear a portion of the discount costs.

Collaboration with Third-party Online Delivery Platforms

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

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

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We believe collaboration with third-party online delivery platforms helps ChaPanda stores improve their sales and access enlarged consumer base. As of December 31, 2023, 95.9% of ChaPanda stores fulfilled online orders through collaboration with third-party online delivery platforms. During the Track Record Period, a majority of our retail sales value generated from delivery orders was generated through a leading online delivery platform we cooperated with. Nevertheless, since our agreements with third-party online delivery platforms are non-exclusive, and considering the dynamic nature and competition in China's online delivery market, we do not foresee any practical difficulty to explore and engage with new online delivery platforms to fulfill online orders for ChaPanda stores. In 2021, we began to introduce an online ordering function integrated in our official Weixin Mini Program, through which consumers may place orders online and pick up tea drinks at offline stores by themselves.

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

	For the year ended December 31,											
	2021				2022				2023			
	Retail sales value		Sales volume		Retail sales value		Sales volume		Retail sales value		Sales volume	
	RMB	%	Number of cups	%	RMB	%	Number of cups	%	RMB	%	Number of cups	%
	<i>(in millions, except percentages)</i>											
Non-delivery orders ⁽¹⁾	3,867.6	38.7	242.9	40.7	4,944.9	37.1	311.8	39.2	6,927.6	41.0	447.0	44.0
Delivery orders ⁽²⁾	6,116.4	61.3	354.3	59.3	8,386.8	62.9	482.6	60.8	9,981.5	59.0	569.1	56.0
Total	9,984.0	100.0	597.2	100.0	13,331.7	100.0	794.4	100.0	16,909.1	100.0	1,016.1	100.0

Notes:

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

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Operation Performance

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

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

Notes:

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

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

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

Note:

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

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

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

Tutoring Period for New ChaPanda Stores

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

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

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

OUR STORE OPERATION MODEL

We primarily operate our ChaPanda network through a franchise model. We believe our franchise model is key to our rapid business growth and our established success. On the one hand, by partnering with qualified franchisees, we efficiently scale up our business across China, which is evidenced by our industry-leading position. On the other hand, we ensure that consumers receive consistent, satisfactory products and services through our franchise model. As of December 31, 2021, 2022, 2023 and the Latest Practicable Date, there were 5,070, 6,352, 7,795 and 8,010 franchised stores in our ChaPanda store network, respectively, each representing more than 99.0% of total ChaPanda stores under operation as of the respective dates.

Our Franchise Model

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

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

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

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

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

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

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

Notes:

- (1) The 663 terminated franchisees in 2023 include (i) 397 franchisees who departed through transfer of stores to other franchisees, (ii) 150 franchisees who terminated collaboration with us for their own reasons or did not renew collaboration with us upon agreement expiration, (iii) 116 franchisees who were terminated by us.

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- (2) The number of franchisees terminated in 2023 is greater than the number of closed franchised stores during the same period primarily because for 397 terminated franchisees in 2023, their stores were taken up by other franchisees for continuous operation. With respect to the 220 closed franchised stores during 2023, there were 150 closed franchised stores for which we also terminated relationships with the relevant franchisees, and there were 70 closed franchised stores for which we maintained relationships with the franchisees as they have one or more stores under operation despite the store closure.

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

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

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

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

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

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

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

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

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

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

Onboarding Process

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

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

Operation of the Franchised Stores

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

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

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

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

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Cooperation with Regional Service Providers

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

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

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

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

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

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

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

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

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

As of the Latest Practicable Date, with the improvement of our proprietary operating capabilities, we had gradually reduced the abovementioned collaboration to two regional service providers, of which one is for our operation in Guizhou Province, and the other is for our operation in Yichang, Hubei Province. As of the Latest Practicable Date, there were 259 franchised ChaPanda stores under this collaboration model, including (i) 248 franchised stores whose franchisees were onboarded through the regional service providers and under their management and (ii) 11 franchised stores operated by the regional service providers as franchisees, which in aggregate represented 3.2% of the total number of franchised ChaPanda stores as of the same date. During the Track Record Period and up to the Latest Practicable Date, all of our regional service providers were Independent Third Parties. Going forward, as we have developed our proprietary capabilities to operate ChaPanda store network in China, we do not plan to expand our business through collaboration with regional service providers and will continue to supervise the operations of substantially all of ChaPanda stores directly by ourselves.

Evaluations

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

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

Training System

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

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

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

Our Agreements with Franchisees

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

Franchise Agreement

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

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

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

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

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

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

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

Purchase Agreement

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

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

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

Connected/Related Franchised Stores

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

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

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

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

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

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

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

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

Franchisee Committee

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

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

The group leaders do not receive any payment or compensation from us for assuming the roles in the franchisee committee, except that they may receive reward for their outstanding performance in committee activities, such as a small amount of coupons that can be used in purchasing goods from us. We assess the group leaders' performance in committee activities in various aspects, such as whether they promote effective strategies to enhance the operational efficiency of local stores, whether their strategies serve the actual business needs of local stores, and whether their strategies lead to the improvement in the operating results of local stores or address the challenges faced by local stores. As of December 31, 2023, there were 48 group leaders in the franchise committees operating 123 franchised stores, and such stores' revenue contribution was RMB45.7 million in 2023, representing 0.8% of our total revenue for the same period.

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

Our Self-operated Model

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

SUPPLY CHAIN MANAGEMENT

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

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

Supplier Selection and Management

Our stringent supplier selection standards and comprehensive procurement system further reinforce our commitment to product quality and food safety. We maintain a list of qualified suppliers for raw materials and an abundant pool of alternative suppliers to ensure the stability and quality of our supply chain. As of the Latest Practicable Date, we collaborated with 273 suppliers and maintained a reserve of 263 alternative suppliers to serve as backups. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material incidents of supply interruption, early termination of contractual arrangements with our suppliers or failure to secure sufficient quantities of raw materials.

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

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

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

Procurement of Raw Materials

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

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

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

Supply Agreements

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

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

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

Logistics and Warehousing

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

Our warehousing management primarily consists of the storage of raw materials. We adopt a dynamic, centralized management model for our warehousing process. Our order planning department decides the purchasing plan for raw materials based on the latest market demand, logistic conditions and sales volume. Once purchased, raw materials are delivered to our warehouses pursuant to the actual delivery needs of each warehouse. In particular, for our fruit supply chain, we are actively supplying fruits to warehouses across the country, each equipped with professional quality control personnel. These specialists meticulously scrutinize every batch of fruits arriving at the warehouse, assessing parameters such as appearance and net weight. Additionally, each batch is accompanied by a certificate of compliance, serving as

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a guarantee of quality. As part of our commitment to quality, our staff carry out rigorous visual inspections on each outgoing batch of fruits, ensuring that the fruits delivered to ChaPanda stores are of a high quality and freshness. In terms of fresh fruit storage, we adhere to best-practice guidelines, segregating fruits based on their ideal storage temperatures. This careful temperature control measure ensures optimal freshness and quality of our products.

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



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

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Senmian Facility

We have a manufacturing facility located in Chengdu, Sichuan under Senmian New Materials (“**Senmian Facility**”) with an aggregate area of approximately 11,120 square meters. It primarily focuses on the production of packaging materials used in our own tea drinks and sold to external purchasers, such as biodegradable straws made from plant-based polylactic acid (“**PLA**”), polybutylene succinate and mineral powder pursuant to the standard of GB/T 41008-2021 and biodegradable bags made from PBAT, PLA and mineral powder pursuant to the standard of GB/T 38082-2019. The biodegradable packaging materials manufactured by Senmian Facility are able to be decomposed into small molecules in a short period of time and be disposed in a harmless manner. Generally, biodegradable packaging materials manufactured by Senmian Facility will degrade within 180 days under the medium- or high-temperature condition (approximately 58°C) through industry composting processing. Biodegradable packaging materials manufactured by Senmian Facility will also degrade within a year in the open environment. Senmian Facility commenced production in 2021 and started to supply packaging materials to ChaPanda franchised store and self-operated stores since September 2021. In 2021, 2022 and 2023, 3.0%, 30.7% and 26.7% of the packaging materials supplied by us to ChaPanda stores in terms of sales value was supplied by Senmian Facility. Senmian Facility started to generate revenue from the sales of packaging materials to external customers since 2022. In 2022 and 2023, 6.0% and 11.0% of the packaging materials supplied by Senmian Facility in terms of sales volume was sold to external purchasers, respectively, contributing RMB9.6 million and RMB19.2 million, respectively, to our revenue for the same periods.

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

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

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

Note:

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

DIGITALIZATION

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

Supply Chain Digitalization

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

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

Operational Digitalization

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

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

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

Product Development Digitalization

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

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

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

Financial Management Digitalization

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

BRANDING AND MARKETING

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

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

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

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



- IP Marketing.* We leverage our brand IP, “ChaCha,” to promote our brand image. For instance, we design and launch a series of virtual images of “ChaCha,” such as emojis, which can be sent and shared on social networking platforms. By sharing these visual contents, we effectively increase our brand awareness and engage with target audience. We also launch creative merchandise, such as lifestyle products, featuring “ChaCha.” We promote our brand IP by sponsoring offline interactive activities, such as the Strawberry Music Festival in Chengdu. We also collaborate with key opinion leaders (“KOLs”) and influencers within the food, beverage, and lifestyle industries to increase the brand awareness.
- Crossover Collaborations.* We actively pursue crossover collaborations to broaden our reach and appeal to a diverse audience, effectively boosting our brand visibility and driving our product sales. For example, we collaborated with Dunhuang Museum to offer the exquisite Feitian Seeking Tea (飛天覓茶) hot drinks series in 2022. This collection features the artistic elements of Dunhuang celestial beings with traditional tea culture. Using Osmanthus Mao Feng, Longjing and Dahongpao as tea bases, the Feitian Seeking Tea series invites consumers to savor the elegance of national trend aesthetics. We also strategically explore crossover collaborations that align with the interests, latest trends and preferences of younger generations. For example, we work with the development team of Tear of Themis (未定事件簿), a popular mobile game in China, to launch themed product packages. Consumers may purchase themed product packages including cup sleeves, paper bags, stickers and postcards. We also add themed decoration in ChaPanda stores in 17 cities in China. Below are pictures of our representative crossover collaborations.



How We Protect Our Brand IP

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

- *IP Registration.* We strategically apply for trademarks, copyrights and patents based on our brand strategies and business needs. Various internal teams, such as the brand marketing team, digitalization team and research and development team, actively collaborate to identify valuable creative works for intellectual property application. This effort has resulted in the establishment of a rich repository of intellectual property rights, providing a solid foundation for our future business requirements. We have registered core trademarks in mainland China and Hong Kong, and have applied for registrations in countries like Thailand, South Korea and Australia. We have registered both domestic trademarks and international trademarks for our brand. In addition, we have also obtained copyrights for artworks and computer software works and have filed patent applications for inventions, utility model and design patents.
- *Anti-infringement Measures.* We conduct regular monitoring of similar trademarks globally. We engage intellectual property agents to conduct searches and monitor similar trademarks on a regular basis, monthly for overseas trademark registration and weekly for domestic trademark registration. We act against similar trademarks that meet certain criteria, such as filing objections, invalidating registrations and issuing notices of withdrawal. We closely monitor malicious trademark registrants and defend against registration attempts that infringe on our rights. We actively investigate infringement on our intellectual property rights, such as regularly monitoring the use of our trade name on major online platforms. Our nationwide franchisees and consumers also proactively report to us any discovery of similar or counterfeit stores. We take appropriate legal actions against such infringement, including administrative complaints, civil lawsuits, and criminal prosecutions. To ensure we do not infringe on competitors' intellectual property rights, we conduct intellectual property monitoring of major competing brands globally.

ChaPanda Membership Program

To better understand and cater to our consumers' needs, we launched the ChaPanda membership program in February 2021. We refer to members of this program as our "tea fans." We reward our dedicated clients through loyalty programs and incentivized referrals, fostering brand advocacy and solidifying consumer relationships. In particular, we grant a variety of rewards to our tea fans, such as birthday gifts, purchase discounts, personalized creative products and priority participation in our online and offline activities. This program allows us to continuously engage our loyal consumers, encourage repeat purchases and strengthen the bond between our brand and tea fans. Members can register for our program through various channels, including our Mini Program on Weixin, Ele.me, Meituan, DianPing and Alipay. As of the Latest Practicable Date, we had over 103.1 million registered members. Based on the age information voluntarily submitted by consumers when they register as members of our membership program, approximately 79.9% of such registered members are aged between 18 to 35 years old.

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

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

Our membership had grown rapidly since we launched the ChaPanda Membership Program in February 2021. We had over 103.1 million registered members as of the Latest Practicable Date. In the three months ended March 31, 2023, June 30, 2023, September 30, 2023 and December 31, 2023, we had approximately 16.1 million, 16.7 million, 20.4 million and 20.4 million active members, respectively, representing members that purchased our products through our Weixin Mini Program during the relevant periods. In the three months ended March 31, 2023, June 30, 2023 and September 30, 2023, 32.4%, 34.7% and 32.9% active members remained to be our active members in the next quarter, respectively. 35.0% of our active members made repeat purchases through our Weixin Mini Program in the fourth quarter of 2023.



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Consumer Opinions

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

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

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

OUR CUSTOMERS

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

OUR SUPPLIERS

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

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

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

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

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

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

USER PRIVACY AND DATA SECURITY

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

Cybersecurity review

There are various laws and regulations, such as the Cyber Security Law of the PRC and the Personal Information Protection Law of the PRC, which govern the collection, use, retention, sharing and security of the personal data. See also “Regulatory Overview—Regulations on Cyber Security, Information Security, Privacy and Data Protection” for details. On January 4, 2022, the CAC published the Revised CAC Measures on its website, which became effective on February 15, 2022. The Revised CAC Measures provide that a critical information infrastructure operator purchasing network products and services, and platform operators carrying out data processing activities which affect or may affect national security, must apply for cybersecurity review. The Revised CAC Measures also provide that a platform operator with more than one million users’ personal information aiming to list abroad must apply for cybersecurity review. As of the Latest Practicable Date, (i) we have not received any notice or determination from competent PRC government authorities identifying us as a critical information infrastructure operator; (ii) although we have possessed approximately 103.4 million users’ personal information, including approximately 103.1 million from registered members and approximately 0.3 million from franchisees, which is over one million users’ personal information, we intend to be listed in Hong Kong, not “listed abroad” (國外上市), which is confirmed by the China Cybersecurity Review Technology and Certification Center (the “CCRC”); (iii) we had not received any notification that the data we currently process has been determined to be important data or core data, nor had we received any notification from any regulatory authority regarding the identification of important data or core data; and (iv) we have not been involved in any investigation on data processing activities that affects or may affect national security, nor have we been involved in any investigation on cybersecurity review made by the PRC government authorities or received any inquiry, notice, warning or sanctions from the PRC government authorities. According to our phone consultation with the CCRC, an institution authorized by the CAC to conduct cybersecurity review, the CCRC verbally confirmed that “listed abroad” (國外上市) stipulated in the Revised CAC Measures does not include “listed in Hong Kong,” and further confirmed that we does not need to apply for a cybersecurity review for listing in Hong Kong.

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

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

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

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

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

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

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

FOOD SAFETY AND QUALITY CONTROL

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

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

Internal Food Safety Control Measures and Procedures

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

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

Store-Level Food Safety Control

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

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

- *Internal Training.* Our franchisees shall undertake to strengthen the training programs for store staff for food safety controls and improve their awareness in this regard. We hold training sessions for our franchisees during the onboarding process and their operation process, which covers the applicable laws, regulations, industry standards, internal policies, among others. In 2023, we held 189 training sessions of approximately 360 hours related to food safety and cashiering practice, which were attended by approximately 3,650 franchisees and store staff. For franchisees found to be non-compliant with our internal standards during our inspections, we organize training sessions where our inspectors provide on-site guidance to address their deficiencies, and in more severe cases, we may request temporary suspension of operations for corrective action, to ensure that the franchised stores consistently meet our quality requirements.

- *Operation Procedures.* We adopt a set of self-developed food safety and quality control standards in ChaPanda stores. Pursuant to such standards, store staff are required to strictly adhere to the procedures and protocols in connection with storage of ingredients, shelf life monitoring, store sanitation, staff health and personal hygiene, record keeping and documentation management, among others. If any food safety incidents occur during the store operation, the franchisees shall promptly inform us of such incidents and cooperate with us to investigate the incidents. After we conclude the food safety investigation, our franchisees shall follow our decisions and bear the related fees, expenses and/or liabilities.

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- *Inspection System.* Food safety is one of the key inspection areas in our store inspection procedure. We regularly conduct internal inspections over the operation of franchised stores regarding food safety issues. We deploy real-time CCTV monitoring to oversee store performance throughout opening and closing hours. We also conduct regular and ad-hoc on-site inspections to ensure that the franchisees uphold our standards in store management and food safety. The franchisee committee will also join the inspection and help us supervise food safety issues. Our store inspection covers key food safety aspects such as the storage of raw materials, the store staff's personal hygiene and health conditions, the food safety qualifications, the store hygiene conditions and if there is any negative publicities about the stores' food safety control. We take various rectifying measures for ChaPanda stores with food safety issues, ranging from written warning to store closure.

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

Quality Warranty and Recall Policies

Pursuant to the franchise agreements between our franchisees and us, as independent business entities, franchised ChaPanda stores shall be responsible for and deal with consumer complaints in relation to product quality issues and product recall during the store operation, including but not limited to the issues regarding food safety, hygiene, product quality, consumer right protection. For issues with low or medium risks and negative impacts, such as slow delivery, franchised ChaPanda stores are required to actively respond to consumers' demands and properly settle the disputes with consumers. For issues with high risks and negative impacts, such as food safety issues, franchised ChaPanda stores shall cooperate with our investigation, make rectifications according to our official views and guidance and carry out the official decisions made by us. Furthermore, if consumers make complaints about the product quality or food safety, ChaPanda stores will make refunds to the consumers. If, upon our investigation, the product defects are caused by the raw material supplies, we will require the raw material suppliers to compensate the refund amount directly to the accounts of relevant ChaPanda stores. If there are any product recalls due to product defect, we will demand the raw material suppliers to make compensation to us with respect to the recalled products.

BUSINESS

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

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

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

OUR INVENTORY MANAGEMENT

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

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

BUSINESS

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

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

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

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

SETTLEMENT AND CASH MANAGEMENT

ChaPanda stores offer various payment options for consumers, including cash and mobile payment tools such as Alipay, Weixin Pay and Union Pay. Our collaboration with multiple payment platforms and the similarity of their services ensure that we do not have a material reliance on any particular platform. Currently, the majority of consumers use mobile payment tools. Consumers may also purchase coupons from Douyin, Meituan and Dianping to be redeemed in ChaPanda stores. For online orders, payment on third-party delivery platforms and our Weixin Mini Program are processed by certified online payment service providers who are entirely independent from us.

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

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

BUSINESS

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

INSURANCE

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

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

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

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

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

ESG Governance

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

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

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

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

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

Risks and Opportunities Assessment

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

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

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

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

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

Environment

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

Metrics and Targets

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

The following table sets forth the metrics of the resources consumption at our office spaces, Senmian Facility and warehousing facilities for the periods indicated.

Electricity and Water Consumption

		For the year ended December 31,		
	Unit	2021	2022	2023
Electricity⁽¹⁾	<i>kWh</i>	1,195,875	5,259,275	9,261,549
Water	<i>m³</i>	8,300	19,786	26,988

Notes:

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

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Greenhouse Gas Emission

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

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

	For the year ended December 31,		
	2021	2022	2023
Total Greenhouse Gas			
Emission (tCO₂e)	685.0	3,012.0	5,297.9
Scope 1 (tCO ₂ e)	3.0	12.6	16.0
Scope 2 (tCO ₂ e)	682.0	2,999.4	5,281.9

During the Track Record Period, the annual fuel consumption was 1,334 liters, 5,667 liters and 7,196 liters, respectively, representing the amount of fuel used by the company-owned vehicles of our regional offices. The increase in the fuel consumption is due to the enlarged number of offices and the increased usage and amount of vehicles with our business development. We plan to initiate the assessment of our Scope 3 greenhouse gas emissions in 2024. We plan to reduce Scope 3 greenhouse gas emissions through the following key measures, among others: (i) to collaborate with suppliers who have lower carbon emissions per unit while maintaining the same product or service standards, (ii) to encourage employees to take public transportation, such as high-speed rail, during their business travels, and (iii) to have service providers use new energy vehicles with lower energy consumption per unit for delivery during upstream and downstream transportation and distribution. Moreover, we intend to work with upstream suppliers to minimize additional product processing in ChaPanda stores to reduce extra energy consumption associated with product sales. In addition, we plan to purchase more new energy vehicles to replace the current fuel vehicles to reduce unit energy consumption.

By the end of 2024, we plan to complete the data collection for 2023, which will be used as our data baseline for the future. We plan to complete the data collection for 2024 at the beginning of 2025.

With the expansion of our business in the near future, we expect the resource consumption will continue to fluctuate. For instance, as our office spaces are expected to further grow in the near future with our business expansion, we expect the overall electricity consumption may continue to grow. Once our business development becomes more stabilized, we will set down

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specific quantitative ESG targets with the reference to the actual business conditions and requirements as well as our aspiration to achieve ESG objectives. Based on the resource consumption data in 2023, we plan to reduce the per capita usage of electricity and water by approximately 5% by 2025, as measured by the cubic meter of water and kilowatt-hour of electricity consumed per capita. Based on the greenhouse gas emission data in 2023, we plan to reduce the per capital greenhouse gas emission (scope 1 and scope 2) by approximately 5% by 2025, as measured by the tCO₂e of greenhouse gas emission per capita. To this end, we implement various measures to reduce the resource consumption and stay compliant with respect to ESG matters.

- *Electricity Consumption.* We will continue to optimize the office space per capita to reduce the use of electrical appliances and save electricity by using energy-saving equipment and improving electricity management. We will make efforts in saving electricity during daily operations, such as managing the use of lighting in office areas, controlling the temperature in office areas, using voice-activated lights in production areas and cultivating and raising employees' awareness of energy conservation. We also promote environmental-friendly equipment and facilities in stores, such as energy-saving air conditioners.
- *Water Consumption.* We will further reduce the consumption of water in the office spaces during daily operation and advocate water conservation in stores. To avoid excessive water consumption, we have increased the number of drinking water purification equipment with sensor faucet and used recycling water in our air-conditioners. We discharge sewage from the production areas after it meets the discharge standards and recycle the rainwater in the production areas for secondary use. The store employees shall regularly inspect store equipment to prevent water leakage.
- *Emission of Greenhouse Gas.* We promote the concept of low carbon and environment protection into daily business operations and advocate emission reduction among employees. We aim to take environmental-friendly measures in our business trip arrangement and minimize the use of company-owned vehicles, as well as decrease the consumption of electricity at our headquarter and in ChaPanda stores. We set down the Notice on Advocating Green and Energy-saving Office as our internal guideline and improve the management of wastes and resources recycling in terms of office materials, electricity, water consumption and vehicle use.

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

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

Environmental Protection Initiatives

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

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

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

- *Energy Saving Measures.* During the Track Record Period, we have been progressively optimizing the design of ChaPanda stores to maximize the use of natural lighting and minimize electricity consumption. We also put into use environmentally friendly equipment and facilities in ChaPanda stores, such as energy-efficient air conditioning systems. In addition, we require regular inspections of equipment such as ice-making machines in stores to prevent water leakage. To further our environmental protection efforts, we plan to promote the use of store equipment that reduces energy consumption by approximately 1%-3%, such as ice makers and water purifiers.
- *Green Materials.* We make every effort to promote, use and manufacture sustainable, environmental-friendly materials, such as the launch, introduction and use of biodegradable straws, bags and cutlery as well as PLA-coated paper cups, paper cup lids and sealing films in ChaPanda stores.

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- *Other Joint Efforts.* In our franchisee evaluation process, we consider franchisees' ESG efforts as a key factor in assessing their performance. Meanwhile, pursuant to the collaboration with Alipay, consumers may enjoy discounts in ChaPanda stores if they show the record of their participation in environment protection activities on Alipay. We also collaborate with Baby Kangaroo Charity to make social charity donations and promote consumers' awareness for environment protection.

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

- *Policy and regulations.* We have established a comprehensive set of policies and regulations that prioritize green production and sustainable practices. For instance, we require Senmian Facility to prioritize the use of renewable and highly biodegradable materials, such as starch and cellulose. We cooperate with suppliers to ensure the environmental friendliness of raw materials and avoid using materials that contain harmful substances. We establish a comprehensive quality management system to ensure stable and reliable product quality. In particular, through the testing and evaluation of the biodegradability of products, we aim to ensure the products do not have a negative impact on the environment. We strictly comply with national environmental protection laws and regulations, strengthen the construction of environmental protection facilities, and ensure that pollution emissions during production meet national standards. In addition, we also raise employees' awareness of environmental protection through internal trainings. These guidelines outline the environmental protection standards and requirements to be followed in both the production process and warehousing operations. They encompass reducing waste and pollutant emissions, enhancing resource efficiency and implementing sustainable practices across the board. We built a wastewater treatment pool with a volume of 50m² to process the wastewater and sewage from the production facility. The production facilities contain hazardous solid waste storage areas covering an area of 30m². The waste gas during the production process is collected by an enclosed exhaust and directed to an absorption tower and carbon treatment device before being emitted through a 15m chimney.
- *Environmental management system.* We have implemented an advanced environmental management system, including ISO 14001 certification, to effectively monitor and manage the environmental impact of our operations. Through regular assessments and monitoring, we ensure that any environmental issues arising from both the production and warehousing processes are promptly identified and addressed.

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- *Energy efficiency and emissions reduction.* We are committed to optimizing energy efficiency and minimizing emissions in both our production process and warehousing operations. This involves the adoption of energy-saving technologies, equipment, and practices to reduce energy consumption and carbon emissions. To reduce electricity consumption, we mainly select the high-power equipment in the production process, such as molding machines, from the Catalogue of Recommended Energy-Saving Mechanical and Electrical Equipment/ Products issued by the PRC Ministry of Industry and Information Technology. Our molding machines adopt induction heating technology based on current/magnet heating, which reduces the heat loss associated with traditional resistance heating methods, thereby saving electricity. Moreover, when producing bags, our staff manually roll the film onto the bag-making machine, where it is automatically cut into segments and sealed using electric heating. Because our bag-making machine maintains an approximately 80°C heating temperature and a 0.5-second heating time, the entire process does not produce waste gas.
- *Waste management and recycling.* We prioritize waste reduction and recycling efforts in both our production process and warehousing facilities. This includes implementing proper waste segregation practices, promoting recycling programs, and collaborating with certified waste management partners to ensure responsible disposal of waste materials. We strive to minimize waste generation and maximize recycling rates wherever possible.
- *Environmental training and education.* We actively provide environmental training and educational programs to our employees in both the production and warehousing teams. These initiatives focus on increasing awareness, fostering a culture of sustainability, and encouraging environmentally conscious behavior. By equipping our staff with knowledge about sustainable practices, we empower them to actively contribute to our ESG goals in their day-to-day activities.

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

Governance

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

Franchisee Management

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

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

We continuously improve the franchisee management system and support franchisees in improving their ESG management level and performance through management assessments, training and empowerment. As of December 31, 2023, our ChaPanda Professional Training School was supported by 16 training centers across China and over 140 designated professional tutors, aiming to provide effective guidance for our franchisees nationwide. Additionally, we established franchisee committees to provide professional assistance and guidance to local stores. Moreover, we also proactively introduce intelligent and efficient equipment for franchisees nationwide to reduce the burden of cumbersome manual operations for store employees.

Supply Chain

We maintain a list of qualified suppliers for raw materials and an abundant pool of alternative suppliers to ensure the stability and quality of our supply chain. As of the Latest Practicable Date, we collaborated with 273 suppliers and maintained a reserve of 263 alternative suppliers to serve as backups.

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

- *Internal Management Structure.* We establish a designated procurement department to oversee the supply chain, consisting of specialized teams for food, packaging and other disposable materials and equipment. Each of these specialized teams is responsible for the selection and assessment of suppliers, procurement planning and budget, contract management and procurement team development and training. Before the procurement of materials, our staff is required to submit procurement applications to specify the quantity, price and other specifications of the goods to be purchased. Before the order placement, we conduct a quality check on the sample products to inspect their quality standards.

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- *Strict Admission Standards.* We implement strict admission mechanisms for our suppliers. They are required to complete sample testing, qualification document verification, and on-site audits to be qualified for trial. Only when their performance assessment during the trial period is satisfactory for three consecutive months can they eventually become a qualified supplier.
- *Ongoing Compliance.* During the regular supply process, our suppliers are required to undergo a pesticide residue testing for each batch of supplies and obtain a compliance certificate.
- *Periodic Assessment.* We perform monthly performance assessments of suppliers and will categorize our suppliers into three tiers, i.e. A, B and C, based on assessment over the quality of their supply, among others. We will also provide improvement guidance for suppliers who failed to meet our standards and keep records of their improvement process. We terminate relationships with the suppliers who are categorized as Grade C for two consecutive years, have repetitive quality issues, or have other material issues such as fraud.
- *Product Management.* To discharge our social responsibility in terms of product quality and food safety, we categorize the purchased goods and equipment based on their individualized requirements for storage conditions and safety standards. For instance, we label the products with high food safety risks, such as tea leaves and sugar, as the high-risk products to be stored in appropriate conditions.
- *Staff Integrity.* We hold high standard for our employees in the supply chain management system. We require our supply chain management team to observe the principles of openness, fairness and justness in dealing with external suppliers and with internal matters. We evaluate the performance of these staff on a monthly basis and provide periodic trainings to improve their skills.

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

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

Food Safety

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

(1) *Compliance and food quality confirmation:*

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

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

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

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(3) *Store management and inspection:*

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

(4) *Quality analysis and improvement:*

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

Food Waste Management

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

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recycling practices to ensure the success of our recycling efforts. We display informational materials like posters and brochures in visible areas to raise awareness and provide guidance on proper recycling procedures. Additionally, store employees receive regular training sessions to stay updated on the latest recycling guidelines and best practices.

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

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

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

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

Social Responsibilities

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

Employee Caring Initiatives

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

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

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

Social Charitable Efforts

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

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

Our efforts to support local tea industry and rural revitalization

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

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

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

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

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

Our efforts to relieve the impact of natural disasters and pandemics

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

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

- In 2021, we donated RMB2.7 million to local communities in Shanxi and Shaanxi Provinces to fight against local flood disasters.
- In 2022, we partnered with the Sichuan Youth Development Foundation and established ChaPanda Special Public Welfare Fund for which we have made the RMB1.0 million initial capital contribution. Following the earthquake in Luding, Sichuan, we donated RMB100 thousand to help local families survive the winter season with the necessities provided by us. We converted the local ChaPanda store in Luding as a rescue station where we provided free drinks, beds, charging services and local guide services to local police, firefighters, medical personnel, news reporters and rescue volunteers.

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- During the COVID-19 pandemic, we distributed free drinks and epidemic prevention materials to medical personnel and volunteers in dozens of regions across China, including Sichuan, Hubei and Guangxi. We reduced or waived management fees and packaging materials expenses for a number of ChaPanda stores for an amount of approximately RMB20.0 million.
- In 2023, we donated RMB10.0 million to the official charitable foundations in Beijing and Hebei Province to aid the emergency rescue, purchase rescue equipment and reconstruct local households after a severe rainfall and flood took place in August. In addition, we entered into a donation agreement with China Rural Area Development Fund in August 2023, pursuant to which we agreed to donate a total of RMB5.0 million to support social charity programs.

Our efforts to advance public welfare activities

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

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

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

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

PROPERTIES

Owned Properties

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

As of December 31, 2023, we had no single property with a carrying amount of 15% or more of our total assets, and on this basis, we are not required by Rule 5.01A of the Listing Rules to include in this Prospectus any valuation report. Pursuant to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this Prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

Leased Properties

As of the Latest Practicable Date, we had entered into 61 lease agreements to lease properties with an aggregate floor area of approximately 66,660 sq.m. from third parties, mainly for our warehousing spaces, office spaces and self-operated ChaPanda stores. The leases generally have a term ranging from two to five years. We will consider renewing the leases upon their expiry.

Leased Properties with Title Defects

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

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

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

Lease Registration

As of the Latest Practicable Date, 48 lease agreements had not been registered and filed with the relevant land and real estate administration bureaus in the PRC because the relevant lessors failed to provide necessary documents for us to register the leases with the local government authorities.

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

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

BUSINESS

INTELLECTUAL PROPERTY

We currently operate our retail network under the ChaPanda brand. As of the Latest Practicable Date, we had registered 28 patents, 467 trademarks, 58 copyrights and seven software copyrights in China. For details, see “Appendix VI—Statutory and General Information—2. Further Information about Our Business—B. Our Intellectual Property Rights.”

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

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

OUR EMPLOYEES

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

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

BUSINESS

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

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

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

COMPETITION

The freshly-made tea shops industry in China is highly competitive. In 2023, the market size of China’s freshly-made tea shop market was RMB247.3 billion, with the top five players collectively accounting for approximately 40.2% of the market share in terms of retail sales value, according to Frost & Sullivan. Our ChaPanda brand ranked third with a market share of approximately 6.8%. We are faced with increasingly intense competition with other leading players in various aspects of our business, including product innovation, product quality, consumer experience as well as consumer acquisition and retention. The competition may be increasingly intense in the future due to the growing number of freshly-made tea shop brands and the lack of clear differentiation in product offerings, pricing and other key aspects among these brands. The proximity of freshly-made tea shops under different brands in adjacent areas also contributes to heightened competition.

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

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

LEGAL PROCEEDINGS AND NON-COMPLIANCE

We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business involving employment, copyrights, contract disputes and other matters. Our Directors, as advised by our PRC Legal Advisor, confirm that during the Track Record Period and up to the Latest Practicable Date, we had not been and were not a party to any material legal, arbitral, administrative proceedings or non-compliance incidents that led to fines, enforcement actions or other penalties, which could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations. Our Directors are of the view that, we had complied, in all material respects, with all relevant laws and regulations in the PRC during the Track Record Period and up to the Latest Practicable Date.

Social Insurance and Housing Provident Funds

Background and Reasons for Noncompliance

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

Potential Legal Consequences

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

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

Latest Status and Remedial Measures

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

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

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

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

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

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

Compliance Status of Franchised Stores and Self-operated Stores

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

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

According to the franchise agreement, the franchisees shall obtain required licenses and permits for store operation before the launch of new stores and shall be liable for any violation of applicable laws and regulations. Franchisees shall be responsible for covering economic losses resulting from penalties imposed by the relevant government authority due to their violation of relevant laws and regulations. In addition, if (i) any franchisee is penalized due to any breach of contract, such as failure to comply with our inspection standards, or (ii) any food, hygiene, product quality and consumer right protection issue takes place, we shall have the right to terminate our franchise agreements with such franchisee. According to the Food Safety Law, operating a franchised store without obtaining the required food business license incurs penalties. If the value of the food products involved in the illegal production and operation is less than RMB10,000, a fine ranging from RMB50,000 to RMB100,000 shall be imposed. If the value exceeds RMB10,000, the fine will be ten to twenty times the value of the goods. Considering that (i) the non-compliant franchised stores constitute an insignificant portion in terms of number and revenue contribution, (ii) the non-compliance has been rectified, and (iii) no penalty has been imposed for such non-compliance, our PRC Legal Advisor is of the view that such non-compliance would not have a material impact on us.

To better monitor the franchised stores to comply with the relevant laws or regulations, we have established food safety risk management policy effective from November 2022, which specifies the inspection scopes, standards and responsibilities relevant to the franchisees' licenses and certificates. We require our franchisees to strictly follow our control measures in terms of license and certificate requirements. Pursuant to the updated terms set forth in the franchise agreements, franchisees shall submit the hard copies or photocopies of licenses and certificates required by the applicable laws and regulations to us for review and record within three days after they obtain such documents. We also conduct or appoint third-party inspection companies to conduct on-site inspection to check the compliance status of franchised stores. In April 2023, we engaged an independent consulting firm ("**Internal Control Consultant**") to perform a review over our internal control from January 2022 to March 2023. The Internal Control Consultant has had no further recommendations in this regard. We undertake to require all new stores to be opened in the future will not commence operations unless all necessary permits and licenses for business operations have been obtained.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

In April 2023, we engaged the independent Internal Control Consultant to perform a review over our internal control from January 2022 to March 2023.

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

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

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

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

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

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

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

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

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

Third-party Payment Arrangement

Background

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

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

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

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

Reasons for Utilizing Third-party Payment Arrangement

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

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

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

Termination and Implication of Third-party Payment Arrangement

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

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

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

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

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

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Internal Control Measures

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

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

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

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board consists of eight Directors, four of whom are executive Directors, one of whom is a non-executive Director, and three of whom are Independent non-executive Directors. Our Directors serve a term of three years and may be re-elected for successive reappointments. Our Board is responsible and has general powers for the management and conduct of our business. The table below sets forth certain information in respect of the members of the Board:

Name	Age	Time of joining the Group	Date of appointment as a Director	Position for the current tenure	Responsibility
Mr. Wang Xiaokun (王霄鋸) ^{Note 1}	41	December 2007	December 31, 2020	Chairman of the Board and executive Director	Responsible for formulating the overall development strategies and business plans of our Group and overseeing the management and strategic development of our Group
Mr. Wang Hongxue (汪紅學).	32	June 2016	December 31, 2020	Executive Director and general manager (president)	Responsible for the overall management and operation of the operation centers of our Group in all levels, including the operation teams construction, standardized internal management construction, investment expansion, franchisee training, delivery, and store supervision and management
Ms. Dai Li (戴利).	37	April 2013	December 31, 2020	Executive Director and deputy general manager (centralized management center)	Responsible for the overall management and operation of the centralized management center of our Group including organizing administrative and logistical management, engineering and construction management
Mr. Chen Keyuan (陳克遠).	47	July 2018	December 31, 2020	Executive Director and head of the legal and internal control center of the Group	Responsible for the legal and internal control matters of our Group

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Time of joining the Group	Date of appointment as a Director	Position for the current tenure	Responsibility
Dr. Chen Da (陳達)	41	May 2023	May 22, 2023	Non-executive Director	Responsible for providing management and strategic advice to our Group
Mr. Yeung Chi Tat (楊志達)	54	August 2023	August 10, 2023 ^{Note 2}	Independent non-executive Director	Responsible for providing independent advice on the operation and management of our Company
Dr. Tang Yong (唐勇)	47	August 2023	August 10, 2023 ^{Note 2}	Independent non-executive Director	Responsible for providing independent advice on the operation and management of our Company
Ms. Cheng Li (程麗)	63	August 2023	August 10, 2023 ^{Note 2}	Independent non-executive Director	Responsible for providing independent advice on the operation and management of our Company

Note 1: Mr. Wang, our Chairman and executive Director, and Ms. Liu, our Supervisor, are spouses. Mr. Zhang Yu, our Supervisor, is a cousin of Mr. Wang. Save as disclosed above, each of our Directors had no relationship with other Directors, Supervisors or senior management members of our Company as of the Latest Practicable Date.

Note 2: The appointment will become effective upon the Listing.

DIRECTORS

Executive Directors

Mr. Wang Xiaokun (王霄錕), aged 41, is our Founder, our Chairman of the Board, executive Director and one of the Controlling Shareholders. Mr. Wang has been the Chairman of the Board and our Director since the establishment of our Company, and has been serving as the legal representative at certain of our subsidiaries. He is primarily responsible for formulating the overall development strategies and business plans of our Group and overseeing the management and strategic development of our Group.

Mr. Wang launched our first ChaPanda store in Chengdu in 2008 and has been deeply involved in the freshly-made tea drink industry for over 15 years. Mr. Wang has been spearheading the Company's research and development efforts that have led to the launches of products such as Milk Herbal Jelly (牛奶燒仙草) and tiramisu milkshakes (提拉米蘇冰沙). With a thorough understanding of the industry trends, business cooperation and marketing of the brand, Mr. Wang, as a product perfectionist, has steered our growth into a distinguished freshly-made tea drinks operator in China.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Wang was awarded as an Outstanding Entrepreneur (優秀企業家) by the People's Government of Qingbaijiang District, Chengdu in January 2023. Mr. Wang was also named as the 2022 China Rural Revitalization and Enrichment Leader (2022年度中國鄉村振興致富帶頭人) by the China Food Safety and Quality Committee (中國食品安全高質量組委會) in December 2022, and was elected as an evaluator by China Beverage Express (中國飲品快報) and Changjiang Press Media Group (長江報刊傳媒集團) in 2016.

Mr. Wang Hongxue (汪紅學), aged 32, is an executive Director and the general manager (president) of our Company. Mr. Wang Hongxue was appointed as our Director since the establishment of our Company, was re-designated as our executive Director and appointed as the general manager (president) of our Company in August 2023. He is primarily responsible for the overall management and operation of the operation centers of our Group in all levels, including the operation teams construction, standardized internal management construction, investment expansion, franchisee training, delivery, and store supervision and management. Mr. Wang Hongxue has been serving as the legal representative, general manager, director or supervisor at certain of our subsidiaries.

Mr. Wang Hongxue joined our Group in June 2016 and has been engaging in the management of our Group's business operations. He has successively served as an operation director, vice president of operation, and the general manager (president) of our Group. Mr. Wang Hongxue accumulated extensive experience in store operation and management from his working experience in catering industry prior to joining the Group in 2016.

Mr. Wang Hongxue is currently pursuing his diploma in business administration (long distance learning courses) at The Open University of China (國家開放大學) in Beijing, PRC.

Ms. Dai Li (戴利), aged 37, is an executive Director and the deputy general manager (centralized management center) of our Company. She was appointed as our Director and a deputy general manager since the establishment of our Company and was re-designated as our executive Director and appointed as the deputy general manager of the centralized management center of our Company in August 2023. She is primarily responsible for the overall management and operation of the centralized management center of our Group including organizing administrative and logistical management, engineering and construction management. Ms. Dai has been serving as the legal representative, general manager, director or supervisor at certain of our subsidiaries.

Ms. Dai joined our Group in April 2013, and she has successively served various roles in our Group, including as a manager of ChaPanda stores, the head of supply chain and head of digitalization of our Group.

Ms. Dai graduated from Chengdu Normal University (成都師範大學, formerly known as Sichuan College of Education, 四川教育學院) in the PRC majoring in legal affairs in June 2008.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Chen Keyuan (陳克遠), aged 47, is an executive Director and head of the legal and internal control center of the Group. Mr. Chen was appointed as our Director since the establishment of our Company and was re-designated as our executive Director in August 2023. He is primarily responsible for the legal and internal control affairs of our Group. Mr. Chen has been serving as the legal representative, general manager, director or supervisor at certain of our subsidiaries.

Mr. Chen joined our Group as the director of the financial center of our Group in July 2018. Prior to joining our Group, Mr. Chen served as a chief financial officer of Sichuan Huitian Industrial Group Co., Ltd.* (四川惠田實業集團有限公司) from May 2015 to June 2018 and served as a finance manager of Chengdu Asia Pacific Environmental Protection Technology Co., Ltd.* (成都亞太環保科技股份有限公司) from March 2012 to April 2015.

Mr. Chen received his bachelor's degree in accounting in July 2018 (online education) from Cyber Educational College of Southwest Jiaotong University (西南交通大學) in the PRC. Mr. Chen also obtained a college's diploma in financial management and computer accounting from Sichuan University (四川大學) in the PRC in June 2001. Mr. Chen was accredited as a senior economist by Department of Human Resources and Social Security of Sichuan Province (四川省人力資源和社會保障廳) in July 2021. Mr. Chen also obtained the International Certified Public Accountant (ICPA) certificate in February 2023 jointly accredited by Enterprise Financial Management Association of China (中國企業財務管理協會) and International Association of Accounting Professionals (IAAP).

Non-executive Director

Dr. Chen Da (陳達), aged 41, is a non-executive Director. Dr. Chen was appointed as our Director in May 2023 and was re-designated as a non-executive Director in August 2023. He is primarily responsible for providing management and strategic advice to our Group.

Dr. Chen joined Orchid Asia Group Management, Limited (蘭馨亞洲投資集團), a private equity investment firm, in November 2009 and currently serves as its managing director and is primarily responsible for conducting feasibility study on potential private equity investment projects. He has also served as a general manager at Tianjin Orchid Investment Management Co., Ltd. (天津蘭馨投資管理有限公司), a company principally engaged in investment management and consulting, since October 2016. Dr. Chen had served as a director of Chahua Modern Housewares Co., Ltd. (茶花現代家居用品股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603615) until March 2019. Dr. Chen currently also serves as a director in the following companies: Colori Inc. (克勞麗化妝品股份有限公司) since March 2020; Weimeizi (Guangdong) Co., Ltd. (薇美姿實業(廣東)股份有限公司) since July 2016; Shenzhen Qianyu Technology Co., Ltd. (深圳市千譽科技有限公司) since June 2021; and Beijing QuestMobile Co., Ltd. * (北京貴士信息科技有限公司) since July 2020.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Dr. Chen received his bachelor's degree in management majoring in accounting and doctoral degree in accounting from Xiamen University (廈門大學) in the PRC in July 2004 and December 2009, respectively. In May 2017, he also obtained the qualification of practicing funds related business from the Asset Management Association of China (中國證券投資基金業協會).

Independent non-executive Directors

Mr. Yeung Chi Tat (楊志達), aged 54, was appointed as an independent non-executive Director in August 2023 effective from the Listing Date. He is primarily responsible for providing independent advice on the operation and management of our Company.

Mr. Yeung has approximately 30 years of experience in audit, financing and accounting industries. He is the President (2022-2023) of the Hong Kong Independent Non-executive Director Association. He has been the chief financial officer and the company secretary at Solargiga Energy Holdings Limited (陽光能源控股有限公司), a company listed on the Stock Exchange (stock code: 757), since December 2021. Prior to joining our Group, Mr. Yeung had positions in various companies, including the Hong Kong office of KPMG as an audit manager, Dynasty Fine Wines Group Limited (王朝酒業集團有限公司), a company listed on the Stock Exchange (stock code: 828), as financial controller and the company secretary, and ANTA Sports Products Limited (安踏體育用品有限公司), a company listed on the Stock Exchange (stock code: 2020), as a vice president. Mr. Yeung also served as an independent director or an independent non-executive director of ANTA Sports Products Limited (安踏體育用品有限公司), a company listed on the Stock Exchange (stock code: 2020), Boer Power Holdings Limited (博耳電力控股有限公司), a company listed on the Stock Exchange (stock code: 1685), New Hope Dairy Holdings Co., Ltd. (新希望乳業股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002946), and Guodian Technology & Environment Group Corporation Limited (國電科技環保集團股份有限公司), a company formerly listed on the Stock Exchange (stock code: 1296), from February 2007 to June 2018, from September 2010 to June 2020, from December 2016 to May 2023 and from August 2017 to June 2022, respectively. He has been serving as an independent non-executive director of Sitoy Group Holdings Limited (時代集團控股有限公司), a company listed on the Stock Exchange (stock code: 1023), ZO Future Group (大象未來集團) (formerly known as Birmingham Sports Holdings Limited (伯明翰體育控股有限公司)), a company listed on the Stock Exchange (stock code: 2309), Beijing Capital Grand Limited (首創鉅大有限公司), a company listed on the Stock Exchange (stock code: 1329), ImmuneOnco Biopharmaceuticals (Shanghai) Inc. (宜明昂科生物醫藥技術(上海)股份有限公司), a company listed on the Stock Exchange (stock code: 1541) and Shiyue Daotian Group Co., Ltd. (十月稻田集團股份有限公司), a company listed on the Stock Exchange (stock code: 9676), since November 2011, November 2019, May 2023, June 2022 and October 2023, respectively.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

He obtained a bachelor's degree in business administration from the University of Hong Kong in November 1993 and a master's degree in professional accounting with distinction from Hong Kong Polytechnic University (香港理工大學) in August 2004. He has been a fellow member of the Institute of Chartered Accountants in England and Wales since October 2017, the Hong Kong Institute of Certified Public Accountants since December 2003 and the Association of Chartered Certified Accountants since September 2002.

Dr. Tang Yong (唐勇), aged 47, was appointed as an independent non-executive Director in August 2023 effective from the Listing Date. He is primarily responsible for providing independent advice on the operation and management of our Company.

Dr. Tang has been serving as the director of the Food Industry Integration Innovation Center (食品產業融合創新中心) since May 2021 and a professor of School of Food and Bioengineering of Xihua University (西華大學) since December 2021. He has been a visiting scholar in University of Guelph in Canada from November 2015 to November 2016. He served as an assistant professor from 2002 to 2005, a lecturer from 2005 to 2011, and an associate professor from 2011 to 2014 in the Department of Nutrition and Food Hygiene of the Army Medical University (中國人民解放軍陸軍軍醫大學, formerly known as the Third Military Medical University (中國人民解放軍第三軍醫大學)).

Dr. Tang received his bachelor's degree in engineering majoring in food science and engineering in July 1999 and his master's degree in engineering majoring in agricultural products processing and storage in June 2002 from Southwest University (西南大學, formerly known as Southwest Agricultural University (西南農業大學)) in the PRC. Dr. Tang received his doctoral degree in medicine majoring in nutrition and food hygiene in December 2008 from the Army Medical University (中國人民解放軍陸軍軍醫大學, formerly known as the Third Military Medical University (中國人民解放軍第三軍醫大學)) in the PRC.

Dr. Tang was awarded as a Stanford Innovation and Entrepreneurship Mentor certified by the Stanford Center for Professional Development (SCPD). He is also a national food safety forensic expert under the justice system, a key contact member of the Hong Kong, Macau, Taiwan and Foreign Affairs Committee of the Sichuan Committee of Chinese People's Political Consultative Conference (中國人民政治協商會議四川省委員會港澳台僑及外事委員會), a special expert of the Sichuan Provincial Returned Overseas Chinese Federation (四川省歸國華僑聯合會), an expert member of the Sichuan Food Safety Commission Office (四川省食品安全委員會辦公室), a board member of the Sichuan Food Safety Association (四川省食品安全學會), a board member of the Sichuan Nutrition Association (四川省營養學會).

Ms. Cheng Li (程麗), aged 63, was appointed as an independent non-executive Director in August 2023 effective from the Listing Date. She is primarily responsible for providing independent advice on the operation and management of our Company.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Cheng is a senior partner of Commerce & Finance Law Offices (通商律師事務所) and a practicing lawyer in the PRC. She joined Commerce & Finance Law Offices (通商律師事務所) in 1995 and was promoted as a partner in 2002. Ms. Cheng was an independent non-executive Director in the following companies: Beijing Bashi Media Co., Ltd. (北京巴士傳媒股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600386), from June 2008 to July 2014; China Shineway Pharmaceutical Group Limited (中國神威藥業集團有限公司), a company listed on the Stock Exchange (stock code: 2877), from 2006 to April 2023; and SDIC Capital Co., Ltd. (國投資本股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600061), from July 2019 to April 2023. Ms. Cheng has been an independent non-executive director in the following companies: Thunder Software Technology Co., Ltd. (中科創達軟件股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300496) since July 2018; Shanghai General Healthy Information And Technology Co., Ltd. (上海健麾信息技術股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 605186) since February 2019; Limin Group Co., Ltd. (利民控股集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002734) since March 2021; and Beijing Bashi Media Co., Ltd. (北京巴士傳媒股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600386) since June 2020.

Ms. Cheng received both her bachelor's degree and her master's degree in legal science from Japan Special Training University (日本專修大學) in Japan in March 1995 and March 1998, respectively. She obtained the 17th Qualification Certificate for Independent Directors of Listed Companies and the Follow-up Training Certificates (Second Session of 2013 and Fourth Session of 2021) for Independent Directors of Listed Companies issued by the Shanghai Stock Exchange in August 2011, May 2013 and December 2021, respectively. She was awarded the title of "Beijing Outstanding Lawyer Returned after Studying Abroad" by Beijing Lawyers Association in January 2012, and was selected as one of the Top 15 Female Lawyers in China by LegalBand Clients 2020 in March 2020.

SUPERVISORS

The PRC Company Law requires a joint-stock limited company to establish a board of supervisors. Our Supervisory Committee currently consists of three supervisors, one of whom is the chairwoman of our Supervisory Committee. Pursuant to our Articles of Association, at least one-third of our supervisors must be employee representatives elected by our employees. We have one employee representative supervisor elected by our employees and two shareholder representative supervisors elected and appointed by our Shareholders at the Shareholders' meeting.

Each of the supervisors is appointed for a term of three years which is renewable upon re-election and re-appointment. Pursuant to the Articles of Association, the functions and powers of the board of supervisors include, among other things, reviewing the financial management of our Company, supervising the performance of our Directors and senior management members, and monitoring as to whether they comply with the law, administrative stipulations and Articles of Association when performing their duties, requesting Directors and senior management members to rectify actions detrimental to our Company's interests. In addition, our board of supervisors is responsible for exercising other powers, functions and duties in accordance with the Articles of Association, and all applicable laws and regulations.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table sets forth the key information of our Supervisors:

Name	Age	Time of joining the Group	Date of appointment as a Supervisor	Position for the current tenure	Responsibility
Ms. Liu Weihong (劉洧宏) ^{Note 1}	43	December 2007	May 12, 2021	Chairwoman of the Supervisory Committee	Responsible for the daily management of the Supervisory Committee and supervising the daily operation of the Group
Mr. Zhu Mingxing (朱明星)	42	January 2021	May 12, 2021	Supervisor	Responsible for the daily management of the Supervisory Committee and supervising the daily operation of the Group
Mr. Zhang Yu (張禹) ^{Note 1}	29	January 2018	December 31, 2020	Supervisor	Responsible for the daily management of the Supervisory Committee and supervising the daily operation of the Group

Note 1: Mr. Wang, our Chairman and executive Director and Ms. Liu, our Supervisor, are spouses. Mr. Zhang Yu, our Supervisor, is a cousin of Mr. Wang. Saved as disclosed above, each of our Supervisors had no relationship with other Directors, Supervisors or senior management members of our Company as of the Latest Practicable Date.

Ms. Liu Weihong (劉洧宏), aged 43, is our Founder, Supervisor and one of the Controlling Shareholders. She has been a Supervisor and Chairwoman of the Supervisory Committee since May 2021. Ms. Liu is primarily responsible for the daily management of the Supervisory Committee and supervising the daily operation of the Group. Ms. Liu has been serving as the supervisor at certain of our subsidiaries.

Ms. Liu, with her spouse, Mr. Wang launched our first ChaPanda store under the brand “ChaBaiDao (茶百道)” in 2008. Since then, leveraging on her over 15 years of experience in the field of freshly-made tea drinks, Ms. Liu played a vital role in the development of our Company as a leading freshly-made tea drink brand in China.

Ms. Liu received her bachelor’s degree in medicine majoring in clinical medicine of traditional Chinese and western medicine in July 2005 from Chengdu University of Traditional Chinese Medicine (成都中醫藥大學) in the PRC.

Mr. Zhu Mingxing (朱明星), aged 42, has been a Supervisor of our Company since May 2021. In addition to a supervisorship held with our Company, he has been the director of R&D since January 2021. He is primarily responsible for the daily management of the Supervisory Committee and supervising the daily operation of the Group.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Prior to joining our Group, Mr. Zhu was the founder of Morefree Heart Bakery in Jinjiang District (錦江區茉啡之心烘培店) from December 2019 to January 2021. He served as a product director of Guangzhou Biaoding Catering Management Co., Ltd.* (廣州市標頂餐飲管理有限公司) from March 2017 to December 2019, where he was responsible for research and development.

Mr. Zhu graduated from Hubei Enshi Polytechnic (湖北恩施職業技術學院) majoring in financial and accounting in June 1999 in the PRC.

Mr. Zhang Yu (張禹), aged 29, has been an Employee Representative Supervisor of our Company since the establishment of our Company. In addition to a supervisorship held with our Company, he has been the senior R&D manager of the Group since January 2018, contributing to the successful launches of our several seasonal and regional tea drinks. Prior to joining the Group, Mr. Zhang was engaged in catering businesses in the PRC. He is primarily responsible for the daily management of the Supervisory Committee and supervising the daily operation of the Group. Mr. Zhang has been serving as the supervisor at certain of our subsidiaries.

SENIOR MANAGEMENT

Our senior management is responsible for our day-to-day management and business operation.

The following table sets forth the key information of our senior management:

<u>Name</u>	<u>Age</u>	<u>Time of joining the Group</u>	<u>Date of appointment as senior management</u>	<u>Position for the current tenure</u>	<u>Responsibility</u>
Mr. Wang Hongxue (汪紅學).	32	June 2016	August 2023	Executive Director and general manager (president)	Responsible for the overall management and operation of the operation centers of our Group in all levels, including the operation teams construction, standardized internal management construction, investment expansion, franchisee training, delivery, and store supervision and management

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Time of joining the Group	Date of appointment as senior management	Position for the current tenure	Responsibility
Ms. Dai Li (戴利)	37	April 2013	August 2023	Executive Director and deputy general manager (centralized management center)	Responsible for the overall management and operation of the centralized management center of our Group including organizing administrative and logistical management, engineering and construction management
Dr. Zhang Rui (張睿)	45	March 2022	August 2023	Deputy general manager (digitalization center)	Responsible for the overall management and operation of the digitalization center of the Company
Mr. Zhou Dapeng (周大鵬)	45	May 2021	August 2023	Financial director	Responsible for the overall management and operation of the financial center of the Group
Ms. Yi Rui (易瑞)	33	October 2022	August 2023	Deputy general manager (brand marketing center)	Responsible for the overall management and operation of the brand marketing center of the Group
Mr. Wang Feng (王峰)	44	May 2023	August 2023	Deputy general manager (supply chain center)	Responsible for the overall management of the supply chain center
Mr. Xue Zenghui (薛曾輝)	34	November 2021	August 2023	Secretary of the Board	Responsible for the corporate governance, information disclosure, investor relationship management and investment and financing

Note: Each of our senior management members had no relationship with other Directors, Supervisors or senior management members of our Company as of the Latest Practicable Date.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

For biographical details of Mr. Wang Hongxue (汪紅學) and Ms. Dai Li (戴利), see “—Directors—Executive Directors” in this section. The details of each of the other senior management members are set out below:

Dr. Zhang Rui (張睿), aged 45, joined our Group in March 2022 and was appointed as the deputy general manager (digitalization center) of our Company in August 2023. He is primarily responsible for the overall management and operation of the digitalization center of the Group.

Prior to joining our Group, Dr. Zhang successively served as a partner, COO and CHO of China region business in Shanghai Lianshang Network Technology Co., Ltd. (上海連尚網絡科技有限公司) from September 2015 to April 2021.

Dr. Zhang received his bachelor’s degree in management engineering in July 2001, his master’s degree in management science and engineering in April 2004 and his doctoral degree in technology economics and management in October 2008 from Dalian University of Technology (大連理工大學) in the PRC.

Mr. Zhou Dapeng (周大鵬), aged 45, joined our Group in May 2021 and was appointed as the financial director of our Company in August 2023. He is primarily responsible for the overall management and operation of the financial center of the Group.

Prior to joining our Group, Mr. Zhou served as a chief financial officer of QXP Technology Co., Ltd. (西安奇芯光電科技有限公司) from December 2020 to April 2021. From June 2020 to November 2020, Mr. Zhou served as a finance director of Chengdu Jinyun Technology Co., Ltd. (成都精靈雲科技有限公司). He served as a senior manager of finance of Tianqi Lithium Co., Ltd. (天齊鋰業股份有限公司), a company listed both on the Shenzhen Stock Exchange (stock code: 002466) and the Stock Exchange (stock code: 9696), from September 2014 to November 2019. Prior to that, he worked as a project manager in ShineWing LLP (Chengdu) (信永中和會計師事務所成都分所).

Mr. Zhou received his bachelor’s degree in management majoring in accounting CPA specialization in July 2003 from Jiangxi University of Finance and Economics (江西財經大學) in the PRC and obtained his CPA qualification in the PRC in March 2006.

Ms. Yi Rui (易瑞), aged 33, joined our Group in October 2022 and was appointed as the deputy general manager (brand marketing center) of our Company in August 2023. She is primarily responsible for the overall management and operation of the brand marketing center of the Group.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Prior to joining our Group, Ms. Yi was the co-founder and the chief operating officer of Qingyan Biotechnology (Chengdu) Co., Ltd. (清研生物科技(成都)有限公司) until July 2022. She served as a user operations director of Beijing Lepur Food Technology Co., Ltd. (北京樂純悠品食品科技有限公司) until August 2021. Prior to that, she served as a marketing manager of Didi Chuxing Technology Co., Ltd. (滴滴出行科技有限公司) since June 2016. Ms. Yi was an brand building supervisor at Unilever from August 2015 to June 2016, and worked in Nestle (China) Ltd. Chengdu Branch (雀巢(中國)有限公司成都分公司) from June 2012 to August 2015.

Ms. Yi received her bachelor's degree in human resource management in June 2012 from Southwestern University of Finance and Economics (西南財經大學) in the PRC.

Mr. Wang Feng (王峰), aged 44, joined our Group in May 2023 and was appointed as the deputy general manager (supply chain center) of our Company in August 2023. He is primarily responsible for the overall management of the supply chain center of the Group.

Prior to joining our Group, Mr. Wang was a president assistant of Shanghai Laochenghuangmiao Food Co., Ltd. (上海老城隍廟食品(集團)有限公司) from March 2022 to December 2022. He served as the director of supply chain for China Mengniu Dairy Co., Ltd. (中國蒙牛乳業有限公司), a company listed on the Stock Exchange (stock code: 2319), from October 2019 to February 2022. Prior to that, he served in Coca-Cola Bottlers Management Service (SHANGHAI) Company Limited (可口可樂裝瓶商管理服務(上海)有限公司) since October 2009.

Mr. Wang received his bachelor's degree in engineering majoring in computer science and technology in July 2006 from Wuhan University of Science and Technology (武漢科技大學) in the PRC.

Mr. Xue Zenghui (薛曾輝), aged 34, was appointed as the secretary of the Board in August 2023. He has been the manager of securities affairs of our Company since November 2021 and is primarily responsible for corporate governance, public disclosure, investor relationship management and investment and financing.

Prior to joining our Group, Mr. Xue served as a manager of securities affairs in Sichuan Languang Justbon Services Group Co., Ltd (四川藍光嘉寶服務集團股份有限公司), a company formerly listed on the Stock Exchange (stock code: 2606), from May 2017 to October 2020, where he was primarily responsible for investor relationship management, corporate compliance governance and investment and financing. Mr. Xue also served as a representative of securities affairs in Desun Real Estate Investment Services Group Co., Ltd. (德商產投服務集團有限公司), a company listed on the Stock Exchange (stock code: 2270), from November 2020 to October 2021, where he was primarily responsible for investor relationship management, corporate governance and financing.

Mr. Xue received his bachelor's degree in science majoring in applied chemistry from Sichuan Agricultural University (四川農業大學) in June 2013 in the PRC.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Saved as disclosed above, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, as of the Latest Practicable Date, none of our Directors, Supervisors and senior management had been a director of any public company the securities of which were listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this Prospectus. There are no other matters with respect to the appointment of our Directors and Supervisors that need to be brought to the attention of the Shareholders, nor is there any information relating to our Directors and Supervisors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules.

Saved as disclosed above, as of the Latest Practicable Date, none of our Directors, Supervisors or senior management were related to other Directors, Supervisors or senior management of our Company.

Saved as disclosed in the sections headed “Relationship with our Controlling Shareholders,” “Substantial Shareholders” and “Appendix VI—Statutory and General Information—4. Disclosure of Interests—A. Disclosure of Interests of Directors and Supervisors,” as of the Latest Practicable Date, none of our Directors and Supervisors held any interest in the securities within the meaning of Part XV of the SFO.

JOINT COMPANY SECRETARIES

Mr. Xue Zenghui (薛曾輝) has been appointed as our joint company secretary in August 2023, with effect from the Listing Date. For his biographical details, see the section headed “—Senior Management” above.

Mr. Lee Chung Shing (李忠成), was appointed as our joint company secretary in August 2023, with effect from the Listing Date. Mr. Lee has over 20 years of experience in auditing, financial management, company secretarial and investors relation in listed companies in Hong Kong. He is currently an assistant vice president of Governance Services of Computershare Hong Kong Investor Services Limited and the joint company secretary/company secretary of various companies, whose shares are listed on the Stock Exchange. Mr. Lee was admitted as an associate of the Hong Kong Institute of Certified Public Accountants in March 1999 and a fellow member of the Association of Chartered Certified Accountants in July 2003. He obtained a bachelor’s degree in accountancy from City University of Hong Kong in December 1994 and a master’s degree in business administration (financial services) from The Hong Kong Polytechnic University in November 2002.

BOARD COMMITTEES

Our Board delegates certain responsibilities to various committees. In accordance with the relevant PRC laws and regulations and the Corporate Governance Code, Appendix C1 to the Listing Rules, our Company has formed three Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Audit Committee

We have established an Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.4 and paragraph D.3 of Part 2 of the Corporate Governance Code, Appendix C1 to the Listing Rules. The Audit Committee consists of three Directors, namely Mr. Yeung Chi Tat, Ms. Cheng Li and Dr. Chen Da. Mr. Yeung Chi Tat, who holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules, serves as the Chairperson of the Audit Committee. The primary duties of the Audit Committee include, but are not limited to, the following:

- proposing the appointment or change of external auditors to our Board, monitoring the independence of external auditors and evaluating their performance;
- guiding internal audit work;
- examining the financial information of our Company, reviewing financial reports and statements of our Company and giving comments on relevant matters;
- assessing the effectiveness of internal control;
- coordinating the communication among management, internal audit department, related departments and external audit agency; and
- dealing with other matters that are authorized by the Board or involved in relevant laws and regulations.

Remuneration Committee

We have established a Remuneration Committee with written terms of reference in compliance with paragraph E.1 of Part 2 of the Corporate Governance Code, Appendix C1 to the Listing Rules. The Remuneration Committee consists of three Directors, namely Ms. Cheng Li, Mr. Wang and Mr. Tang Yong. Ms. Cheng Li serves as the Chairperson of the Remuneration Committee. The primary duties of the Remuneration Committee include, but are not limited to, the following:

- formulating individual remuneration plans for Directors, Supervisors and members of the senior management in accordance with the terms of reference of the job responsibilities, the importance of their positions as well as the remuneration benchmarks for the relevant positions in other comparable companies;
- examining the criteria of performance evaluation of Directors and the senior management of our Company, and conducting annual performance evaluation;
- supervising the implementation of the remuneration plan of the Company;

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- reviewing and/or approving matters relating to share schemes under Chapter 17 of the Listing Rules; and
- dealing with other matters that are authorized by the Board.

Nomination Committee

We have established a Nomination Committee with written terms of reference in compliance with paragraph B.3 of Part 2 of the Corporate Governance Code, Appendix C1 to the Listing Rules. The Nomination Committee consists of three Directors, namely Mr. Wang, Ms. Cheng Li and Mr. Tang Yong. Mr. Wang serves as the Chairperson of the Nomination Committee. The primary duties of the Nomination Committee include, but are not limited to, the following:

- making recommendations to our Board with regards to the size and composition of our Board based on our Company's business operation, asset scale and equity structure;
- researching and developing standards and procedures for the election of our Board members, general managers and members of the senior management, and making recommendations to our Board;
- conducting extensive search and providing to our Board suitable candidates for Directors, general managers and other members of the senior management;
- examining our Board candidates, general manager and members of the senior management and making recommendations to our Board;
- assessing and reviewing the independence of independent non-executive Directors; and
- dealing with other matters that are authorized by our Board.

CONFIRMATION FROM OUR DIRECTORS

Rule 8.10 of the Listing Rules

Each of our Directors confirms that as of the Latest Practicable Date, he or she did not have any interest in a business which competes or is likely to compete, directly or indirectly, with our business, and requires disclosure under Rule 8.10 of the Listing Rules.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Rule 3.09D of the Listing Rules

Each of our Directors confirms that he or she (i) has obtained the legal advice referred to under Rule 3.09D of the Listing Rules on August 4, 2023, and (ii) understands his or her obligations as a director of a listed issuer on the Stock Exchange under the Listing Rules.

Rule 3.13 of the Listing Rules

Each of the independent non-executive Directors confirms (i) his/her independence as regards each of the factors referred to in Rules 3.13(1) to (8) of the Listing Rules, (ii) that he/she has no past or present financial or other interest in the business of the Company or its subsidiaries or any connection with any core connected person of the Company under the Listing Rules as of the Latest Practicable Date, and (iii) that there are no other factors that may affect his/her independence at the time of his/her appointments.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Directors, Supervisors and senior management receive their remuneration in the form of Directors' or Supervisors' salary and allowances, contributions to our retirement benefit scheme, discretionary bonuses and other benefits in kind (if applicable).

For the three years ended December 31, 2023, the total remuneration paid to our then Directors amounted to approximately RMB6.0 million, RMB9.4 million and RMB6.6 million, respectively.

For the three years ended December 31, 2023, the total remuneration paid to our then Supervisors amounted to approximately RMB1.0 million, RMB2.2 million and RMB2.2 million, respectively.

Under the arrangement currently in force, we estimate the total compensation before taxation to be accrued to our Directors and our Supervisors in kind for their service for the year ending December 31, 2024 to be approximately RMB8.3 million. The actual remuneration of Directors and Supervisors in 2024 may be different from the expected remuneration.

For the three years ended December 31, 2023, the total emoluments paid to the five highest paid individuals (including Directors and Supervisors) by our Group amounted to approximately RMB6.3 million, RMB11.1 million and RMB8.6 million, respectively.

For the three years ended December 31, 2023, no fees were paid by our Group to any of the Directors, Supervisors or the five highest paid individuals as an inducement to join us or as compensation for loss of office.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Save as disclosed above, none of the Directors or Supervisors waived their remuneration during the relevant period. The remuneration of Directors, Supervisors and senior management is determined with reference to factors including operating results of our Company, market comparables and the achievement of major operating indicators of our Company.

CORPORATE GOVERNANCE

Our Company aims to achieve high standards of corporate governance which are crucial to our development and safeguard the interests of our Shareholders. To accomplish this, we expect to comply with the Corporate Governance Code set out in Appendix C1 to the Listing Rules after the Listing.

BOARD DIVERSITY POLICY

We are committed to promoting the culture of diversity in the Company. We have strived to promote diversity to the extent practicable by taking into consideration a number of factors in our corporate governance structure.

We have adopted the board diversity policy (the “**Board Diversity Policy**”) which sets out the objective and approach to achieve and maintain diversity of our Board in order to enhance the effectiveness of our Board. Pursuant to the board diversity policy, we seek to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, race, cultural background, educational background, industry experience and professional experience. Our Directors have a balanced mix of knowledge and skills, including knowledge and experience in the areas of business management, legal, economics, investment and accounting. Our three independent non-executive Directors have different industry backgrounds, with solid experiences in the fields of accounting, legal and food science, representing more than one-third of the members of our Board. Our Board Diversity Policy is well implemented as evidenced by the fact that there are Directors ranging from 32 years old to 63 years old and comprises two female Directors and six male Directors. Pursuant to the Board Diversity Policy, we aim to maintain at least 10% female representation in the Board and the current composition of the Board satisfies this target gender ratio. We will implement policies to ensure gender diversity when recruiting staff to develop a pipeline of female senior management and potential successors to the Board. We will strive to enhance our female representation and achieve appropriate balance of gender diversity with reference to the stakeholders’ expectation and international and local recommended best practices. Furthermore, we will implement comprehensive programs aimed at identifying and training our female staff who display leadership and potential, with the goal of promoting them to the senior management or the Board.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Our Nomination Committee is responsible for ensuring the diversity of our Board members. After the Listing, our Nomination Committee will review the Board Diversity Policy from time to time, develop and review measurable objectives for implementing the policy, and monitor the progress on achieving these measurable objectives to ensure its continued effectiveness. We will disclose in our corporate governance report about the implementation of the board diversity policy on an annual basis.

COMPLIANCE ADVISER

We have appointed Guotai Junan Capital Limited as our compliance adviser (the “**Compliance Adviser**”) pursuant to Rule 3A.19 of the Listing Rules. The Compliance Adviser will provide us with guidance and advice as to compliance with the Listing Rules and other applicable laws, rules, codes and guidelines. Pursuant to Rule 3A.23 of the Listing Rules, the Compliance Adviser will advise our Company in certain circumstances including:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this Prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this Prospectus; and
- (d) where the Stock Exchange makes an inquiry to our Company regarding unusual movements in the price or trading volume of its listed securities or any other matters in accordance with Rule 13.10 of the Listing Rules.

Pursuant to Rule 3A.24 of the Listing Rules, the Compliance Adviser will, on a timely basis, inform our Company of any amendment or supplement to the Listing Rules that are announced by the Stock Exchange. The Compliance Adviser will also inform our Company of any new or amended law, regulation or code in Hong Kong applicable to us, and advise us on the continuing requirements under the Listing Rules and applicable laws and regulations.

The term of the appointment will commence on the Listing Date and is expected to end on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately prior to the Global Offering, our Company is owned directly as to (i) approximately 67.6758% by Hengsheng Herui, (ii) approximately 18.0167% by Mr. Wang, (iii) approximately 5.7449% by Ms. Liu and (iv) approximately 0.4802% by Tongchuang Gongjin, the Pre-IPO Employee Incentive Platform. Mr. Wang and Ms. Liu are spouses. Hengsheng Herui is a company directly owned as to 84.8880% by Chengdu Jinbosen, which in turn is wholly owned by Mr. Wang and Ms. Liu collectively. Tongchuang Gongjin, our Pre-IPO Employee Incentive Platform, is controlled by Mr. Wang as its sole general partner. Accordingly, Mr. Wang, Ms. Liu, Chengdu Jinbosen, Hengsheng Herui and Tongchuang Gongjin constitute a group of Controlling Shareholders before the Listing.

Immediately following the completion the Global Offering, the group of the Controlling Shareholders will be, in aggregate entitled to control the exercise of approximately 82.73% of the voting rights (assuming the Over-Allotment Option is not exercised) or approximately 81.50% of the voting rights (assuming the Over-Allotment Option is exercised in full) and thus remain as a group of Controlling Shareholders.

For details of the relationship among the group of Controlling Shareholders, and their shareholding in our Company, see the sections headed “History, Reorganization and Corporate Structure” and “Substantial Shareholders.”

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently of our Controlling Shareholders and their close associates after Listing.

Management Independence

We are able to carry on our business independently from the Controlling Shareholders from a management perspective. Our Board consists of eight Directors, including four executive Directors, one non-executive Director and three independent non-executive Directors.

Our executive Directors and senior management team are responsible for the day-to-day management of our operations. Notwithstanding the roles of Mr. Wang in our Board and Ms. Liu in our Supervisory Committee, our Directors are of the view that our Company is able to function independently from Mr. Wang and Ms. Liu for the following reasons:

- (a) all of the independent non-executive Directors are independent of Mr. Wang and Ms. Liu, and decisions of our Board require the approval of a majority vote from members of our Board;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (b) each Director is aware of his/her fiduciary duties as a director which require, among other things, that he/she acts for the benefit and in the interest of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interests;
- (c) our daily management and operations are carried out by a senior management team, all of whom have substantial experience in the industry in which our Company is engaged, and will therefore be able to make business decisions that are in the best interests of our Group;
- (d) we have three independent non-executive Directors and certain matters of our Company must always be referred to the independent non-executive Directors for review;
- (e) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and a Director and/or his/her associate, he/she shall abstain from voting and shall not be counted towards the quorum for the voting; and
- (f) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and the Controlling Shareholders which would support our independent management.

Based on the above, our Directors believe that our Board as a whole and together with our senior management are able to perform the managerial role in our Group independently from the Controlling Shareholders and their close associates after the Listing.

Operational Independence

We do not rely on the Controlling Shareholders and their close associates for our business development, staffing, logistics, administration, finance, internal audit, information technology, sales and marketing, or company secretarial functions. We have our own departments specializing in these respective areas which have been in operation and are expected to continue to operate separately and independently from the Controlling Shareholders and their close associates. In addition, we have our own headcount of employees for our operations and management for human resources.

We have independent access to suppliers and customers and an independent management team to handle our day-to-day operations. We are also in possession of all relevant licenses necessary to carry on and operate our principal businesses and we have sufficient operational capacity in terms of capital and employees to operate independently.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

During the Track Record Period, our Group entered into several lease agreements (the “**Office Lease Agreements**”) with Mr. Wang, Ms. Liu and their certain wholly-owned investment vehicles, namely, Chengdu Jinboson, Chengdu Kunlin Commercial Management Co., Ltd.* (成都錕麟商業管理有限公司), Sichuan Zhensen Commercial Management Co., Ltd.* (四川臻森商業管理有限公司), and Chengdu Hekunrui Commercial Management Co., Ltd.* (成都和錕瑞商業管理有限公司) (collectively, the “**Lessors**”), pursuant to which the Lessors agreed to lease to our Group certain premises with a total gross area of approximately 6,952 sq.m. in Chengdu, Sichuan (the “**Premises**”), primarily for our use as offices. For more details in relation to value of the Premises, see Notes 15 and 33 to the Accountants’ Report in Appendix I to this Prospectus.

The Office Lease Agreements have a fixed term of four to five years effective from the date of the respective Office Lease Agreement, and will be automatically renewed unless otherwise agreed by the parties.

The Office Lease Agreements were entered into (i) in the ordinary and usual course of business of our Group, (ii) on arm’s length basis, and (iii) on normal commercial terms with the rental being determined with reference to, among others, the prevailing market rental prices of comparable premises in the locality and the acreage of the Premises and the square meters rented.

In accordance with IFRS 16 “Leases,” our Company recognized a right-of-use asset on its balance sheet in connection with the lease of each of the Premises. Therefore, the transactions under the Office Lease Agreements were recorded as an acquisition of a capital assets and one-off connected transactions of our Company for the purpose of the Listing Rules. Accordingly, the reporting, announcement, annual review and independent shareholders’ approval requirements with respect to continuing connected transactions in Chapter 14A of the Listing Rules will not be applicable to the Office Lease Agreements and the transactions thereunder.

Given that (i) the Office Lease Agreements are on normal commercial terms after arm’s-length negotiations in the ordinary and usual course of our business, and (ii) even if the counterparty in these transactions terminates such agreements, the interruption to our business would be limited as we would be able to find an alternative lease in the market, our Directors believe that the lease of offices from Lessors would not cast doubts on our operational independence.

During the Track Record Period, there were certain transactions between our Group and certain associates of our Controlling Shareholders. See “Financial Information—Related Party Transactions” and Note 33 of the Accountants’ Report as set out in Appendix I to this Prospectus for more details. As of the Latest Practicable Date, save for the transactions under the Office Lease Agreements, the balance of transactions set out in Note 33 in the Accountants’ Report had been settled in full.

Based on the above, our Directors believe that we are able to operate independently from the Controlling Shareholders and their close associates.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Financial Independence

Our Group has its own internal control, accounting, funding, reporting and financial management system as well as accounting and finance department. Moreover, our Group opens and manages bank accounts independently, and has never shared any bank account with Controlling Shareholders. Our Group has independent taxation registration according to the relevant laws, and makes tax payments independently according to the applicable PRC taxation laws and regulations. Our Group has never made any tax payment jointly with Controlling Shareholders or any other entities controlled by them.

As of the Latest Practicable Date, our Group did not rely on the Controlling Shareholders and/or their close associates for any provision of financial assistance. Our Directors confirm that as of the Latest Practicable Date, none of the Controlling Shareholders or their close associates had provided any loans, guarantees or pledges to our Group and our Group did not provide any loans, guarantees or pledges to our Controlling Shareholders.

Based on the above, our Directors are of the view that we are able to maintain financial independence from our Controlling Shareholders and their close associates.

INTERESTS OF THE CONTROLLING SHAREHOLDER IN OTHER BUSINESSES

The Controlling Shareholders and the Directors confirm that as of the Latest Practicable Date, they did not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

CORPORATE GOVERNANCE

Our Company will comply with the provisions of the Corporate Governance Code in Appendix C1 to the Listing Rules (the “**Corporate Governance Code**”), which sets out principles of good corporate governance.

Our Directors recognize the importance of good corporate governance in protection of our Shareholders’ interests. We would adopt the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and the Controlling Shareholders:

- (a) where a Shareholders’ meeting is to be held for considering proposed transactions in which the Controlling Shareholders or any of their respective associates has a material interest, the Controlling Shareholders will not vote on the resolutions and shall not be counted in the quorum in the voting;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (b) our Company has established internal control mechanisms to identify connected transactions. Upon the Listing, if our Company enters into connected transactions with a Controlling Shareholder or any of his/her/its associates, our Company will comply with the applicable Listing Rules;
- (c) the independent non-executive Directors will review, on an annual basis, whether there is any conflict of interests between the Group and the Controlling Shareholders (the “**Annual Review**”) and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (d) the Controlling Shareholders will undertake to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by the independent non-executive Directors for the Annual Review;
- (e) our Company will disclose decisions (with basis) on matters reviewed by the independent non-executive Directors either in its annual report or by way of announcements;
- (f) where our Directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Company’s expenses; and
- (g) we have appointed Guotai Junan Capital Limited as our Compliance Adviser to provide advice and guidance to us in respect of compliance with the Listing Rules, including various requirements relating to corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and the Controlling Shareholders, and to protect minority Shareholders’ interests after the Listing.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering and assuming the Over-Allotment Option is not exercised, the following persons will have interests and/or short positions in the Shares or underlying shares of our Company which would fall to be disclosed pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Nature of interest	As of the Latest Practicable Date taking into account Share Subdivision			Following the completion of the Share Subdivision and the Global Offering ⁽¹⁾			
		Number of Shares	Description of Shares	Approximate percentage of shareholding in our total share capital	Number of Shares	Description of Shares	Approximate percentage of shareholding in the relevant class of Shares	Approximate percentage of shareholding in our total share capital ⁽¹⁾
Mr. Wang ⁽²⁾⁽³⁾⁽⁴⁾	Beneficial owner	239,598,750	Unlisted Shares	18.0167%	239,598,750	H Shares (L)	16.2150%	16.2150%
	Interest of spouse	76,399,250	Unlisted Shares	5.7449%	76,399,250	H Shares (L)	5.1704%	5.1704%
	Interest in controlled corporations	906,386,000	Unlisted Shares	68.1559%	906,386,000	H Shares (L)	61.3404%	61.3404%
Ms. Liu ⁽²⁾⁽³⁾⁽⁴⁾	Beneficial owner	76,399,250	Unlisted Shares	5.7449%	76,399,250	H Shares (L)	5.1704%	5.1704%
	Interest of spouse	239,598,750	Unlisted Shares	18.0167%	239,598,750	H Shares (L)	16.2150%	16.2150%
	Interest in controlled corporations	906,386,000	Unlisted Shares	68.1559%	906,386,000	H Shares (L)	61.3404%	61.3404%
Chengdu Jinbosen ⁽³⁾	Interest in controlled corporation	900,000,000	Unlisted Shares	67.6758%	900,000,000	H Shares (L)	60.9082%	60.9082%
Hengsheng Herui ⁽³⁾	Beneficial owner	900,000,000	Unlisted Shares	67.6758%	900,000,000	H Shares (L)	60.9082%	60.9082%
Tongchuang Gongjin ⁽⁴⁾	Beneficial owner	6,386,000	Unlisted Shares	0.4802%	6,386,000	H Shares (L)	0.4322%	0.4322%

SUBSTANTIAL SHAREHOLDERS

Notes:

- (L) All the interests stated are long positions.
- (1) The calculation is based on the assumption that (i) the Share Subdivision is completed, (ii) the Over-Allotment Option is not exercised, (iii) the 1,329,870,850 Unlisted Shares (taking into account the Share Subdivision) will be converted into H Shares, and (iv) the total number of the Shares in issue will be 1,477,634,250 H Shares immediately after completion of the Global Offering.
- (2) Mr. Wang and Ms. Liu are spouses. Accordingly, Mr. Wang and Ms. Liu are deemed to be interested in the Shares held by each other under the SFO.
- (3) Hengsheng Herui is indirectly controlled by Mr. Wang and Ms. Liu, through Chengdu Jinboson, which is wholly owned by Mr. Wang and Ms. Liu collectively. By virtue of the SFO, each of Mr. Wang, Ms. Liu and Chengdu Jinboson is deemed to be interested in the Shares held by Hengsheng Herui.
- (4) Tongchuang Gongjin, our Pre-IPO Employee Incentive Platform established as a limited partnership, is controlled by Mr. Wang as its sole general partner. By virtue of the SFO, each of Mr. Wang, Ms. Liu and Chengdu Jinboson is deemed to be interested in the Shares held by Tongchuang Gongjin.

For details of the substantial shareholders who will be, directly or indirectly, interested in 10% or more of the value of any class of Shares varying rights to vote in all circumstances at general meetings of any member of our Group, see “Statutory and General Information—4. Disclosure of Interests—B. Disclosure of Interests of Substantial Shareholders” in Appendix VI to this Prospectus.

Save as disclosed herein, our Directors are not aware of any persons who will, immediately following completion of the Global Offering (assuming the Over-Allotment Option is not exercised), have interests and/or short positions in Shares or underlying shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group.

SHARE CAPITAL

This section presents certain information regarding our share capital before and upon completion of the Global Offering.

BEFORE THE GLOBAL OFFERING

As of the Latest Practicable Date, the registered capital of our Company was RMB132,987,085, comprising 132,987,085 Unlisted Shares in issue of nominal value RMB1.0 each.

Immediately prior to the Global Offering, the ordinary shares of the Company will be split on a one for ten basis, and the registered share capital of our Company will be RMB132,987,085, comprising 1,329,870,850 Unlisted Shares in issue of nominal value RMB0.10 each.

UPON COMPLETION OF THE SHARE SUBDIVISION AND THE GLOBAL OFFERING

Assuming the Over-Allotment Option is not exercised, the share capital of our Company immediately following completion of the Global Offering (taking into account the Share Subdivision) will be as follows:

Description of Shares	Number of Shares	Approximate percentage to total share capital (%)
Unlisted Shares in issue	–	–
H Shares converted from Unlisted Shares	1,329,870,850	90.00%
H Shares to be issued under the Global Offering . .	147,763,400	10.00%
Total	1,477,634,250	100.00%

SHARE CAPITAL

Assuming the Over-Allotment Option is fully exercised, the share capital of our Company immediately following completion of the Global Offering (taking into account the Share Subdivision), will be as follows:

Description of Shares	Number of Shares	Approximate percentage to total share capital (%)
Unlisted Shares in issue	–	–
H Shares converted from Unlisted Shares	1,329,870,850	88.67%
H Shares to be issued under the Global Offering	169,927,800	11.33%
Total	1,499,798,650	100.00%

RANKING

Upon completion of the Global Offering, we would have only one class of Shares. H Shares and Unlisted Shares are all ordinary Shares in the share capital of our Company. However, apart from certain qualified domestic institutional investors in the PRC, the qualified PRC investors under the Shanghai – Hong Kong Stock Connect or the Shenzhen – Hong Kong Stock Connect and other persons who are entitled to hold our H Shares pursuant to relevant PRC laws and regulations or upon approvals of any competent authorities, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC.

Unlisted Shares and H Shares will rank *pari passu* with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this Prospectus. All dividends in respect of the H Shares are to be paid by us in Hong Kong dollars or in the form of H Shares.

CONVERSION OF OUR UNLISTED SHARES INTO H SHARES

The Company has filed for a “full circulation” of all the existing 1,329,870,850 Unlisted Shares into H Shares on a one-for-one basis, taking into account the Share Subdivision, and submitted the application reports, authorization documents of the shareholders of Unlisted Shares for which an H-share “full circulation” are applied, explanation about the compliance of share acquisition and other documents in accordance with the requirements of the CSRC.

The relevant filings of the conversion of the existing 1,329,870,850 Unlisted Shares (taking into account the Share Subdivision) held by the existing Shareholders into H Shares on a one-for-one basis have been completed on December 20, 2023.

SHARE CAPITAL

Upon completion of the Global Offering, if any of our Shares are not listed or traded on any stock exchange, the holders of our Unlisted Shares may convert their Shares into H Shares provided such conversion shall have gone through any requisite internal approval process and complied with the regulations prescribed by the securities regulatory authorities of the State Council and the regulations, requirements and procedures prescribed by the overseas stock exchange(s) and have completed the required filing with the securities regulatory authorities of the State Council, including the CSRC. The listing of such converted Shares on the Hong Kong Stock Exchange will also require the approval of the Hong Kong Stock Exchange.

Based on the procedures for the conversion of our Unlisted Shares into H Shares as disclosed in this section, we can apply for the listing of all or any portion of our Unlisted Shares on the Hong Kong Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Hong Kong Stock Exchange and delivery of Shares for entry on the H Share register. As any listing of additional Shares after our initial listing on the Hong Kong Stock Exchange is ordinarily considered by the Hong Kong Stock Exchange to be a purely administrative matter, it will not require such prior application for listing at the time of our initial listing in Hong Kong.

No class Shareholder voting is required for the listing and trading of the converted Shares on the Hong Kong Stock Exchange. Any application for listing of the converted Shares on the Hong Kong Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform Shareholders and the public of such proposed conversion.

After all the requisite approvals have been obtained, the following procedures will need to be completed: the relevant Unlisted Shares will be withdrawn from the Share register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct the H Share Registrar to issue H Share certificates. Registration on our H Share register will be on the condition that (a) our H Share Registrar lodges with the Hong Kong Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register of members and the due dispatch of H Share certificates and (b) the admission of the H Shares to trade on the Hong Kong Stock Exchange will comply with the Listing Rules and the General Rules of HKSCC and the HKSCC Operational Procedures in force from time to time. Until the converted Shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

For further details, see “Risk Factors—Risks Relating to the Global Offering—Future sales or perceived sales of substantial amounts of our H Shares in the public market could have a material adverse effect on the price of our H Shares and our ability to raise additional capital in the future.”

SHARE CAPITAL

TRANSFER OF SHARES ISSUED PRIOR TO THE GLOBAL OFFERING

Pursuant to the PRC Company Law, our Shares issued prior to the Listing shall not be transferred within one year from the Listing Date.

For details of the lock-up undertaking given by the Controlling Shareholders pursuant to Rule 10.07 of the Listing Rules, see “Underwriting—Underwriting Arrangements and Expenses—Undertakings pursuant to the Hong Kong Underwriting Agreement—(A) Undertakings by our Company and the Controlling Shareholders in respect of our Company.”

SHAREHOLDERS’ GENERAL MEETING

For details of circumstances under which our Shareholders’ general meeting is required, see “Appendix IV—Summary of Principal Legal and Regulatory Provisions” and “Appendix V—Summary of Articles of Association of the Company.”

PRE-IPO EMPLOYEE INCENTIVE SCHEME

We adopted the Pre-IPO Employee Incentive Scheme on June 27, 2023 and established the Pre-IPO Employee Incentive Platform, a limited partnership, see “Statutory and General Information—5. Pre-IPO Employee Incentive Scheme” in Appendix VI to this Prospectus.

GENERAL MANDATES TO ISSUE SHARES AND REPURCHASE SHARES

Subject to the completion of the Global Offering, pursuant to the Shareholders resolutions of the Company, the Board was granted with (a) a general mandate to allot and issue Shares at any time within a period up to the date of the conclusion of the next annual general meeting of the Shareholders or the date on which the Shareholders pass a special resolution to revoke or change such mandate, whichever is earlier, upon such terms and conditions and for such purposes and to such persons as the Board in their absolute discretion deem fit, and to make necessary amendments to the Articles of Association, provided that, the number of Shares to be issued shall not exceed 20% of the number of the Shares in issue as at the date of the resolution granting the general mandate; and (b) a general mandate to repurchase H Shares issued on the Stock Exchange with an aggregate number of not exceeding 10% of the number of the total issued H Shares as at the date of the resolution granting the general mandate.

For details of the general mandates to issue and repurchase Shares, see “Statutory and General Information—1. Further Information about Our Company—D. Shareholders’ Resolutions” in Appendix VI to this Prospectus.

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 Prospectus, 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) others.

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 8,016 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.

FINANCIAL INFORMATION

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 material accounting policy information. 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 Prospectus.

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 8,016 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.

MATERIAL ACCOUNTING POLICY INFORMATION, ESTIMATES AND JUDGEMENTS

We have identified certain accounting policies that are significant to the preparation of our financial statements. Material 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 Prospectus. For details, see Note 4 to the Accountants' Report included in Appendix I to this Prospectus. 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 Prospectus 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%.

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.

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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 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.

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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)
Listing expenses	(6,192)	(0.2)	(2,042)	(0.0)	(30,935)	(0.5)
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	<u>778,517</u>	<u>21.4</u>	<u>964,759</u>	<u>22.8</u>	<u>1,150,780</u>	<u>20.2</u>
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
	<u>778,517</u>	<u>21.4</u>	<u>964,759</u>	<u>22.8</u>	<u>1,150,780</u>	<u>20.2</u>

FINANCIAL INFORMATION

Non-IFRS Measures

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

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

	For the year ended December 31,		
	2021	2022	2023
	(RMB in thousands)		
Reconciliation of profit for the year,			
EBITDA (non-IFRS measure) and			
adjusted EBITDA (non-IFRS			
measure)			
Profit for the year	778,517	964,759	1,150,780
Add:			
Income tax expense	143,151	185,986	215,068
Depreciation and amortization ⁽¹⁾	25,848	47,883	67,007
Finance costs	2,672	4,569	3,692
Less:			
Interest income on bank deposits	1,353	1,602	6,954
EBITDA (non-IFRS measure)	948,835	1,201,595	1,429,593
Add:			
Listing expenses charged in profit or			
loss ⁽²⁾	6,192	2,042	30,935
Equity-settled share-based payment			
expenses ⁽³⁾	114,876	–	–
Loss on fair value change of			
redeemable shares with other			
preferential rights ⁽⁴⁾	–	–	75,838
Adjusted EBITDA			
(non-IFRS measure)	1,069,903	1,203,637	1,536,366

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	For the year ended December 31,		
	2021	2022	2023
	(RMB in thousands)		
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:			
Listing expenses charged in profit or loss ⁽²⁾	6,192	2,042	30,935
Equity-settled share-based payment expenses ⁽³⁾	114,876	–	–
Loss on fair value change of redeemable shares with other preferential rights ⁽⁴⁾	–	–	75,838
	899,585	966,801	1,257,553
Adjusted net profit (non-IFRS measure)			
Adjusted net profit margin (non-IFRS measure)⁽⁶⁾	24.7%	22.8%	22.0%

Notes:

- (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) Listing expenses charged in profit or loss relate to the Global Offering.
- (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 Prospectus 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. The redeemable shares with other preferential rights will be redesignated from liability to equity as a result of termination of special rights upon listing of the company. See Note 26 to the Accountants' Report included in Appendix I to this Prospectus 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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

	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 in 2023 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	
	% of total Revenue		% of total 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 and accordingly, the related pre-opening training services revenues for these franchisees were recognized in 2021. It generally takes one to two months from franchisee enrollment to the store opening.

Our average revenue generated per franchised store increased from RMB0.7 million in 2022 to RMB0.8 million 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	2,343,169	100.0	2,775,481	100.0	3,740,525	100.0

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

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	1,301,040	35.7	1,456,189	34.4	1,963,782	34.4

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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 for promoting their services in ChaPanda store network, expressed as a pre-agreed percentage of the actual transaction values facilitated by their online payment services.

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

FINANCIAL INFORMATION

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

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.

FINANCIAL INFORMATION

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 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.

FINANCIAL INFORMATION

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 seven software copyrights for the intelligent management systems we developed to support and manage our supply chain, 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 expenses 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 Prospectus for details.

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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.

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

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Listing Expenses

Our listing expenses represent the expenses incurred in relation to the Global Offering. We recorded listing expenses of RMB6.2 million, RMB2.0 million and RMB30.9 million 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.

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.

FINANCIAL INFORMATION

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-IPO Investments completed in June 2023, 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.

Listing Expenses

Our listing expenses significantly increased from RMB2.0 million in 2022 to RMB30.9 million in 2023, primarily due to the expenses in relation to this Global Offering.

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.

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.

FINANCIAL INFORMATION

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.

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.

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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.

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.

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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 research and development staff to support the establishment of our digital infrastructure, while the number of such staff was nil as of December 31, 2021.

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.

Listing Expenses

Our listing expenses amounted to RMB6.2 million in 2021 and RMB2.0 million 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.

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% in 2021 and 2022, 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.

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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 has been extracted from our audited consolidated financial statements included in Appendix I to this Prospectus.

	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	<u>1,048,340</u>	<u>1,682,904</u>	<u>3,085,498</u>
Total non-current liabilities	215,371	192,408	1,212,399
Total current liabilities	531,944	827,880	1,026,453
Total liabilities	<u>747,315</u>	<u>1,020,288</u>	<u>2,238,852</u>
Net current assets	<u>316,097</u>	<u>521,393</u>	<u>1,575,395</u>
Net assets	<u>301,025</u>	<u>662,616</u>	<u>846,646</u>
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	<u>301,025</u>	<u>662,616</u>	<u>846,646</u>

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 RMB1,021.2 million.

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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 Prospectus.

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
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-IPO 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-IPO Investors and the principal terms of the Pre-IPO Investments, see “History, Reorganization and Corporate Structure—Pre-IPO 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 Listing and the Global Offering but have not been recognized as expenses, which will be deductible from equity upon completion of the Global Offering, 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 Prospectus 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—Independence from Our Controlling Shareholders—Operational Independence." We expect to continue such leases after the Listing 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.

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

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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 Listing.

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.”

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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 listing expenses	–	–	7,811
Total	349,365	605,588	770,619

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 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.

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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 Prospectus for details.

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

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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 mainly 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 carrying amounts 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 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

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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 Global Offering, we intend to finance our future capital requirements through cash generated from our business operations, the net proceeds from the Global Offering, 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)
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

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	For the year ended December 31,		
	2021	2022	2023
	(RMB in thousands)		
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	128,138	226,031	715,989
Represented by			
Cash and cash equivalents	128,138	226,031	715,989
Term deposits	–	–	230,000
Total bank balances and cash	128,138	226,031	945,989

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.

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

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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.

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-IPO Investments; partially offset by dividend paid of RMB949.5 million.

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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
	(RMB in thousands)			(unaudited)
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

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, which were mainly secured by rental deposits and unguaranteed. 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.

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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 Prospectus.

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.

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

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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 Proceeds—Use of Proceeds.” 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 proceeds from the Global Offering.

CONTRACTUAL OBLIGATIONS

Capital Commitments

Our capital commitments mainly represent the capital expenditure in respect of the acquisition of property, plant and equipment and intangible assets 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.

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 ⁽⁵⁾	1.59	1.63	2.53
Quick ratio ⁽⁶⁾	1.38	1.40	2.34

Notes:

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

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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 Prospectus.

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 Prospectus 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.

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

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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.

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 Prospectus 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/subsidiaries, 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%.

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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 Prospectus.

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 Prospectus.

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, with a total of 100,000,000 shares, 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, with a total of 132,987,085 shares, 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 Prospectus for details. As of the Latest Practicable Date, we did not have a formal dividend policy or a fixed dividend distribution ratio. The Board has approved a dividend policy, which will become effective upon Listing. Under the dividend policy, we may provide our Shareholders with interim or annual dividends as the Board deems appropriate. The Board will consider, among other things, the following factors when proposing dividends and determining the amount of dividends:

- our actual and projected financial performance;
- our estimated working capital requirements, capital expenditure requirements and future business expansion plan;

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- our present and future cash flow;
- other internal and external factors that may have an impact on our business operations or financial performance and position; and
- other factors that our Board deem relevant.

Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents, including (where required) the approval of our Shareholders.

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.

WORKING CAPITAL SUFFICIENCY

Our Directors are of the opinion that, taking into account the financial resources available to the Group, including the estimated net proceeds from the Global Offering 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 Prospectus. 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 Prospectus.

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.

LISTING EXPENSES

Our listing expenses mainly include (i) underwriting-related expenses, such as underwriting fees and commissions, and (ii) non-underwriting-related expenses, comprising professional fees paid to our legal advisors and Reporting Accountants for their services rendered in relation to the Listing and the Global Offering, and other fees and expenses. Assuming full payment of the discretionary incentive fee, the estimated total listing expenses (based on the Offer Price of HK\$17.50 per H Share and assuming that the Over-Allotment Option is not exercised) for the Global Offering are approximately HK\$130.0 million, accounting for approximately of 5.0% of our gross proceeds. Among such estimated total listing expenses, we expect to pay underwriting-related expenses of HK\$77.8 million, professional fees for our legal advisors and Reporting Accountants of HK\$40.7 million and

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other fees and expenses of HK\$11.5 million. An estimated amount of HK\$8.2 million for our listing expenses, accounting for approximately 0.3% of our gross proceeds, is expected to be expensed through the statement of profit or loss and an estimated amount of HK\$78.5 million is expected to be recognized directly as a deduction from equity upon the Listing. We recognized listing expenses of RMB6.2 million, RMB2.0 million and RMB30.9 million 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 Prospectus, 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 PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of our Group is prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets attributable to equity shareholders of our Company as of December 31, 2023 as if the Global Offering had taken place on December 31, 2023.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as of December 31, 2023 or at any future date.

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	Audited consolidated net tangible assets of our Group attributable to owners of our Company as at December 31, 2023	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at December 31, 2023	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at December 31, 2023 per Share	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
	Note 1	Note 2		Note 3	Note 4
Based on Offer Price of HK\$17.50 per H Share	771,879	2,264,911	3,036,790	2.17	2.39

Notes:

- (1) The amount is based on the audited consolidated net assets of our Group attributable to owners of our Company as at December 31, 2023 of RMB823,076,000, extracted from the Accountants' Report of our Group set out in Appendix I to this Prospectus and adjusted for intangible assets as at December 31, 2023 of RMB51,197,000.
- (2) The estimated net proceeds from the Global Offering are based on 147,763,400 H Shares at the Offer Price of HK\$17.50 (equivalent to RMB15.86) per H Share after deduction of underwriting fees and commissions and other listing related expenses paid or payable by our Company, other than those expenses which had been recognised in profit or loss on or prior to December 31, 2023. The calculation of such estimated net proceeds does not take into account any Shares (i) which may be allotted and issued upon the exercise of the Over-Allotment Option or (ii) which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to the directors of our Company.

For the purpose of the estimated net proceeds from the Global Offering, the amount denominated in HK\$ has been converted into RMB at the rate of HK\$1 to RMB0.90629, which was the exchange rate prevailing on April 3, 2024 with reference to the rate published by the People's Bank of China. No representation is made that the HK\$ amounts have been, could have been or may be converted to RMB, or vice versa, at that rate or any other rates or at all.

- (3) The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at December 31, 2023 per Share is arrived at on the basis that 1,397,763,400 shares were in issue including 1,250,000,000 ordinary shares in issue as at December 31, 2023 and 147,763,400 H Shares assuming that the Share Subdivision and Global Offering had been completed on December 31, 2023 and without taking into account any Share (i) which may be allotted and issued upon the exercise of the Over-Allotment Option, (ii) which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to the directors of our Company, (iii) the 6,386,000 shares issued and held by a limited partnership under the Pre-IPO Employee Incentive Scheme, which represent treasury shares held by our Company, as disclosed in section F of "History, Reorganization and Corporate Structure" of the Prospectus, or (iv) the Termination of Potential Rights (as defined and described in note (5) below) of our Company's redeemable shares with other preferential rights existing on December 31, 2023.

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- (4) For the purpose of the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at December 31, 2023 per Share, the amount denominated in HK\$ has been converted into RMB at the rate of HK\$1 to RMB0.90629, which was the exchange rate prevailing on April 3, 2024 with reference to the rate published by the People’s Bank of China. No representation is made that the HK\$ amounts have been, could have been or may be converted to RMB, or vice versa, at that rate or any other rates or at all.
- (5) No adjustment has been made to unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at December 31, 2023 to reflect any trading result or other transactions of our Group entered into subsequent to December 31, 2023. In particular, the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company on the table above have not been adjusted to show the effect of the following:

In May and June 2023, our Company issued a total of 7,348,485 redeemable shares with other preferential rights (without taking into account the Share Subdivision) at a total cash consideration of RMB970,000,000 to pre-IPO investors as set out in section E of “History, Reorganization, and Corporate Structure” of the Prospectus. Upon completion of the Global Offering, certain redemption and other preferential rights of these redeemable shares with other preferential rights (as detailed in note 26 of the Accountants’ Report of our Group set out in Appendix I to this Prospectus) existing on December 31, 2023 would be terminated (the “**Termination of Potential Rights**”), and assuming no further changes in fair value of the redeemable shares with other preferential rights existing on December 31, 2023 upon Global Offering, the carrying amount of RMB1,021,000,000 would have been reclassified to ordinary shares under equity.

Assuming the Termination of Potential Rights, Share Subdivision and Global Offering had been completed on December 31, 2023, the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company would have increased from approximately RMB3,036,790,000 to approximately RMB4,057,790,000 based on Offer Price of HK\$17.50 per H Share. The number of shares used for calculating the unaudited pro forma adjusted consolidated net tangible assets of our Group per Share would be 1,471,248,250 shares, comprising 1,250,000,000 shares in issue as at December 31, 2023, 73,484,850 shares reclassified to ordinary shares under equity upon Termination of Potential Rights, after the effect of the Share Subdivision, and 147,763,400 Offer Shares to be issued pursuant to Global Offering, respectively. It does not take into account any Shares which may be issued upon the exercise of the Over-Allotment Option, or any Shares which may be issued or repurchased pursuant to our Company’s general mandate. The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company per Share would have increased to RMB2.76 (equivalent to HK\$3.05) based on the Offer Price of HK\$17.50 per H Share.

All the amounts in this note have been converted from RMB to HK\$ at the rate of RMB0.90629 to HK\$1, which was the exchange rate prevailing on April 3, 2024 with reference to the rate published by the People’s Bank of China. No representation is made that RMB amounts have been, could have been or could be converted to HK\$, or vice versa, at that rate or at any other rates or at all.

See “Appendix II—Unaudited Pro Forma Financial Information” for further details.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See “Business—Our Growth Strategies” in this Prospectus for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$2,455.9 million, after deducting underwriting commissions, fees and estimated expenses payable by us in connection with the Global Offering, assuming Over-allotment Option is not exercised, at the Offer Price of HK\$17.50 per H Share.

We intend to use the net proceeds as follows:

- approximately 51.0%, or HK\$1,252.5 million, will be used to improve our overall operation capabilities and strengthen our supply chain, including the following:
 - approximately 16.0%, or HK\$392.9 million, will be used to improve the level of automation and intelligence in our existing warehousing and delivery capabilities as follows:
 - (i) to upgrade the automated equipment in the warehousing facilities operated by us to enhance the accuracy and efficiency of inventory selection and categorization, which, in turn, helps us to reduce human labor and related costs. In particular, we intend to adopt advanced inventory equipment and systems in such warehousing facilities, such as upgraded forklifts, light-guiding pathway and pickup systems and intelligent shelves; and
 - (ii) to improve our multi-temperature controlled warehousing and delivery systems to enhance our province-level and pre-positioned warehousing capabilities. We plan to build key delivery capabilities, such as intelligent cold storage and delivery and fruit processing hubs to serve ChaPanda stores in Beijing, Shanghai, Guangzhou, Wuhan and other regional centers. We will improve supply chain system for fruits by, among others, (i) leveraging local resources of high-quality fruits and other agricultural products and (ii) improving our deep-processing and regional supply capacities with refrigeration and storing technologies.

In particular, in 2024, we plan to carry out the upgrading of the automated equipment in the self-operated warehousing facilities and enhance the warehousing capabilities across China. In 2025, we plan to improve our supply chain capabilities and develop intelligent delivery centers and fruit processing centers in cities in Eastern and Southern China, such as Shanghai and Guangzhou. In 2026, we plan to improve our supply chain capabilities and develop intelligent delivery centers and fruit processing centers in cities in Central and Northern China, such as Wuhan and Beijing.

FUTURE PLANS AND USE OF PROCEEDS

- approximately 12.0%, or HK\$294.7 million, will be used to upgrade our store equipment to further automate and streamline the product-making process in selected ChaPanda stores as follows:
 - (i) to conduct comprehensive offline store upgrade across the ChaPanda store network with our latest brand image, such as storefront and in-store decoration. In this regard, we believe a comprehensive offline store upgrade is important to the continuous growth of our store network. In particular, the store upgrade helps franchisees improve the store-level operating efficiency and profitability, which, in turn, motivates the franchisees to operate multiple stores and attract new franchisees through word-of-mouth marketing strategy; and
 - (ii) to promote upgraded store equipment in ChaPanda store network, including smart tea drink machines that produce tea drinks automatically after employees input key product metrics, and automated fruit processors that are able to squeeze and peel fruits and extract juice.

Through the above-mentioned efforts, we intend to implement the upgrade of store decoration and equipment across the store network in China. As the competition in China's freshly-made tea shop market continues to intensify, we believe the foregoing decoration and equipment upgrade will allow us to enhance our store image, promote our brand and strengthen our competitiveness, thus delivering sustainable growth and success to us and our franchisees in the future. We plan to utilize the proceeds from this Global Offering to support our franchisees in store decoration and equipment upgrade. We will determine the specific amount and implementation strategy in relation to offering such support based on various factors, such as the specific business needs and conditions as well as operating performance of different franchisees and stores. By doing so, we believe we are able to ensure the consistency in store decoration and equipment, as well as help franchisees develop their business with reduced costs, which, in turn, enables us to realize business growth amid intensified competition. For instance, with the purchase and use of the abovementioned smart tea drink machines and automated fruit processors, we believe the operating efficiency and service quality of ChaPanda stores will be further improved going forward. As part of the foregoing upgrade store decoration and equipment plan, in the next three years, we plan to purchase approximately seven thousand sets of each of these store equipment for the supply to ChaPanda stores, the specific amount of which is subject to the business needs in the near future.

FUTURE PLANS AND USE OF PROCEEDS

- approximately 18.0%, or HK\$442.1 million, will be used to make strategic investment in the upstream of the supply chain, which helps us strengthen our control over the supply chain from the manufacturing stage and ensure product quality. Our investments in the supply chain might take the form of equity investment in key suppliers or joint ventures in manufacturing facility projects. In particular, we plan to select the investment targets who are able to enhance our business performance and strengthen our key operating capabilities. Accordingly, we expect the potential investment targets will have the following features, among others, (i) enriching our product matrix or promoting our business development with their existing capabilities or products, (ii) having the operating capabilities to support the expansion of our supply chain system in domestic and overseas markets, (iii) having the capabilities to offer core raw materials, such as tea leaves, for our current or future product offerings, thus supporting our ongoing product development with quality raw materials, (iv) providing technology capabilities required for our business growth, and (v) having the market size and production capabilities suitable for our business needs. Our Directors shall review and, where appropriate, approve investment proposals and ensure that our investments comply with applicable laws, regulations and the Listing Rules.

With our efforts, we intend to further strengthen food safety management system to realize full cycle tracking, supervision and monitoring from production areas to endpoint stores in 2024. We also plan to build facilities to manufacture packaging materials. In comparison with the packaging materials we purchased from third parties, the unit cost of straws that we saved by using our self-manufactured packaging materials amounted to 26% and 29% in 2021 and 2022, respectively, and the unit cost of bags that we saved by using our self-manufactured packaging materials amounted to 29% and 28% in 2021 and 2022, respectively.

- approximately 5.0%, or HK\$122.8 million, will be used to support our supply chain capabilities in overseas markets. Specifically, we plan to build manufacturing and delivery facilities to cater to the demand for production capabilities driven by our overseas expansion.

In 2024, we plan to start the development of supply chain system to cover Southeast Asia markets, such as Thailand, Vietnam and Malaysia. In 2025, we plan to begin the development of delivery centers to support our expansion in Southeast Asia markets. According to Frost & Sullivan, in 2023, the market size of freshly-made tea shops in Southeast Asia was RMB32.9 billion, and is expected to rise to RMB78.3 billion in 2028, providing ample market potential due to the relatively high temperature and rapid development of urbanizations.

FUTURE PLANS AND USE OF PROCEEDS

- approximately 20.0%, or HK\$491.2 million, will be used to develop our digitalization capabilities, and engage and train professional talents. We will develop and improve digital solutions facilitating our front-end, middle-end and back-end operations, thus achieving full-cycle operation digitalization, business automation, and decision-making intelligence in all of the key business aspects, such as sales and marketing, franchisee management, store operation, supply chain management, warehousing, business planning and corporate management. In particular, we will enhance our digitalization capabilities as follows:
 - to enhance our operation digitalization, such as building a middle-end platform to support our operating process with data integration, enhancing our online presence through private traffic pool, advancing full life cycle digitalized franchisee management and promoting intelligent store operation;
 - to improve the intelligence level of our supply chain, such as building intelligent warehousing and delivery capabilities, developing a middle-end platform to optimize supply chain and warehousing capabilities, launching a tracking system to monitor supply chain and raw material procurement, and partnering with upstream suppliers to achieve intelligent procurement;
 - to enhance our big-data capabilities and digitalized product development by, among others, building data warehousing, management and integration capabilities, launching business intelligence for business analysis and decision-making, developing algorithms for intelligent recommendation, precise marketing, intelligent inventory management, supply chain planning and intelligent store location selection; and
 - to support digitalization in other key business aspects, such as operation and finance management, IT infrastructure, human resources and external consulting management.

The foregoing expansion plans in relation to our digitalization capabilities will be consistently implemented in the future in light of its importance to our development and expansion. In particular, we will advance our digitalization capabilities with specific key areas of development in each of the next three years as follows. In 2024, we intend to enhance the digitalization capabilities in our supply chain by, among others, building big data systems based on IoT capabilities and warehousing network connection. In 2025, we plan to improve store level intelligence and AI capabilities in the key business aspects such as online ordering, user empowerment, product quality management, production planning, inventory management and financial management. In 2026, we intend to achieve data-powered warehousing network and business management utilizing industry data, competition analysis and public opinion study.

FUTURE PLANS AND USE OF PROCEEDS

- approximately 12.0%, or HK\$294.7 million, will be used in branding and promoting activities, including:
 - approximately 10.0%, or HK\$245.6 million, will be used in holding online and offline branding and marketing activities to increase consumer engagement and store performance. In particular, we plan to (i) increase online brand exposure with various promotion measures, such as live broadcasting promotion, sales incentives on online social networking platforms and member activities via mini program portals; (ii) collaborate with well-known online platforms to promote existing and new products and launch IP marketing; (iii) develop private traffic pool and increase consumer interaction with offline ChaPanda stores; and (iv) launch ChaPanda stores in key regions or cities and hold related marketing campaigns during ramp-up periods or peak seasons.
 - approximately 2.0%, or HK\$49.1 million, will be used in marketing activities during the store network expansion as follows: (i) to develop a digitalized store location planning platform based on accumulated data on existing store networks, commercial information and demographic data; (ii) to launch specialized stores in key cities, business districts and commercial centers to increase brand awareness and recognition; (iii) to invest in city-level commercial exhibits to increase brand exposure in local markets. During this process, we plan to take various measures to source and attract more franchisees to support the growth of our store network. For instance, using our expertise and capabilities in store location and planning, we strategically select and decide optimized store locations in cities across China. Therefore, when we reach out to potential franchisees, we are able to recommend suitable store locations to them based on their individualized business needs. In this process, we introduce to the franchisees how we carry out the store location and planning process utilizing our big-data capabilities and extensive industry knowledge to gain their trust.

As a key aspect to support our business expansion, our branding and promoting activities will be implemented consistently in the near future with the expansion of ChaPanda store network. For instance, we intend to launch flagship stores in Chengdu and other key markets in the next three years, and the specific store launch plan will be determined based on our business development in the future.

- approximately 5.0%, or HK\$122.8 million, will be used to promote our self-operated coffee brand “Coffree” and develop the coffee shop network across China.

We plan to operate Coffree as an independent brand, and the coffee shops to be operated under the Coffree brand will function as standalone stores, separate from the ChaPanda store network. We plan to offer a diverse product portfolio in the coffee shops. In addition to our classic and specialized coffee selections, we broaden our menu to feature bakery items and other light foods such as bagels and

FUTURE PLANS AND USE OF PROCEEDS

hamburgers, giving consumers a wider range of culinary options. Additionally, we enrich our coffee offerings by introducing fruit-infused coffee, providing customers with a refreshing beverage experience. We intend to address a broad market with mid-range pricing. According to Frost & Sullivan, the mid-range pricing sector of China's coffee shop market lacks clear leaders, leaving ample room for new players to expand. In 2023, the market size of this sector is estimated to be more than RMB30 billion and is expected to reach RMB60.1 billion in 2028 at a CAGR of 14.5% from 2024 to 2028. Overall coffee shop market in China is expected to grow at a CAGR of 18.4% from 2024 to 2028. Thus, we believe there is significant market potential for us to penetrate and thrive. Our coffee brand will adopt both the self-operated and franchise models and will offer both (i) larger, café-style stores of over 50 square meters that provide a relaxing dining experience, and (ii) smaller quick-service stores of under 50 square meters designed for speedy pickups and takeaways.

Over the next three years, we plan to open 15 coffee shops in selected cities, subject to specific market demands and our business development strategy. Our phased growth approach begins with establishing and promoting our coffee brand in 2024, followed by the development of franchised stores and supply chain systems in 2025 and 2026. This deliberate strategy prioritizes building a loyal customer base before pursuing rapid expansion.

We believe our plan to launch the coffee brand and develop a coffee shop network is strategically aligned with our operational capabilities and expertise cultivated through managing our existing ChaPanda store network.

- *Store Network Management.* Our experience in managing ChaPanda store network has provided us with valuable insights into store operations, including location selection, interior design, inventory management and customer service. We will utilize this expertise to facilitate the efficient and effective management of the coffee shops.
- *Franchise Operation.* With a proven track record in implementing and managing franchise operations across ChaPanda store network, we are well-positioned to extend this success to the coffee sector. Leveraging our established franchise model, we can effectively expand our coffee network while maintaining standardized processes, implementing comprehensive training programs, providing continuous support, and ensuring brand consistency across all coffee shops.

FUTURE PLANS AND USE OF PROCEEDS

- *Supply Chain and Product Development.* Our strong supply chain and product development expertise enable us to efficiently source high-quality coffee beans, ingredients, and equipment. With trusted supplier relationships, we can create a diverse and appealing menu tailored to consumer preferences. For example, we plan utilize our existing supply chain to procure key ingredients like fresh fruits and leverage our product development capabilities to introduce new offerings.
- *Branding and Marketing.* Leveraging our extensive branding and marketing experience gained from promoting our ChaPanda brand, we are able to develop effective strategies to build brand awareness, drive foot traffic, and engage with our target audience. We will tailor our marketing efforts to effectively position our coffee brand in the market, leveraging digital channels, social networking platforms, and strategic partnerships to reach a broad consumer base.
- approximately 2.0%, or HK\$49.1 million, will be used for our product development and innovation, including recruiting, training and retaining in-house product development personnel and building a product development center at our headquarters equipped with advanced software and hardware to streamline and enhance our product development endeavors. The foregoing advanced software and hardware will be specifically designed to empower our product development management, helping us continue to develop, upgrade and launch classic tea drinks and seasonal and regional tea drinks.

In particular, we will implement the following hiring plans for our in-house product development personnel:

- (i) approximately 50 personnel with the experience in freshly-made tea drinks and beverage industry who may receive the individual salary between RMB200 thousand to RMB500 thousand per year. In particular, we intend to hire 20 personnel in each of the next two years and 10 personnel in the third year. In addition, in 2024, we plan to begin R&D efforts for data analysis, product R&D management, product lifecycle management, intelligent equipment and material category management.
- (ii) approximately 50 personnel with the experience in coffee shop industry who may receive the individual salary between RMB200 thousand to RMB500 thousand per year. In particular, we intend to hire 20 personnel in each of the next two years and 10 personnel in the third year.
- (iii) approximately 30 personnel with the experience in food industry who may receive the individual salary between RMB200 thousand to RMB500 thousand per year. In particular, we intend to hire 10 personnel in each of the next three years.

FUTURE PLANS AND USE OF PROCEEDS

- (iv) approximately 30 personnel with the experience in tea drinks product development in overseas markets who may receive the individual salary between RMB200 thousand to RMB500 thousand per year. In particular, we intend to hire 10 personnel in each of the next three years.
- the remaining approximately 10.0%, or HK\$245.6 million, will be used for working capital and general corporate purposes.

To the extent our net proceeds are either more or less than expected, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro rata basis.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by the relevant law and regulations, we can only place the net proceeds into short-term interest-bearing accounts at licenced commercial banks and/or other authorised financial institutions (as defined under the Securities and Futures Ordinance or applicable laws and regulations in other jurisdictions). We will make an appropriate announcement if there is any change to the above proposed use of proceeds or if any amount of the proceeds will be used for general corporate purpose.

If the Over-Allotment Option is fully exercised, the net proceeds that we will receive will be approximately HK\$2,832.1 million, at the Offer Price of HK\$17.50 per H Share, and after deducting the underwriting fees and commissions payable by our Company. The additional amount raised will be applied to the above areas of use of proceeds on pro rata basis.

UNDERWRITING

HONG KONG UNDERWRITERS

China International Capital Corporation Hong Kong Securities Limited

Citigroup Global Markets Asia Limited

CMB International Capital Limited

CCB International Capital Limited

Shenwan Hongyuan Securities (H.K.) Limited

China Merchants Securities (HK) Co., Limited

Futu Securities International (Hong Kong) Limited

Tiger Brokers (HK) Global Limited

Fosun International Securities Limited

Maxa Capital Limited

Space Securities Limited

UNDERWRITING

This Prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters.

The Global Offering comprises the Hong Kong Public Offering of initially 14,776,400 Hong Kong Offer Shares and the International Offering of initially 132,987,000 International Offer Shares, subject, in each case, to reallocation on the basis as described in the section headed “**Structure of the Global Offering**” in this Prospectus as well as to the Over-Allotment Option (in the case of the International Offering).

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering the Hong Kong Offer Shares for subscription on the terms and conditions set out in this Prospectus and the Hong Kong Underwriting Agreement at the Offer Price.

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Subject to (a) the Listing Committee granting approval for the listing of, and permission to deal in, the H Shares to be offered pursuant to the Global Offering (including any additional H Shares that may be issued pursuant to the exercise of the Over-Allotment Option) on the Main Board of the Hong Kong Stock Exchange and such approval not subsequently having been revoked prior to the commencement of trading of the H Shares on the Hong Kong Stock Exchange and (b) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the Hong Kong Offer Shares being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set out in this Prospectus and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on, among other things, the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. If at any time prior to 8:00 a.m. on the day that trading in the H Shares commences on the Stock Exchange:

- (a) there shall develop, occur, exist or come into effect:
 - (i) any event or series of events or circumstances in the nature of force majeure (including, without limitation, any acts of government, declaration of a regional, national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreaks of diseases or its escalation, mutation or aggravation (including, without limitation, COVID-19, SARS, swine or avian flu, H5N1, H1N1, H1N7, H7N9, Ebola virus, Middle East respiratory syndrome (MERS) and such related/mutated forms), accidents or prolonged interruption or delay in transportation, economic sanctions, strikes, labour disputes, lock-outs, other industrial actions, fire, explosion, flooding, earthquake, tsunami, volcanic eruption, riots, rebellion, civil commotion, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism (whether or not responsibility has been claimed)), paralysis in government operations, interruptions or delay in transportation in or affecting Hong Kong, the PRC, the United States, Singapore, the United Kingdom, the European Union (or any member thereof) any other jurisdiction relevant to any member of our Group (collectively, the “**Relevant Jurisdictions**”); or
 - (ii) any change, or any development involving a prospective change, or any event or circumstance likely to result in any change or development involving a prospective change, in any local, national, regional or international financial,

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economic, political, military, industrial, legal, fiscal, regulatory, currency, credit or market conditions, equity securities or exchange control or any monetary or trading settlement system or other financial markets (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting any Relevant Jurisdictions; or

- (iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market or the London Stock Exchange; or
- (iv) any general moratorium on commercial banking activities in the Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authorities as defined under the Hong Kong Underwriting Agreement), the PRC, New York (imposed at Federal or New York State level or other competent authorities as defined under the Hong Kong Underwriting Agreement), London, the European Union (or any member thereof) or any other Relevant Jurisdiction, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or
- (v) any new law, or any change or any development involving a prospective change or any event or circumstance likely to result in a change or a development involving a prospective change in (or in the interpretation or application by any court or other competent authorities of) existing laws, in each case, in or affecting any of the Relevant Jurisdictions; or
- (vi) the imposition of sanctions, in whatever form, or the withdrawal of trading privileges, directly or indirectly, under any sanction Laws, or regulations in, Hong Kong, the PRC or any other Relevant Jurisdiction; or
- (vii) a change or development involving a prospective change in or affecting taxes or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar, United States dollar, or the RMB against any foreign currencies, a change in the system under which the value of the Hong Kong dollar is linked to that of the United States dollar or RMB is linked to any foreign currency or currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions or affecting an investment in the Offer Shares; or
- (viii) any litigation or claim of any third party being threatened or instigated against any member of our Group; or
- (ix) a contravention by any member of our Group of the Listing Rules or applicable laws; or

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- (x) a prohibition by a relevant authority on our Company for whatever reason from offering, allotting, issuing or selling any of the Shares (including the Shares that may be issued upon exercise of the Over-Allotment Option) pursuant to the terms of the Global Offering; or
- (xi) non-compliance of this Prospectus (or any other documents used in connection with the contemplated offer and sale of the Offer Shares), the CSRC filings or any aspect of the Global Offering with the Listing Rules, the CSRC Rules or any other applicable Laws; or
- (xii) other than with the prior written consent of the Sole Overall Coordinator, the issue or requirement to issue by our Company of any supplement or amendment this Prospectus, final offering circular or (or to any other documents issued or used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies Ordinance or the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules, the CSRC Rules or any requirement or request of the Stock Exchange, the CSRC and/or the SFC; or
- (xiii) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior its stated maturity; or
- (xiv) any change or prospective change or development, or a materialisation of, any of the risks set out in section headed “Risk Factors” in this Prospectus; or
- (xv) a relevant authority or a political body or organization in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or
- (xvi) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity or any loss or damage sustained by that member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person),

which, individually or in the aggregate, in the sole and absolute opinion of the Sole Overall Coordinator and the Sole Sponsor (1) has or will have or may have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders’ equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group as a whole or to any present or prospective shareholder of our Company in its capacity as such; or (2) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or (3) makes or will

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make or may make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering or the delivery or distribution of the Offer Shares on the terms and in the manner contemplated by the Offer Related Documents (as defined below); or (4) has or will have or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing or delaying the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

- (b) there has come to the notice of the Sole Sponsor or the Sole Overall Coordinator:
- (i) that any statement contained in any of the Offering Documents (as defined under the Hong Underwriting Agreement), the formal notice, the offering circular, and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (collectively, the “**Offer Related Documents**”) (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect, inaccurate, or misleading or deceptive in any material respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of the Offer Related Documents (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions; or
 - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this Prospectus, constitute a material omission from or misstatement in any of the Offer Related Documents (including any supplement or amendment thereto); or
 - (iii) any breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or
 - (iv) any event, act or omission which gives or is likely to give rise to any liability of any of the indemnifying parties pursuant to the Hong Kong Underwriting Agreement; or
 - (v) any material adverse change, or any development involving a prospective material adverse change, in or affecting the assets, liabilities, business, general affairs, management, prospects, shareholders’ equity, profits, losses, results of operations, prospects, position or condition, financial or otherwise, or performance of our Company and the other members of our Group, taken as a whole; or

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- (vi) any breach of, or any event or circumstance rendering untrue or incorrect or misleading in any respect, any of the representations, warranties, agreements and undertakings of our Company and the Controlling Shareholders; or
- (vii) the chairman, the chief executive officer or the financial director of our Company or any of the executive Directors vacating his/her office; or
- (viii) that approval by the Listing Committee of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the Over-Allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (ix) our Company withdraws any of the Offering Documents (as defined under the Hong Kong Underwriting Agreement) or the Global Offering; or
- (x) any expert (other than the Sole Sponsor) specified in this Prospectus, whose consent is required for the issue of the prospectus with the inclusion of its reports, letters or opinions and references to its name included in the form and context in which it respectively appears, has withdrawn its consent to being named in this Prospectus or to the issue of any of the Hong Kong Public Offering Documents (as defined under the Hong Kong Underwriting Agreement); or
- (xi) there is a prohibition on our Company for whatever reason from offering, allotting, issuing or selling any of the Offer Shares pursuant to the terms of the Global Offering; or
- (xii) any Director or member of senior management of our Company as disclosed in this Prospectus is being charged with an indictable offence or is prohibited by operation of law or otherwise disqualified from taking part in the management or as director of a company or there is the commencement by any governmental, political or regulatory body of any investigation or other action against any Director member of senior management of our Company in his or her capacity as such or any member of our Group or an announcement by any governmental, political or regulatory body that it intends to commence any such investigation or take any such action; or

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- (xiii) there is any order or petition for the winding-up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group; or
- (xiv) that a material portion of the orders placed or confirmed in the book-building process have been withdrawn, terminated or cancelled.

Undertakings given to the Stock Exchange pursuant to the Listing Rules

(A) Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that it will not issue any further Shares, or securities convertible into equity securities of our Company (whether or not of a class already listed) or enter into any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except (a) pursuant to the Global Offering and the Over-Allotment Option or (b) under any of the circumstances provided under Rule 10.08 of the Listing Rules.

(B) Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has irrevocably and unconditionally undertaken to us and to the Stock Exchange that he, she or it shall not and shall procure that the relevant registered holder(s) controlled by he, she or it shall not, either directly or indirectly:

- (a) in the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is 6 months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our securities that it is shown to beneficially own in this prospectus (the “**Relevant Shares**”); or

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- (b) in the period of a further 6 months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Relevant Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he, she or it will cease to be a controlling shareholder (as defined in the Listing Rules) of our Company or a member of a group of the Controlling Shareholders of our Company or would together with the other Controlling Shareholders cease to be controlling shareholders (as defined in the Listing Rules).

Each of our Controlling Shareholders has further irrevocably and unconditionally undertaken to us and the Stock Exchange that, within the period commencing on the date by reference to which disclosure of its/his/her shareholdings in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/she/it will and will procure that the relevant registered holder(s) will:

- (a) when he, she or it pledges or charges any securities in our Company beneficially owned by it/him/her in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us in writing of such pledge or charge together with the number of our securities so pledged or charged; and
- (b) when he, she or it receives indications, either verbal or written, from the pledgee or chargee that any of our pledged or charged securities beneficially owned by it will be disposed of, immediately inform us in writing of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the matters mentioned in the paragraphs (a) and (b) above by any of our Controlling Shareholders and subject to the then requirements of the Listing Rules disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

Undertakings pursuant to the Hong Kong Underwriting Agreement

- (A) Undertakings by our Company and the Controlling Shareholders in respect of our Company

Pursuant to the Hong Kong Underwriting Agreement, except for the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-Allotment Option) and otherwise pursuant to the Listing Rules, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), our Company has undertaken to each of the Sole Sponsor, the Sponsor-OC, the Sole Overall Coordinator, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters,

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and the Capital Market Intermediaries not to, without the prior written consent (such consent not to be unreasonably withheld) of the Sole Sponsor and the Sole Overall Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue, repurchase or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create a mortgage, charge, pledge, lien or other security interest or any option, restriction, right of first refusal, right of pre-emption or other third party claim, defect, right, interest or preference granted to any third party or any other encumbrance or security interest of any kind (an “**Encumbrance**”) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any legal or beneficial interest in, any Shares or any other equity securities of our Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or deposit any share capital or other equity securities of our Company, as applicable, with a depository in connection with the issue of depository receipts; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or any other equity securities of our Company, as applicable, or any interest in any of the foregoing (including, without limitation, any equity securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares); or
- (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above,

in each case, whether any of the foregoing (a), (b) and (c) transactions is to be settled by delivery of Shares or such other equity securities of our Company, or in cash or otherwise (whether or not the issue of such share capital or other equity securities will be completed within the First Six-Month Period). Our Company further agreed that, in the event our Company is allowed to enter into any of the transactions described in (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction during the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), it will take all reasonable steps to ensure that such an issue or disposal will not create a disorderly or false market in the securities of our Company. Each of the Controlling Shareholders has undertaken to each of the Sole Sponsor, the Sponsor-OC, the

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Sole Overall Coordinator, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Capital Market Intermediaries to procure our Company to comply with the above undertakings.

Our Company and the Controlling Shareholders have agreed and undertaken to each of the Sole Sponsor, the Sponsor-OC, the Sole Overall Coordinator, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Capital Market Intermediaries that it will not, and each of the Controlling Shareholders has further undertaken to procure that our Company will not, effect any purchase of Shares, or agree to do so, which may reduce the holdings of Shares held by the public (as defined in Rule 8.24 of the Listing Rules) below minimum public float requirements specified in the Listing Rules or any waiver granted and not revoked by the Stock Exchange (the “**Minimum Public Float Requirement**”), on or before the date falling six months after the Listing Date without having first obtained the prior written consent of the Sole Sponsor and the Sole Overall Coordinator (for itself and on behalf of the Hong Kong Underwriters).

(B) Undertakings by the Controlling Shareholders in respect of themselves

Each of the Controlling Shareholders has undertaken to each of our Company, the Sole Sponsor, the Sole Overall Coordinator, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Capital Market Intermediaries that, without the prior written consent (such consent not to be unreasonably withheld) of the Sole Sponsor and the Sole Overall Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) he, she or it will not, and will procure that the relevant registered holder(s), any nominee or trustee holding on trust for it and the companies controlled by it will not, at any time during the First Six-Month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any legal or beneficial interest therein (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares beneficially owned by him, her or it as of the Listing Date (the “**Locked-up Securities**”)), or deposit any Shares or other securities of the Company with a depository in connection with the issue of depository receipts, or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Locked-up Securities, or (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above, or (iv) offer to or agree to or announce any intention to effect any transaction specified in (i), (ii) or (iii) above, in each case, whether any of the transactions

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specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of the Company or in cash or otherwise (whether or not the settlement or delivery of such Shares or other securities will be completed within the First Six-Month Period or the Second Six-Month Period);

- (b) he, she or it will not, and will procure that the relevant registered holder(s), any nominee or trustee holding on trust for it and the companies controlled by it not, during the Second Six-Month Period, enter into any of the transactions specified in (a)(i), (a)(ii), (a)(iii) or (a)(iv) above or offer to or agree to or contract or publicly announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, another shareholder or person holding the beneficial interests in the Shares or securities of our Company becoming a “controlling shareholder” (as the term is defined in the Listing Rules) of our Company;
- (c) until the expiry of the Second Six-Month Period, in the event that he, she or it enters into any of the transactions specified in (a)(i), (a)(ii) or (a)(iii) above, offers to or agrees to or announces any intention to effect any such transaction, he, she or it will take all reasonable steps to ensure that he, she or it will not create a disorderly or false market in the securities of our Company; and
- (d) at any time during the First Six-Month Period and the Second Six-Month Period, he, she or it or any relevant registered holder will (i) if and when he, she or it pledges or charges any Shares or other securities (or interest therein) of our Company beneficially owned by him, her or it, immediately inform our Company, the Sole Sponsor and the Sole Overall Coordinator in writing of such pledge or charge together with the number of Shares or other securities of our Company so pledged or charged; and (ii) if and when he, she or it receive indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or other securities (or interest therein) of our Company will be disposed of, immediately inform our Company, the Sole Sponsor and the Sole Overall Coordinator in writing of such indications, provided that nothing in the above shall prevent the Controlling Shareholders from (a) using the Shares or other securities of our Company (or any interest therein) beneficially owned by them respectively as security (including a charge or a pledge) in favour of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan; and (b) purchasing additional Shares or other securities of our Company or any interest therein or dispose of Shares or other securities of our Company (or any interest therein) which are purchased in the First Six-Month Period and the Second Six-Month Period, provided that such purchase does not contravene the compliance by our Company with the requirement of Rule 8.08 of the Listing Rules to maintain an open market in the securities and a sufficient public float in the Shares.

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Our Company has undertaken to the Sole Sponsor, the Sole Overall Coordinator and the Hong Kong Underwriters that upon receiving such information in writing from any of the Controlling Shareholders, he, she or it will, as soon as practicable and if required pursuant to the Listing Rules, notify the Stock Exchange and make a public disclosure in relation to such information by way of an announcement.

Hong Kong Underwriters' Interests in our Company

Save for their respective obligations under the Hong Kong Underwriting Agreement, as of the Latest Practicable Date, none of the Hong Kong Underwriters was interested, legally or beneficially, directly or indirectly, in any Shares or any securities of any member of the Group or had any right or option (whether legally enforceable or not) to subscribe for or purchase, or to nominate persons to subscribe for or purchase, any Shares or any securities of any member of the Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the H Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement.

International Offering

International Underwriting Agreement

In connection with the International Offering, our Company and the Controlling Shareholders expect to enter into the International Underwriting Agreement with the International Underwriters on or around April 18, 2024. Under the International Underwriting Agreement and subject to the Over-Allotment Option, the International Underwriters would, subject to certain conditions set out therein, agree severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the International Offer Shares initially being offered pursuant to the International Offering. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that in the event that the International Underwriting Agreement is not entered into or is terminated, the Global Offering will not proceed. See the section headed “Structure of the Global Offering—The International Offering” in this Prospectus.

Over-Allotment Option

Our Company is expected to grant to the International Underwriters the Over-Allotment Option, exercisable by the Sole Overall Coordinator (on behalf of the International Underwriters) at any time from the date of the International Underwriting Agreement until Saturday, May 18, 2024, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering, pursuant to which our Company may be required to issue up to an aggregate of 22,164,400 additional Offer Shares, representing not more than 15% of the

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number of Offer Shares initially available under the Global Offering, at the Offer Price, to cover over-allocations (if any) in the International Offering. See the section headed “Structure of the Global Offering—Over-Allotment Option” in this Prospectus.

Commissions and Expenses

The Underwriters and the Capital Market Intermediaries will receive an underwriting commission of 2.0% of the aggregate Offer Price of all the Offer Shares (including any Offer Shares to be issued pursuant to the exercise of the Over-Allotment Option) (the “**Fixed Fees**”), out of which they will pay any sub-underwriting commissions and other fees.

The Underwriters and the Capital Market Intermediaries may receive a discretionary incentive fee of up to 1.0% of the aggregate Offer Price of all the Offer Shares (including any Offer Shares to be issued pursuant to the exercise of the Over-Allotment Option) (the “**Discretionary Fees**”).

For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, to the relevant International Underwriters.

The aggregate underwriting commissions payable to the Underwriters and the Capital Market Intermediaries in relation to the Global Offering (assuming based on Offer Price of HK\$17.50 per Offer Share and the full payment of the discretionary incentive fee and the exercise of the Over-Allotment Option in full) will be approximately HK\$89.2 million. The amount and respective entitlement among the Underwriters and the Capital Market Intermediaries of which is expected to be determined before the Listing Date in compliance with the Listing Rules. Assuming the Discretionary Fees are paid in full, the ratio of the Fixed Fees and the Discretionary Fees paid or payable to all Underwriters and all Capital Market Intermediaries is 55.3:44.7.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial

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instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments of our Company and/or persons and entities with relationships with our Company and may also include swaps and other financial instruments entered into for hedging purposes in connection with the Group's loans and other debt.

In relation to the H Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the H Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the H Shares (which financing may be secured by the H Shares) in the Global Offering, proprietary trading in the H Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the H Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the H Shares, which may have a negative impact on the trading price of the H Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the H Shares, in baskets of securities or indices including the H Shares, in units of funds that may purchase the H Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the H Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the H Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in the section headed "Structure of the Global Offering" in this Prospectus. Such activities may affect the market price or value of the H Shares, the liquidity or trading volume in the H Shares and the volatility of the price of the H Shares, and the extent to which this occurs from day to day cannot be estimated.

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It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilization Manager or its affiliates or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to our Company and each of its affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

In addition, the Syndicate Members or their respective affiliates may provide financing to investors to finance their subscriptions of Offer Shares in the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This Prospectus is published in connection with the Hong Kong Public Offering which forms part of the Global Offering.

The listing of the H Shares on the Stock Exchange is sponsored by the Sole Sponsor. The Sole Sponsor has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the H Shares in issue and to be issued as mentioned in this Prospectus.

147,763,400 Offer Shares will initially be made available under the Global Offering comprising:

- (a) the Hong Kong Public Offering of initially 14,776,400 H Shares (subject to reallocation) in Hong Kong as described in the sub-section “The Hong Kong Public Offering” in this section below; and
- (b) the International Offering of initially 132,987,000 H Shares (subject to reallocation and the Over-Allotment Option) (i) in the United States solely to QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and (ii) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S, as described in the sub-section headed “The International Offering” this section below.

Investors may either:

- (i) apply for Hong Kong Offer Shares under the Hong Kong Public Offering; or
- (ii) apply for or indicate an interest for International Offer Shares under the International Offering,

but may not do both.

The Offer Shares will represent approximately 10% of the total Shares in issue immediately following the completion of the Global Offering, assuming the Over-Allotment Option is not exercised. If the Over-Allotment Option is exercised in full, the Offer Shares (including H Shares issued pursuant to the full exercise of the Over-Allotment Option) will represent approximately 11.3% of the total Shares in issue immediately following the completion of the Global Offering and the issue of Offer Shares pursuant to the Over-Allotment Option.

References in this Prospectus to applications, application monies or the procedure for applications relate solely to the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

Our Company is initially offering 14,776,400 H Shares (subject to reallocation) for subscription by the public in Hong Kong at the Offer Price, representing approximately 10% of the total number of Offer Shares initially available under the Global Offering. The number of Offer Shares initially offered under the Hong Kong Public Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 1.0% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-Allotment Option is not exercised).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in the sub-section headed “Conditions of the Global Offering” in this section.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking into account any reallocation referred to below) will be divided equally into two pools (with any odd lots being allocated to pool A): pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, the SFC transaction levy, AFRC transaction levy and the Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, the SFC transaction levy, AFRC transaction levy and the Stock Exchange trading fee payable) and up to the total value in pool B.

STRUCTURE OF THE GLOBAL OFFERING

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Offer Shares in one (but not both) of the pools are unsubscribed, such unsubscribed Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of the immediately preceding paragraph only, the “price” for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 7,388,200 Hong Kong Offer Shares is liable to be rejected.

Reallocation

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation under the Listing Rules. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares to be offered in the Global Offering if certain prescribed total demand levels in the Hong Kong Public Offering are reached. 14,776,400 Offer Shares are initially available in the Hong Kong Public Offering, representing approximately 10% of the Offer Shares initially available for subscription under the Global Offering; and in the event of full subscription or over-subscription of the International Offer Shares, the Sole Overall Coordinator shall apply a clawback mechanism following the closing of the application lists on the following basis, subject to the allocation basis as stated in Chapter 4.14 under the Guide for New Listing Applicants published by the Stock Exchange:

- If the Hong Kong Public Offering is not fully subscribed for, the Sole Overall Coordinator (for itself and on behalf of the Underwriters) has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Sole Overall Coordinator deems appropriate, and the Allocation Cap as defined in and stated under Chapter 4.14 under the Guide for New Listing Applicants published by the Stock Exchange will not be triggered;
- If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 44,329,200 Offer Shares, representing approximately 30% of the Offer Shares initially available under the Global Offering;

STRUCTURE OF THE GLOBAL OFFERING

- If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 59,105,400 Offer Shares, representing approximately 40% of the Offer Shares initially available under the Global Offering;
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more than the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 73,881,800 Offer Shares, representing approximately 50% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Overall Coordinator deems appropriate.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may be reallocated as between these offerings at the discretion of the Sole Overall Coordinator (for itself and on behalf of the Underwriters). Subject to the foregoing paragraph, the Sole Overall Coordinator may in their discretion reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

In accordance with Chapter 4.14 under the Guide for New Listing Applicants published by the Stock Exchange, if (i) the International Offering is not fully subscribed and the Hong Kong Public Offering is fully subscribed or oversubscribed irrespective of the number of times; or (ii) the International Offering is fully subscribed or oversubscribed and the Hong Kong Public Offering is fully subscribed or oversubscribed with the number of Offer Shares validly applied for in the Hong Kong Public Offering representing less than 15 times of the number of H Shares initially available for subscription under the Hong Kong Public Offering, the Sole Overall Coordinator has the authority to reallocate International Offer Shares originally included in the International Offering to the Hong Kong Public Offering in such number as they deem appropriate, provided that the total number of Offer Shares available under the Hong Kong Public Offering following such reallocation shall be not more than 29,552,800 Offer Shares (representing twice the total number of Offer Shares initially available under the Hong Kong Public Offering).

STRUCTURE OF THE GLOBAL OFFERING

Details of any reallocation of Offer Shares between the Hong Kong Public Offering and the International Offering will be disclosed in the results announcement of the Global Offering, which is expected to be published on Monday, April 22, 2024.

Where the International Offer Shares are undersubscribed, if the Hong Kong Offer Shares are also undersubscribed, the Global Offering will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this Prospectus and the Underwriting Agreements.

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him/her/it that he/she/it and any person(s) for whose benefit he/she/it is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is/are breached and/or untrue (as the case may be) or if he/she/it has been or will be placed or allocated International Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the Offer Price of HK\$17.50 per Offer Share in addition to the brokerage, the SFC transaction levy, AFRC transaction levy and the Stock Exchange trading fee payable on each Offer Share, amounting to a total of HK\$3,535.30 for one board lot of 200 H Shares. Further details are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this Prospectus.

THE INTERNATIONAL OFFERING

Number of Offer Shares initially offered

The International Offering will consist of an offering of initially 132,987,000 H Shares, representing approximately 90% of the total number of Offer Shares initially available under the Global Offering (subject to reallocation and the Over-Allotment Option). The number of Offer Shares initially offered under the International Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 9.0% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-Allotment Option is not exercised).

STRUCTURE OF THE GLOBAL OFFERING

Allocation

The International Offering will include selective marketing of Offer Shares to QIBs in the United States in accordance with Rule 144A as well as institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in sub-section headed “Pricing and Allocation” in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further H Shares and/or hold or sell its H Shares after the Listing. Such allocation is intended to result in a distribution of the H Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Group and the Shareholders as a whole.

The Sole Overall Coordinator (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Overall Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any allocation of Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in the subsection “The Hong Kong Public Offering – Reallocation” in this section above, the exercise of the Over-Allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, our Company is expected to grant the Over-Allotment Option to the International Underwriters, exercisable by the Sole Overall Coordinator (on behalf of the International Underwriters).

Pursuant to the Over-Allotment Option, the International Underwriters will have the right, exercisable by the Sole Overall Coordinator (on behalf of the International Underwriters) at any time from the date of the International Underwriting Agreement until Saturday, May 18, 2024, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering, to require our Company to issue up to an aggregate of 22,164,400 additional H Shares, representing not more than 15% of the total number of Offer Shares initially available under the Global Offering, at the Offer Price under the International Offering to, cover over-allocations (if any) in the International Offering.

STRUCTURE OF THE GLOBAL OFFERING

If the Over-Allotment Option is exercised in full, the additional Offer Shares to be issued pursuant thereto will represent approximately 1.48% of the total Shares in issue immediately following the completion of the Global Offering and the issue of Offer Shares pursuant to the Over-Allotment Option. If the Over-Allotment Option is exercised, an announcement will be made.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the Offer Price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilization Manager (or its affiliates or any person acting for it), on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of the H Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilization Manager (or its affiliates or any person acting for it) to conduct any such stabilizing action. Such stabilizing action, if taken, (a) will be conducted at the absolute discretion of the Stabilization Manager (or its affiliates or any person acting for it) and in what the Stabilization Manager reasonably regards as the best interest of our Company, (b) may be discontinued at any time and (c) is required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering, being Saturday, May 18, 2024.

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (a) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the H Shares, (b) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the H Shares, (c) purchasing, or agreeing to purchase, the H Shares pursuant to the Over-Allotment Option in order to close out any position established under paragraph (a) or (b) above, (d) purchasing, or agreeing to purchase, any of the H Shares for the sole purpose of preventing or minimizing any reduction in the market price of the H Shares, (e) selling or agreeing to sell any H Shares in order to liquidate any position established as a result of those purchases and (f) offering or attempting to do anything as described in paragraph (b), (c), (d) or (e) above.

STRUCTURE OF THE GLOBAL OFFERING

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- (a) the Stabilization Manager (or its affiliates or any person acting for it) may, in connection with the stabilizing action, maintain a long position in the H Shares;
- (b) there is no certainty as to the extent to which and the time or period for which the Stabilization Manager (or its affiliates or any person acting for it) will maintain such a long position;
- (c) liquidation of any such long position by the Stabilization Manager (or its affiliates or any person acting for it) and selling in the open market may have an adverse impact on the market price of the H Shares;
- (d) no stabilizing action can be taken to support the price of the H Shares for longer than the stabilization period, which will begin on the Listing Date and is expected to expire on Saturday, May 18, 2024, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the H Shares, and therefore the price of the H Shares, could fall;
- (e) the price of the H Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- (f) stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

In order to effect stabilization actions, the Stabilization Manager will arrange cover of up to an aggregate of 22,164,400 H Shares, representing up to 15% of the initial Offer Shares, through delayed delivery arrangements with investors who have been allocated Offer Shares in the International Offering. The delayed delivery arrangements (if specifically agreed by an investor) relate only to the delay in the delivery of the Offer Shares to such investor and the Offer Price for the Offer Shares allocated to such investor will be paid before the Listing Date. Both the size of such cover and the extent to which the Over-Allotment Option can be exercised will depend on whether arrangements can be made with investors such that a sufficient number of H Shares can be delivered on a delayed basis. If no investor in the International Offering agrees to the delayed delivery arrangements, no stabilizing actions will be undertaken by the Stabilization Manager and the Over-Allotment Option will not be exercised.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

STRUCTURE OF THE GLOBAL OFFERING

Over-Allocation

Following any over-allocation of H Shares in connection with the Global Offering, the Stabilization Manager (or its affiliates or any person acting for it) may cover such over-allocations by exercising the Over-Allotment Option in full or in part, by using H Shares purchased by the Stabilization Manager (or its affiliates or any person acting for it) in the secondary market at prices that do not exceed the Offer Price, or by a combination of these methods.

PRICING AND ALLOCATION

The Offer Price will be HK\$17.50 per Offer Share unless otherwise announced, as further explained below. Applicants under the Hong Kong Public Offering may be required to pay, on application (subject to application channel), the Offer Price of HK\$17.50 per Offer Share plus brokerage of 1.0%, the AFRC transaction levy of 0.00015%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.00565%, amounting to a total of HK\$3,535.30 for one board lot of 200 H Shares. Further details are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this Prospectus.

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Sole Overall Coordinator (on behalf of the Underwriters) may, where they deem appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the International Offering, and with the consent of our Company, reduce the number of Offer Shares offered and/or the Offer Price below that stated in this Prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published on the websites of our Company and the Stock Exchange at www.chabaidao.com and www.hkexnews.hk, respectively, notices of the reduction. Upon the issue of such a notice, the revised number of Offer Shares and/or the Offer Price will be final and conclusive. Our Company will also, as soon as practicable following the decision to make such change, issue a supplemental prospectus updating investors of the change in the number of Offer Shares being offered under the Global Offering and/or the Offer Price. The Global Offering must first be canceled and subsequently relaunched on FINI pursuant to the supplemental prospectus.

STRUCTURE OF THE GLOBAL OFFERING

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this Prospectus, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced and/or the Offer Price will under no circumstances be set at a price that is not the Offer Price as stated in this Prospectus. However, if the number of Offer Shares and/or the Offer Price is reduced, our Company will issue a supplemental prospectus or new prospectus updating investors of the change in the number of Offer Shares being offered under the Global Offering and/or the Offer Price. The Global Offering must first be canceled and subsequently relaunched on FINI pursuant to the supplemental prospectus.

The level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering, the basis of allocations of the Hong Kong Offer Shares and the results of allocations in the Hong Kong Public Offering are expected to be made available through a variety of channels in the manner described in the section headed “How to Apply for Hong Kong Offer Shares—B. Publication of Results” in this Prospectus.

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement.

Our Company expects to enter into the International Underwriting Agreement relating to the International Offering on or around April 18, 2024.

These underwriting arrangements, including the Underwriting Agreements, are summarized in the section headed “Underwriting” in this Prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares will be conditional on:

- (a) the Listing Committee granting approval for the listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering (including any additional H Shares that may be issued pursuant to the exercise of the Over-Allotment Option) on the Main Board of the Stock Exchange and such approval and permission not subsequently having been withdrawn or revoked prior to the Listing Date;

STRUCTURE OF THE GLOBAL OFFERING

- (b) the execution and delivery of the International Underwriting Agreement on or about April 18, 2024; and
- (c) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days after the date of this Prospectus.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company on the websites of our Company and the Stock Exchange at www.chabaidao.com and www.hkexnews.hk, respectively, on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares—D. Despatch/Collection of H Share Certificates and Refund of Application Monies” in this Prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

H Share certificates for the Offer Shares will only become valid evidence of title at 8:00 a.m. on Tuesday, April 23, 2024, provided that the Global Offering has become unconditional in all respects at or before that time.

DEALINGS IN THE H SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, April 23, 2024, it is expected that dealings in the H Shares on the Stock Exchange will commence at 9:00 a.m. on Tuesday, April 23, 2024.

The H Shares will be traded in board lots of 200 H Shares each and the stock code of the H Shares will be 2555.

HOW TO APPLY FOR HONG KONG OFFER SHARES

IMPORTANT NOTICE TO INVESTORS OF HONG KONG OFFER SHARES

FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering and below are the procedures for application.

This Prospectus is available at the website of the Stock Exchange at www.hkexnews.hk under the “HKEXnews > New Listings > New Listing Information” section, and our website at www.chabaidao.com.

The contents of this Prospectus are identical to the prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

A. APPLICATION FOR HONG KONG OFFER SHARES

1. Who Can Apply

You can apply for Hong Kong Offer Shares if you or the person(s) for whose benefit you are applying for:

- are 18 years of age or older; and
- have a Hong Kong address (*for the White Form eIPO service only*).

Unless permitted by the Listing Rules or a waiver and/or consent has been granted by the Stock Exchange to us, you cannot apply for any Hong Kong Offer Shares if you or the person(s) for whose benefit you are applying for:

- are an existing Shareholder or close associates; or
- are a Director or a supervisor or any of his/her close associates.

2. Application Channels

The Hong Kong Offer period will begin at 9:00 am on Monday, April 15, 2024 and end at 12:00 noon on Thursday, April 18, 2024 (Hong Kong time).

HOW TO APPLY FOR HONG KONG OFFER SHARES

To apply for Hong Kong Offer Shares, you may use one of the following application channels:

Application Channel	Platform	Target Investors	Application Time
White Form eIPO service	at www.eipo.com.hk Enquiries: +852 2862 8600	Investors who would like to receive a physical H Share certificate. Hong Kong Offer Shares successfully applied for will be allotted and issued in your own name.	From 9:00 am on Monday, April 15, 2024 to 11:30 am on Thursday, April 18, 2024, Hong Kong time. The latest time for completing full payment of application monies will be 12:00 noon on Thursday, April 18, 2024, Hong Kong time.
HKSCC EIPO channel	Your broker or custodian who is a HKSCC Participant will submit an EIPO application on your behalf through HKSCC's FINI system in accordance with your instruction	Investors who would <u>not</u> like to receive a physical H Share certificate. Hong Kong Offer Shares successfully applied for will be allotted and issued in the name of HKSCC Nominees, deposited directly into CCASS and credited to your designated HKSCC Participant's stock account.	Contact your broker or custodian for the earliest and latest time for giving such instructions, as this may vary by broker or custodian.

The **White Form eIPO** service and the HKSCC EIPO channel are facilities subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day of the application period to apply for Hong Kong Offer Shares.

For those applying through the **White Form eIPO** service, once you complete payment in respect of any application instructions given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. If you are a person for whose benefit the electronic application instructions are given, you shall be deemed to have declared that only one set of

HOW TO APPLY FOR HONG KONG OFFER SHARES

electronic application instructions has been given for your benefit. If you are an agent for another person, you shall be deemed to have declared that you have only given one set of electronic application instructions for the benefit of the person for whom you are an agent and that you are duly authorized to give those instructions as an agent.

For the avoidance of doubt, giving an application instruction under the **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you apply through the **White Form eIPO** service, you are deemed to have authorized the **White Form eIPO** service provider to apply on the terms and conditions in this Prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

By instructing your broker or custodian to apply for the Hong Kong Offer Shares on your behalf through the HKSCC EIPO channel, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant HKSCC Participants) to apply for Hong Kong Offer Shares on your behalf and to do on your behalf all the things stated in this Prospectus and any supplement to it.

For those applying through HKSCC EIPO channel, an actual application will be deemed to have been made for any application instructions given by you or for your benefit to HKSCC (in which case an application will be made by HKSCC Nominees on your behalf) provided such application instruction has not been withdrawn or otherwise invalidated before the closing time of the Hong Kong Public Offering.

HKSCC Nominees will only be acting as a nominee for you and neither HKSCC nor HKSCC Nominees shall be liable to you or any other person in respect of any actions taken by HKSCC or HKSCC Nominees on your behalf to apply for Hong Kong Offer Shares or for any breach of the terms and conditions of this Prospectus.

3. Information Required to Apply

You must provide the following information with your application:

For Individual/Joint Applicants

- Full name(s)² as shown on your identity document
- Identity document's issuing country or jurisdiction

For Corporate Applicants

- Full name(s)² as shown on your identity document
- Identity document's issuing country or jurisdiction

HOW TO APPLY FOR HONG KONG OFFER SHARES

For Individual/Joint Applicants

- Identity document type, with order of priority:
 - i. HKID card; or
 - ii. National identification document; or
 - iii. Passport; and

- Identity document number

For Corporate Applicants

- Identity document type, with order of priority:
 - i. LEI registration document; or
 - ii. Certificate of incorporation; or
 - iii. Business registration certificate; or
 - iv. Other equivalent document; and

- Identity document number

Notes:

1. If you are applying through the **White Form eIPO** service, you are required to provide a valid e-mail address, a contact telephone number and a Hong Kong address. You are also required to declare that the identity information provided by you follows the requirements as described in Note 2 below. In particular, where you cannot provide a HKID number, you must confirm that you do not hold a HKID card.
2. The applicant's full name as shown on their identity document must be used. If an applicant's identity document contains both an English and Chinese name, both English and Chinese names must be used. Otherwise, either English or Chinese names will be accepted. The order of priority of the applicant's identity document type must be strictly followed and where an individual applicant has a valid HKID card, the HKID number must be used when making an application to subscribe for shares in a public offer. Similarly for corporate applicants, a LEI number must be used if an entity has a LEI certificate.
3. If the applicant is a trustee, the client identification data ("CID") of the trustee, as set out above, will be required. If the applicant is an investment fund (i.e. a collective investment scheme, or CIS), the CID of the asset management company or the individual fund, as appropriate, which has opened a trading account with the broker will be required, as above.
4. The maximum number of joint applicants on FINI is capped at 4¹ in accordance with market practice.
5. If you are applying as a nominee, you must provide: (i) the full name (as shown on the identity document), the identity document's issuing country or jurisdiction, the identity document type; and (ii), the identity document number, for each of the beneficial owners or, in the case(s) of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.
6. If you are applying as an unlisted company and (i) the principal business of that company is dealing in securities; and (ii) you exercise statutory control over that company, then the application will be treated as being for your benefit and you should provide the required information in your application as stated above.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange or any other stock exchange.

¹ Subject to change, if the Company's Articles and applicable company law prescribe a lower cap.

HOW TO APPLY FOR HONG KONG OFFER SHARES

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

For those applying through HKSCC EIPO channel, and making an application under a power of attorney, we and the Sole Overall Coordinator, as our agent, have discretion to consider whether to accept it on any conditions we think fit, including evidence of the attorney’s authority.

Failing to provide any required information may result in your application being rejected.

4. Permitted Number of Hong Kong Offer Shares for Application

Board lot size : 200 H Shares

Permitted number of Hong Kong Offer Shares for application and amount payable on application/successful allotment : Hong Kong Offer Shares are available for application in specified board lot sizes only. Please refer to the amount payable associated with each specified board lot size in the table below.

The Offer Price is HK\$17.50 per Share.

If you are applying through the HKSCC EIPO channel, you are required to pre-fund your application based on the amount specified by your broker or custodian, as determined based on the applicable laws and regulations in Hong Kong.

By instructing your broker or custodian to apply for the Hong Kong Offer Shares on your behalf through the HKSCC EIPO channel, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant HKSCC Participants) to arrange payment of the Offer Price, brokerage, SFC transaction levy, the Stock Exchange trading fee and the AFRC transaction levy by debiting the relevant nominee bank account at the Designated Bank for your broker or custodian.

If you are applying through the **White Form eIPO** service, you may refer to the table below for the amount payable for the number of Shares you have selected. You must pay the respective amount payable on application in full upon application for Hong Kong Offer Shares.

HOW TO APPLY FOR HONG KONG OFFER SHARES

No. of Hong Kong Offer Shares applied for	Amount payable on application ⁽²⁾	No. of Hong Kong Offer Shares applied for	Amount payable on application ⁽²⁾	No. of Hong Kong Offer Shares applied for	Amount payable on application ⁽²⁾	No. of Hong Kong Offer Shares applied for	Amount payable on application ⁽²⁾
	HK\$		HK\$		HK\$		HK\$
200	3,535.30	4,000	70,705.96	60,000	1,060,589.26	800,000	14,141,190.00
400	7,070.60	5,000	88,382.43	70,000	1,237,354.13	900,000	15,908,838.76
600	10,605.89	6,000	106,058.93	80,000	1,414,119.00	1,000,000	17,676,487.50
800	14,141.19	7,000	123,735.41	90,000	1,590,883.88	2,000,000	35,352,975.00
1,000	17,676.49	8,000	141,411.90	100,000	1,767,648.76	3,000,000	53,029,462.50
1,200	21,211.79	9,000	159,088.39	200,000	3,535,297.50	4,000,000	70,705,950.00
1,400	24,747.08	10,000	176,764.88	300,000	5,302,946.26	5,000,000	88,382,437.50
1,600	28,282.38	20,000	353,529.76	400,000	7,070,595.00	6,000,000	106,058,925.00
1,800	31,817.68	30,000	530,294.63	500,000	8,838,243.76	7,388,200 ⁽¹⁾	130,597,424.94
2,000	35,352.98	40,000	707,059.50	600,000	10,605,892.50		
3,000	53,029.47	50,000	883,824.38	700,000	12,373,541.26		

- (1) Maximum number of Hong Kong Offer Shares you may apply for.
- (2) The amount payable is inclusive of brokerage, SFC transaction levy, the Stock Exchange trading fee and AFRC transaction levy. If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules) and the SFC transaction levy, the Stock Exchange trading fee and AFRC transaction levy are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC; and in the case of the AFRC transaction levy, collected by the Stock Exchange on behalf of the AFRC).

5. Multiple Applications Prohibited

You or your joint applicant(s) shall not make more than one application for your own benefit, except where you are a nominee and provide the information of the underlying investor in your application as required under the paragraph headed “—A. Applications for Hong Kong Offer Shares—3. Information Required to Apply” in this section. If you are suspected of submitting or cause to submit more than one application, all of your applications will be rejected.

Multiple applications made either through (i) the **White Form eIPO** service, (ii) HKSCC EIPO channel, or (iii) both channels concurrently are prohibited and will be rejected. If you have made an application through the **White Form eIPO** service or HKSCC EIPO channel, you or the person(s) for whose benefit you have made the application shall not apply for any Global Offer Shares.

HOW TO APPLY FOR HONG KONG OFFER SHARES

6. Terms and Conditions of An Application

By applying for Hong Kong Offer Shares through the **White Form eIPO** service or HKSCC EIPO channel, you (or as the case may be, HKSCC Nominees will do the following things on your behalf):

- (i) undertake to execute all relevant documents and instruct and authorise us and/or the Sole Overall Coordinator, as our agents, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association, and (if you are applying through the HKSCC EIPO channel) to deposit the allotted Hong Kong Offer Shares directly into CCASS for the credit of your designated HKSCC Participant's stock account on your behalf;
- (ii) confirm that you have read and understand the terms and conditions and application procedures set out in this Prospectus and the designated website of the **White Form eIPO** service (or as the case may be, the agreement you entered into with your broker or custodian), and agree to be bound by them;
- (iii) (if you are applying through the HKSCC EIPO channel) agree to the arrangements, undertakings and warranties under the participant agreement between your broker or custodian and HKSCC and observe the General Rules of HKSCC and the HKSCC Operational Procedures for giving application instructions to apply for Hong Kong Offer Shares;
- (iv) confirm that you are aware of the restrictions on offers and sales of shares set out in this Prospectus and they do not apply to you, or the person(s) for whose benefit you have made the application;
- (v) confirm that you have read this Prospectus and any supplement to it and have relied only on the information and representations contained therein in making your application (or as the case may be, causing your application to be made) and will not rely on any other information or representations;
- (vi) agree that the Sole Sponsor, Sole Overall Coordinator, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Capital Market Intermediaries, the Underwriters, any of them or the Company's respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering (the "**Relevant Persons**"), the H Share Registrar and HKSCC will not be liable for any information and representations not in this Prospectus and any supplement to it;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (vii) agree to disclose the details of your application and your personal data and any other personal data which may be required about you and the person(s) for whose benefit you have made the application to us, the Relevant Persons, the H Share Registrar, HKSCC, HKSCC Nominees, the Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations, for the purposes under the paragraph headed “—G. Personal Data—3. Purposes and 4. Transfer of personal data” in this section;
- (viii) agree (without prejudice to any other rights which you may have once your application (or as the case may be, HKSCC Nominees’ application) has been accepted) that you will not rescind it because of an innocent misrepresentation;
- (ix) agree that subject to Section 44A(6) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any application made by you or HKSCC Nominees on your behalf cannot be revoked once it is accepted, which will be evidenced by the notification of the result of the ballot by the H Share Registrar by way of publication of the results at the time and in the manner as specified in the paragraph headed “—B. Publication of Results” in this section;
- (x) confirm that you are aware of the situations specified in the paragraph headed “—C. Circumstances in which You will not be Allocated Hong Kong Offer Shares” in this section;
- (xi) agree that your application or HKSCC Nominees’ application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- (xii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Articles of Association and laws of any place outside Hong Kong that apply to your application and that neither we nor the Relevant Persons will breach any law inside and/or outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this Prospectus;
- (xiii) confirm that (a) your application or HKSCC Nominees’ application on your behalf is not financed directly or indirectly by the Company, any of the Directors, chief executives, substantial Shareholder(s) or existing shareholder(s) of the Company or any of its subsidiaries or any of their respective close associates; and (b) you are not accustomed or will not be accustomed to taking instructions from the Company, any of the Directors, chief executives, substantial shareholder(s) or existing shareholder(s) of the Company or any of its subsidiaries or any of their respective close associates in relation to the acquisition, disposal, voting or other disposition of the Shares registered in your name or otherwise held by you;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (xiv) warrant that the information you have provided is true and accurate;
- (xv) confirm that you understand that we and the Sole Overall Coordinator will rely on your declarations and representations in deciding whether or not to allocate any Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xvi) agree to accept Hong Kong Offer Shares applied for or any lesser number allocated to you under the application;
- (xvii) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving electronic application instructions to HKSCC directly or indirectly or through the **White Form eIPO** service or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (1) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving electronic application instructions to HKSCC and (2) you have due authority to give electronic application instructions on behalf of that other person as its agent.

HOW TO APPLY FOR HONG KONG OFFER SHARES

B. PUBLICATION OF RESULTS

Results of Allocation

You can check whether you are successfully allocated any Hong Kong Offer Shares through:

<u>Platform</u>	<u>Date/Time</u>	
Applying through White Form eIPO service or HKSCC EIPO channel:		
Website	The designated results of allocation at www.iporeresults.com.hk (alternatively: www.eipo.com.hk/eIPOAllotment) with a “search by ID” function.	24 hours, from 11:00 p.m. on Monday, April 22, 2024, 2024 to 12:00 midnight on Sunday, April 28, 2024 (Hong Kong time)
	The full list of (i) wholly or partially successful applicants using the White Form eIPO service and HKSCC EIPO channel, and (ii) the number of Hong Kong Offer Shares conditionally allotted to them, among other things, will be displayed on the “Allotment Results” page of the designated results of allocation at www.iporeresults.com.hk (alternatively: www.eipo.com.hk/eIPOAllotment)	
	The Stock Exchange’s website at www.hkexnews.hk and the Company’s website which will provide links to the above mentioned websites of the H Share Registrar.	No later than 11:00 p.m. on Monday, April 22, 2024 (Hong Kong time).
Telephone	+852 2862 8555 – the allocation results telephone enquiry line provided by the H Share Registrar	between 9:00 a.m. and 6:00 p.m., from Tuesday, April 23, 2024 to Friday, April 26, 2024 (Hong Kong time)

For those applying through HKSCC EIPO channel, you may also check with your broker or custodian from 6:00 p.m. on Friday, April 19, 2024 (Hong Kong time).

HOW TO APPLY FOR HONG KONG OFFER SHARES

HKSCC Participants can log into FINI and review the allotment result from 6:00 p.m. on Friday, April 19, 2024 (Hong Kong time) on a 24-hour basis and should report any discrepancies on allotments to HKSCC as soon as practicable.

Allocation Announcement

We expect to announce the results of the level of indications of interest in the Global Offering, the level of applications in the Hong Kong Offering and the basis of allocations of Hong Kong Offer Shares on the Stock Exchange's website at www.hkexnews.hk and the Company's website by no later than 11:00 p.m. on Monday, April 22, 2024 (Hong Kong time).

C. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES

You should note the following situations in which Hong Kong Offer Shares will not be allocated to you or the person(s) for whose benefit you are applying for:

1. If your application is revoked:

Your application or the application made by HKSCC Nominees on your behalf may be revoked pursuant to Section 44A(6) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

2. If we or our agents exercise our discretion to reject your application:

We, the Sole Overall Coordinator, the H Share Registrar and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

3. If the allocation of Hong Kong Offer Shares is void:

The allocation of Hong Kong Offer Shares will be void if the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Stock Exchange notifies us of that longer period within three weeks of the closing date of the application lists.

HOW TO APPLY FOR HONG KONG OFFER SHARES

4. If:

- you make multiple applications or suspected multiple applications. You may refer to the paragraph headed “—A. Applications for Hong Kong Offer Shares—5. Multiple Applications Prohibited” in this section on what constitutes multiple applications;
- your application instruction is incomplete;
- your payment (or confirmation of funds, as the case may be) is not made correctly;
- the Underwriting Agreements do not become unconditional or are terminated;
- we or the Sole Overall Coordinator believe that by accepting your application, it or we would violate applicable securities or other laws, rules or regulations.

5. If there is money settlement failure for allotted Shares:

Based on the arrangements between HKSCC Participants and HKSCC, HKSCC Participants will be required to hold sufficient application funds on deposit with their Designated Bank before balloting. After balloting of Hong Kong Offer Shares, the Receiving Bank will collect the portion of these funds required to settle each HKSCC Participant’s actual Hong Kong Offer Share allotment from their Designated Bank.

There is a risk of money settlement failure. In the extreme event of money settlement failure by a HKSCC Participant (or its Designated Bank), who is acting on your behalf in settling payment for your allotted shares, HKSCC will contact the defaulting HKSCC Participant and its Designated Bank to determine the cause of failure and request such defaulting HKSCC Participant to rectify or procure to rectify the failure.

However, if it is determined that such settlement obligation cannot be met, the affected Hong Kong Offer Shares will be reallocated to the International Offering. Hong Kong Offer Shares applied for by you through the broker or custodian may be affected to the extent of the settlement failure. In the extreme case, you will not be allocated any Hong Kong Offer Shares due to the money settlement failure by such HKSCC Participant. None of us, the Relevant Persons, the H Share Registrar and HKSCC is or will be liable if Hong Kong Offer Shares are not allocated to you due to the money settlement failure.

D. DESPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUND OF APPLICATION MONIES

You will receive one H Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Offering (except pursuant to applications made through the HKSCC EIPO channel where the H Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application.

HOW TO APPLY FOR HONG KONG OFFER SHARES

H Share certificates will only become valid evidence of title at 8:00 a.m. on Tuesday, April 23, 2024 (Hong Kong time), provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting” has not been exercised. Investors who trade Shares prior to the receipt of H Share certificates or the H Share certificates becoming valid do so entirely at their own risk.

The right is reserved to retain any H Share certificate(s) and (if applicable) any surplus application monies pending clearance of application monies.

The following sets out the relevant procedures and time:

	<u>White Form eIPO service</u>	<u>HKSCC EIPO channel</u>
Despatch/collection of H Share certificate¹		
For physical H Share certificates of 1,000,000 or more Offer Shares issued under your own name	Collection in person at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong Time: from 9:00 a.m. to 1:00 p.m on Tuesday, April 23, 2024 (Hong Kong time)	H Share certificate(s) will be issued in the name of HKSCC Nominees, deposited into CCASS and credited to your designated HKSCC Participant’s stock account No action by you is required
	If you are an individual, you must not authorise any other person to collect for you. If you are a corporate applicant, your authorised representative must bear a letter of authorization from your corporation stamped with your corporation’s chop	
	Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar	

¹ Except in the event of a tropical cyclone warning signal number 8 or above, a black rainstorm warning and/or an “extreme conditions” announcement issued after a super typhoon in force in Hong Kong in the morning on Monday, April 22, 2024 rendering it impossible for the relevant share certificates to be dispatched to HKSCC in a timely manner, the Company shall procure the H Share Registrar to arrange for delivery of the supporting documents and share certificates in accordance with the contingency arrangements as agreed between them. You may refer to “—E. Severe Weather Arrangements” in this section.

HOW TO APPLY FOR HONG KONG OFFER SHARES

White Form eIPO service

HKSCC EIPO channel

Note: If you do not collect your H Share certificate(s) personally within the time above, it/they will be sent to the address specified in your application instructions by ordinary post at your own risk

For physical H Share certificates of less than 1,000,000 Offer Shares issued under your own name	Your H Share certificate(s) will be sent to the address specified in your application instructions by ordinary post at your own risk
	Time: on or before Monday, April 22, 2024

Refund mechanism for surplus application monies paid by you

Date	Tuesday, April 23, 2024	Subject to the arrangement between you and your broker or custodian
Responsible party	H Share Registrar	Your broker or custodian
Application monies paid through single bank account	White Form e-Refund payment instructions to your designated bank account	Your broker or custodian will arrange refund to your designated bank account subject to the arrangement between you and it
Application monies paid through multiple bank accounts	Refund cheque(s) will be despatched to the address as specified in your application instructions by ordinary post at your own risk	

HOW TO APPLY FOR HONG KONG OFFER SHARES

E. SEVERE WEATHER ARRANGEMENTS

The Opening and Closing of the Application Lists

The application lists will not open or close on Thursday, April 18, 2024 if, there is/are:

- a tropical cyclone warning signal number 8 or above;
- a black rainstorm warning; and/or
- Extreme Conditions,

(collectively, “**Severe Weather Signals**”),

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, April 18, 2024.

Instead they will open between 11:45 a.m. and 12:00 noon and/or close at 12:00 noon on the next business day which does not have **Severe Weather Signals** in force at any time between 9:00 a.m. and 12:00 noon.

Prospective investors should be aware that a postponement of the opening/closing of the application lists may result in a delay in the listing date. Should there be any changes to the dates mentioned in the section headed “Expected Timetable” in this Prospectus, an announcement will be made and published on the Stock Exchange’s website at www.hkexnews.hk and our website at www.chabaidao.com of the revised timetable.

If a **Severe Weather Signal** is hoisted on Monday, April 22, 2024, the H Share Registrar will make appropriate arrangements for the delivery of the share certificates to the CCASS Depository’s service counter so that they would be available for trading on Tuesday, April 23, 2024.

If a **Severe Weather Signal** is hoisted on Tuesday, April 23, 2024:

- for physical share certificates of 1,000,000 or more offer shares issued under your own name, you may pick them up from the H Share Registrar’s office after the **Severe Weather Signal** is lowered or cancelled (e.g. in the afternoon of Tuesday, April 23, 2024 or on Wednesday, April 24, 2024.

If a **Severe Weather Signal** is hoisted on Monday, April 22, 2024:

- for physical share certificates of less than 1,000,000 offer shares issued under your own name, despatch will be made by ordinary post when the post office re-opens after the **Severe Weather Signal** is lowered or cancelled (e.g. in the afternoon of Monday, April 22, 2024 or on Tuesday, April 23, 2024.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Prospective investors should be aware that if they choose to receive physical H Share certificates issued in their own name, there may be a delay in receiving the H Share certificates.

F. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants is required to take place in CCASS on the second settlement day after any trading day.

All activities under CCASS are subject to the General Rules of HKSCC and HKSCC Operational Procedures in effect from time to time.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

You should seek the advice of your broker or other professional advisor for details of the settlement arrangement as such arrangements may affect your rights and interests.

G. PERSONAL DATA

The following Personal Information Collection Statement applies to any personal data collected and held by the Company, the H Share Registrar, the receiving bank and the Relevant Persons about you in the same way as it applies to personal data about applicants other than HKSCC Nominees. This personal data may include client identifier(s) and your identification information. By giving application instructions to HKSCC, you acknowledge that you have read, understood and agree to all of the terms of the Personal Information Collection Statement below.

1. Personal Information Collection Statement

This Personal Information Collection Statement informs the applicant for, and holder of, Hong Kong Offer Shares, of the policies and practices of the Company and the H Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

2. Reasons for the collection of your personal data

It is necessary for applicants and registered holders of Hong Kong Offer Shares to ensure that personal data supplied to the Company or its agents and the H Share Registrar is accurate and up-to-date when applying for Hong Kong Offer Shares or transferring Hong Kong Offer Shares into or out of their names or in procuring the services of the H Share Registrar.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Failure to supply the requested data or supplying inaccurate data may result in your application for Hong Kong Offer Shares being rejected, or in the delay or the inability of the Company or the H Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of Hong Kong Offer Shares which you have successfully applied for and/or the despatch of H Share certificate(s) to which you are entitled.

It is important that applicants for and holders of Hong Kong Offer Shares inform the Company and the H Share Registrar immediately of any inaccuracies in the personal data supplied.

3. Purposes

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

- processing your application and refund cheque and **White Form** e-Refund payment instruction(s), where applicable, verification of compliance with the terms and application procedures set out in this Prospectus and announcing results of allocation of Hong Kong Offer Shares;
- compliance with applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of the holders of the Shares including, where applicable, HKSCC Nominees;
- maintaining or updating the register of members of the Company;
- verifying identities of applicants for and holders of the Shares and identifying any duplicate applications for the Shares;
- facilitating Hong Kong Offer Shares balloting;
- establishing benefit entitlements of holders of the Shares, such as dividends, rights issues, bonus issues, etc.;
- distributing communications from the Company and its subsidiaries;
- compiling statistical information and profiles of the holder of the Shares;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable the Company and the H Share Registrar to discharge their obligations to applicants and holders of the Shares and/or regulators and/or any other purposes to which applicants and holders of the Shares may from time to time agree.

HOW TO APPLY FOR HONG KONG OFFER SHARES

4. Transfer of personal data

Personal data held by the Company and the H Share Registrar relating to the applicants for and holders of Hong Kong Offer Shares will be kept confidential but the Company and the H Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

- the Company's appointed agents such as financial advisers, receiving bank and overseas principal share registrar;
- HKSCC or HKSCC Nominees, who will use the personal data and may transfer the personal data to the H Share Registrar for the purposes of providing its services or facilities or performing its functions in accordance with its rules or procedures and operating FINI and CCASS (including where applicants for the Hong Kong Offer Shares request a deposit into CCASS);
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to the Company or the H Share Registrar in connection with their respective business operation;
- the Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations, including for the purpose of the Stock Exchange's administration of the Listing Rules and the SFC's performance of its statutory functions; and
- any persons or institutions with which the holders of Hong Kong Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or brokers etc.

5. Retention of personal data

The Company and the H Share Registrar will keep the personal data of the applicants and holders of Hong Kong Offer Shares for as long as necessary to fulfil the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

HOW TO APPLY FOR HONG KONG OFFER SHARES

6. Access to and correction of personal data

Applicants for and holders of Hong Kong Offer Shares have the right to ascertain whether the Company or the H Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. The Company and the H Share Registrar have the right to charge a reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to the Company and the H Share Registrar, at their registered address disclosed in the section headed “Corporate information” in this Prospectus or as notified from time to time, for the attention of the company secretary, or the H Share Registrar for the attention of the privacy compliance officer.

The following is the text of a report set out on pages I-1 to I-74 received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of inclusion in this Prospectus.

Deloitte.**德勤****ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SICHUAN BAICHA BAIDAO INDUSTRIAL CO., LTD. AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED****Introduction**

We report on the historical financial information of 四川百茶百道實業股份有限公司 (Sichuan Baicha Baidao Industrial Co., Ltd.) (the "Company") and its subsidiaries (together, the "Group") set out on pages I-3 to I-74 which comprises the consolidated statements of financial position of the Group as at 31 December 2021, 2022 and 2023, statements of financial position of the Company as at 31 December 2021, 2022 and 2023 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the three years ended 31 December 2023 (the "Track Record Period") and material accounting policy information and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-3 to I-74 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 15 April 2024 (the "Prospectus") in connection with the proposed global offering of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessment, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at 31 December 2021, 2022 and 2023, of the Company's financial position as of 31 December 2021, 2022 and 2023 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

Dividends

We refer to Note 12 to the Historical Financial Information which contains information about dividends declared or paid by the Company and the group entities comprising the Group in respect of the Track Record Period.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
15 April 2024

HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of the accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and were audited by us in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB"), which is also the functional currency of the Company, and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Year ended 31 December		
		2021 RMB'000	2022 RMB'000	2023 RMB'000
Revenue	6	3,644,209	4,231,670	5,704,307
Cost of sales		<u>(2,343,169)</u>	<u>(2,775,481)</u>	<u>(3,740,525)</u>
Gross profit		1,301,040	1,456,189	1,963,782
Other income	7a	3,587	39,221	65,495
Loss on fair value change of redeemable shares with other preferential rights		–	–	(75,838)
Other gains and losses, net	7b	10,897	19,380	28,483
Distribution and selling expenses		(19,125)	(60,684)	(130,996)
Administrative expenses		(358,435)	(291,846)	(420,454)
Research and development expenses		–	(3,581)	(16,417)
Other expenses	7c	(7,432)	(1,323)	(13,580)
Listing expenses		(6,192)	(2,042)	(30,935)
Finance costs	8	<u>(2,672)</u>	<u>(4,569)</u>	<u>(3,692)</u>
Profit before taxation		921,668	1,150,745	1,365,848
Income tax expense	9	<u>(143,151)</u>	<u>(185,986)</u>	<u>(215,068)</u>
Profit for the year	10	<u>778,517</u>	<u>964,759</u>	<u>1,150,780</u>
Profit and total comprehensive income for the year attributable to:				
– Owners of the Company		755,816	954,316	1,139,211
– Non-controlling interests		<u>22,701</u>	<u>10,443</u>	<u>11,569</u>
		<u>778,517</u>	<u>964,759</u>	<u>1,150,780</u>
Earnings per share (in RMB)	13			
Basic		<u>0.762</u>	<u>0.954</u>	<u>0.981</u>
Diluted		<u>N/A</u>	<u>N/A</u>	<u>0.981</u>

STATEMENTS OF FINANCIAL POSITION

	NOTES	The Group			The Company		
		As at 31 December			As at 31 December		
		2021	2022	2023	2021	2022	2023
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets							
Property, plant and equipment	14	23,450	145,571	235,712	2,942	2,275	1,168
Right-of-use assets	15	52,670	105,130	110,574	1,183	237	4,317
Intangible assets	16	6,904	16,448	51,197	4,237	7,479	7,963
Investments in subsidiaries	35	–	–	–	133,400	134,400	409,900
Investment in a joint venture		–	–	2,500	–	–	–
Prepayments for construction in progress	19	42,410	–	300	–	–	–
Deferred tax assets	17	74,865	66,482	83,367	5,289	2,930	10,092
Amounts due from subsidiaries	20c	–	–	–	393	101,493	111,873
		<u>200,299</u>	<u>333,631</u>	<u>483,650</u>	<u>147,444</u>	<u>248,814</u>	<u>545,313</u>
Current assets							
Inventories	18	113,084	192,479	201,171	–	–	–
Trade and other receivables, deposits and prepayments	19	69,566	66,383	62,519	2,717	4,136	10,113
Amounts due from related parties	20a	149,525	91,576	607	148,069	91,057	88
Amounts due from subsidiaries	20c	–	–	–	5,000	5,596	100,509
Financial assets at fair value through profit or loss (“FVTPL”)	22	387,728	772,804	1,391,562	–	–	341,794
Bank balances and cash	21	128,138	226,031	945,989	53,136	35,273	683,332
		<u>848,041</u>	<u>1,349,273</u>	<u>2,601,848</u>	<u>208,922</u>	<u>136,062</u>	<u>1,135,836</u>
Current liabilities							
Trade and other payables	23	349,365	605,588	770,619	600	5,200	17,346
Contract liabilities	24	116,779	160,857	176,680	–	–	–
Income tax payables		15,308	23,939	38,206	–	–	–
Lease liabilities	25	28,654	37,496	40,948	959	–	1,033
Amounts due to related parties	20b	21,838	–	–	384	–	–
Amounts due to subsidiaries	20d	–	–	–	–	107,743	132,243
		<u>531,944</u>	<u>827,880</u>	<u>1,026,453</u>	<u>1,943</u>	<u>112,943</u>	<u>150,622</u>
Net current assets		<u>316,097</u>	<u>521,393</u>	<u>1,575,395</u>	<u>206,979</u>	<u>23,119</u>	<u>985,214</u>
Total assets less current liabilities		<u>516,396</u>	<u>855,024</u>	<u>2,059,045</u>	<u>354,423</u>	<u>271,933</u>	<u>1,530,527</u>

	NOTES	The Group			The Company		
		As at 31 December			As at 31 December		
		2021	2022	2023	2021	2022	2023
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current liabilities							
Contract liabilities	24	186,261	153,271	147,530	-	-	-
Lease liabilities	25	29,087	38,579	42,576	-	-	3,164
Deferred tax liabilities	17	23	558	1,293	-	-	-
Redeemable shares with other preferential rights	26	-	-	1,021,000	-	-	1,021,000
		<u>215,371</u>	<u>192,408</u>	<u>1,212,399</u>	<u>-</u>	<u>-</u>	<u>1,024,164</u>
Net assets		<u>301,025</u>	<u>662,616</u>	<u>846,646</u>	<u>354,423</u>	<u>271,933</u>	<u>506,363</u>
Capital and reserves							
Paid-up capital/share capital	27	100,000	100,000	125,639	100,000	100,000	125,639
Reserves	27	<u>196,299</u>	<u>550,615</u>	<u>697,437</u>	<u>254,423</u>	<u>171,933</u>	<u>380,724</u>
Equity attributable to owners of the Company		296,299	650,615	823,076	354,423	271,933	506,363
Non-controlling interests		<u>4,726</u>	<u>12,001</u>	<u>23,570</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>301,025</u>	<u>662,616</u>	<u>846,646</u>	<u>354,423</u>	<u>271,933</u>	<u>506,363</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company							
	Paid-up capital/share capital RMB'000	Statutory reserves RMB'000 (Note i)	Shares issued for Pre-IPO Employee Incentive Scheme RMB'000	Other reserves RMB'000 (Note ii)	Retained profits RMB'000	Sub-total RMB'000	Non- controlling interests RMB'000	Total RMB'000
As at 1 January 2021	12,530	13,955	–	41,383	70,984	138,852	5,224	144,076
Profit and total comprehensive income for the year	–	–	–	–	755,816	755,816	22,701	778,517
Capital injection to Operating Entities before Reorganisation (as defined and detailed in Note 2)	1,470	–	–	–	–	1,470	–	1,470
Capital injection to the Company	100,000	–	–	–	–	100,000	–	100,000
Capital contribution from non-controlling interests of a subsidiary	–	–	–	–	–	–	6,600	6,600
Recognition of equity- settled share-based payments	–	–	–	114,876	–	114,876	–	114,876
Transfer to statutory reserves	–	75,000	–	–	(75,000)	–	–	–
Effect of Reorganisation (Note 2)	(13,000)	(13,955)	–	(41,383)	(283,777)	(352,115)	(26,388)	(378,503)
Consideration paid for Assets Injection (as defined and detailed in Note 2)	–	–	–	–	(82,567)	(82,567)	–	(82,567)
Acquisition of subsidiaries	(1,000)	–	–	–	(2)	(1,002)	–	(1,002)
Dividends recognised as distribution (Note 12)	–	–	–	–	(379,031)	(379,031)	(3,411)	(382,442)
As at 31 December 2021	100,000	75,000	–	114,876	6,423	296,299	4,726	301,025
Profit and total comprehensive income for the year	–	–	–	–	954,316	954,316	10,443	964,759
Transfer to statutory reserves	–	3,091	–	–	(3,091)	–	–	–
Dividends recognised as distribution (Note 12)	–	–	–	–	(600,000)	(600,000)	(3,168)	(603,168)

	Attributable to owners of the Company							
	Paid-up capital/share capital RMB'000	Statutory reserves RMB'000 (Note i)	Shares issued for Pre-IPO Employee Incentive Scheme RMB'000	Other reserves RMB'000 (Note ii)	Retained profits RMB'000	Sub-total RMB'000	Non- controlling interests RMB'000	Total RMB'000
As at 31 December 2022	100,000	78,091	–	114,876	357,648	650,615	12,001	662,616
Profit and total comprehensive income for the year	–	–	–	–	1,139,211	1,139,211	11,569	1,150,780
Dividends recognised as distribution (Note 12)	–	–	–	–	(1,021,183)	(1,021,183)	–	(1,021,183)
Issuance of shares pursuant to the 2023 Shareholding Restructuring (Note 27)	25,000	–	–	–	–	25,000	–	25,000
Transfer to statutory reserves	–	21,459	–	–	(21,459)	–	–	–
Issuance of shares pursuant to the Pre-IPO Employee Incentive Scheme (as defined and detailed in Note 31(ii))	639	–	(639)	29,433	–	29,433	–	29,433
As at 31 December 2023	125,639	99,550	(639)	144,309	454,217	823,076	23,570	846,646

Notes:

- (i) Amount represented statutory reserves of the entities comprising the Group established in the People's Republic of China (the "PRC"). According to the relevant laws in the PRC, companies established in the PRC with limited liability are required to transfer at least 10% of their net profit after taxation, as determined under the PRC accounting regulations, to a non-distributable reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to owners. Such reserve fund can be used to offset the previous years' losses, if any, and is non-distributable other than upon liquidation.
- (ii) The other reserves as at 1 January 2021 mainly represent the impact of equity-settled share-based payments to certain key management personnel amounted to RMB41,483,000.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Operating activities			
Profit before taxation	921,668	1,150,745	1,365,848
Adjustments for:			
Depreciation of property, plant and equipment	3,600	6,245	16,183
Amortisation of right-of-use assets	22,071	39,883	47,225
Amortisation of intangible assets	177	1,755	3,599
Loss on disposal of property, plant and equipment	527	370	148
Gain on early termination of leases	(220)	(870)	–
Interest income from banks	(1,353)	(1,602)	(6,954)
Finance costs	2,672	4,569	3,692
Share-based payments	114,876	–	–
Gain on fair value change of financial assets at FVTPL	(11,418)	(18,790)	(29,119)
Net foreign exchange loss	172	33	75
Loss on fair value change of redeemable shares with other preferential rights	–	–	75,838
Operating cash flows before movements in working capital	1,052,772	1,182,338	1,476,535
Increase in inventories	(24,482)	(79,395)	(8,692)
(Increase) decrease in trade and other receivables, deposits and prepayments	(90,512)	8,038	5,193
Decrease in amounts due from related parties	15,956	949	–
Increase in contract liabilities	84,562	11,088	10,082
Increase in trade and other payables	455,100	233,327	126,156
Increase (decrease) in amounts due to a related party	382	(382)	–
Cash generated from operations	1,493,778	1,355,963	1,609,274
Income taxes paid	(223,685)	(170,024)	(221,309)
Net cash generated from operating activities	1,270,093	1,185,939	1,387,965

	Year ended 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Investing activities			
Purchase of property, plant and equipment	(64,847)	(64,255)	(85,027)
Proceeds from disposal of property, plant and equipment	8,527	777	74
Purchase of intangible assets	(7,081)	(11,299)	(18,501)
Addition to right-of-use assets	–	(30,143)	–
Purchase of financial assets at FVTPL	(1,478,020)	(4,925,141)	(6,820,879)
Proceeds from redemption of financial assets at FVTPL	1,259,932	4,541,405	6,204,844
Placement of term deposits	–	–	(230,000)
Interest received from financial assets at FVTPL	4,949	17,450	26,396
Payment for rental deposits	(4,109)	(6,103)	(2,966)
Refund of rental deposits	2,592	3,184	4,117
Advances to related parties	(444,904)	(141,180)	(5,556)
Repayments from related parties	30,467	198,180	–
Interest income from banks	1,353	1,602	6,954
Proceed from disposal of a subsidiary	–	–	500
Investment in a joint venture	–	–	(2,500)
	<u>(691,141)</u>	<u>(415,523)</u>	<u>(922,544)</u>
Net cash used in investing activities			
Financing activities			
Interest paid	(2,672)	(4,569)	(3,692)
Dividend paid	(408,355)	(603,168)	(949,496)
Capital injection	108,070	–	–
Advance from related parties	21,807	–	–
Repayment to related parties	(64)	(21,456)	–
Repayments of lease liabilities	(19,406)	(42,996)	(45,220)
Payment for accrued share issue costs	(1,093)	(334)	(1,488)
Net cash outflow on Reorganisation (Notes 2 (ii) and (iii))	(277,339)	–	–
Proceeds from issuance of redeemable shares with other preferential rights	–	–	970,000
Proceeds from issuance of shares	–	–	54,433
	<u>(579,052)</u>	<u>(672,523)</u>	<u>24,537</u>
Net cash (used in) from financing activities			

	Year ended 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net (decrease) increase in cash and cash equivalents	(100)	97,893	489,958
Cash and cash equivalents at beginning of the year	<u>128,238</u>	<u>128,138</u>	<u>226,031</u>
Cash and cash equivalents at end of the year	<u><u>128,138</u></u>	<u><u>226,031</u></u>	<u><u>715,989</u></u>
Represented by			
Cash and cash equivalents	128,138	226,031	715,989
Term deposits	<u>—</u>	<u>—</u>	<u>230,000</u>
Total bank balances and cash	<u><u>128,138</u></u>	<u><u>226,031</u></u>	<u><u>945,989</u></u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1. GENERAL INFORMATION**

The Company was incorporated in the PRC on 31 December 2020 as a joint stock company under the Company Law of the PRC. Its parent is 四川恒盛合瑞實業集團有限公司 (Sichuan Hengsheng Herui Industrial Group Co., Ltd.*) (“Hengsheng Herui”) (established in the PRC) and its ultimate parent is 成都錦柏森企業管理有限公司 (Chengdu Jinbosen Enterprise Management Co., Ltd.*) (“Chengdu Jinbosen”) (established in the PRC). Its ultimate controlling parties are Mr. Wang Xiao Kun (王霄鋸) and his spouse Ms. Liu Wei Hong (劉洧宏) (collectively the “Founders” or the “Controlling Shareholders”), and Mr. Wang Xiao Kun is also the chairman and an executive director of the Company. The respective addresses of the registered office and the principal place of business of the Company are set out in the section headed “Corporate Information” to the Prospectus.

The Company acts as an investment holding company and its subsidiaries are engaged in the business of sales of equipment and goods to franchisees, as well as provision of royalty and franchising services to franchisees (the “Listing Business”). The Group’s principal operations and geographic markets are in the PRC.

The Historical Financial Information is presented in RMB, which is the currency of the primary economic environment in which most the Group entities operate.

* English name is for identification purpose only.

2. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION

The Historical Financial Information has been prepared based on the accounting policies which conform with IFRSs issued by the IASB and the principle of merger accounting applicable to group reorganisation (details are set out below).

Prior to the establishment of the Company and the completion of Reorganisation (as defined below), the Listing Business was carried out through various operating entities, including non-wholly owned subsidiaries, that were controlled by Hengsheng Herui (as listed in Note 35), hereinafter collectively referred to as the “Operating Entities”, which are ultimately owned and controlled by the Founders. To rationalise the corporate structure in preparation for the listing of the Company’s shares on the Stock Exchange, the Group underwent a corporate reorganisation (the “Reorganisation”), as summarised below and detailed in the section headed “History, Reorganization and Corporate Structure” in the Prospectus.

The Reorganisation principally involved the following key steps:

(i) Incorporation of the Company

On 31 December 2020, Hengsheng Herui incorporated the Company with one of the Controlling Shareholders, Mr. Wang Xiao Kun. Upon incorporation, the Company authorised and issued 100,000,000 ordinary shares with a par value of RMB1 each. Hengsheng Herui holds 90% of the equity interests in the Company and Mr. Wang Xiao Kun holds 10% of the equity interests in the Company.

(ii) Business injection to the new structure

On 25 February 2021, the Company and Hengsheng Herui entered into a reorganisation agreement pursuant to which Hengsheng Herui agreed to transfer its Listing Business, contracts, agreements, assets and liabilities (except for those retained as detailed below) and personnel that were originally under the Operating Entities to the Company and its subsidiaries. The transfer became effective on 31 March 2021 (the “Business Reorganisation Date”). Contracts and agreements signed and executed in the name of Operating Entities as at Business Reorganisation Date would be renewed by the Company and its subsidiaries within one year thereafter. The operating related assets have been transferred (the “Assets Injection”) on Business Reorganisation Date with total consideration of RMB82,567,000 which was settled and charged to equity as deemed distribution during the year ended 31 December 2021.

The following assets and liabilities of the Operating Entities were retained by Hengsheng Herui and its subsidiaries and not transferred to the Group. These assets and liabilities were derecognised at 31 March 2021 and accounted for as deemed distribution to the equity shareholders of the Group at the carrying amounts in the equity.

	As at 31 March 2021 RMB'000
Current assets	
Trade and other receivables	47,598
Amounts due from related parties	274,644
Financial assets measured at FVTPL	68,829
Cash and cash equivalents	193,770
	<u>584,841</u>
Current liabilities	
Trade and other payables	106,196
Income tax payables	96,880
Dividend payables	2,906
Amounts due to related parties	356
	<u>206,338</u>
Net assets distributed in connection with the Reorganisation	<u><u>378,503</u></u>
Net cash outflow arising from the distribution	
Cash and cash equivalents	<u><u>(193,770)</u></u>

(iii) Equity transfers

On 2 November 2021, 四川蜀信致遠企業管理諮詢有限公司 (Sichuan Shuxin Zhiyuan Enterprise Management Consulting Co., Ltd.*) (“Shuxin Zhiyuan”), a wholly-owned subsidiary of the Company, entered into a share transfer agreement with Hengsheng Herui, pursuant to which Shuxin Zhiyuan agreed to acquire 100% equity interests of 成都茶百道餐飲管理有限公司 (Chengdu Chabaidao Catering Management Co., Ltd.*) (“ChaPanda Catering”) from Hengsheng Herui at a consideration of RMB1,002,000. On 2 November 2021, the equity transfer was completed, and ChaPanda Catering became an indirectly owned subsidiary of the Company.

On 13 January 2022, Shuxin Zhiyuan entered into a share transfer agreement with 武漢合瑞健企業諮詢管理有限公司 (Wuhan Heruijian Enterprise Consulting Management Co., Ltd.*) (“Wuhan Consulting”), a subsidiary of Hengsheng Herui. Pursuant to the share transfer agreement, Shuxin Zhiyuan agreed to acquire 100% equity interests of 武漢茶馨飲品有限公司 (Wuhan Chaxin Beverage Co., Ltd.*) (“Wuhan Chaxin”) from Wuhan Consulting at a consideration of RMB50,000. On 13 January 2022, the equity transfer was completed, and Wuhan Chaxin became an indirectly owned subsidiary of the Company.

The transfers of control on the equity interests in ChaPanda Catering and Wuhan Chaxin above form part of the Reorganisation which was principally completed on 31 March 2021 while the transition period for necessary regulatory approvals was completed by the end of January 2022. For more details of equity transfers, please refer to the section headed “History, Reorganization and Corporate Structure—C. 2021 Business Reorganization” in the Prospectus.

Upon completion of the above steps (i) to (iii) of Reorganisation, the Listing Business are carried out by the Company and its subsidiaries. Since the Operating Entities and all companies now comprising the Group have been controlled by the Founders before and after the Reorganisation, and the control was not transitory and consequently, there was a continuation of the risks and benefits to the Founders. For the purpose of presenting the financial positions, financial results and cash flows of the Group in this report, the Operating Entities are deemed to be part of the Group throughout the Track Record Period. Accordingly, the Historical Financial Information of the Group has been prepared on the basis as if the Company had always been the holding company of the Group.

* English name is for identification purpose only.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the year ended 31 December 2021 include the results, changes in equity and cash flows of the Operating Entities and the entities now comprising the Group, on the basis as if the Listing Business, including that previously under the Operating Entities, had been operated under the Group throughout the Track Record Period or since the respective dates of establishment, which is a shorter period, with consideration of the controlling interest held by the Founders in the Operating Entities.

All the assets, liabilities, income, expenses and cash flows of the Operating Entities are attributable to the Listing Business and are included in the Historical Financial Information throughout the Track Record Period. Therefore, the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the period from 1 January 2021 to the Business Reorganisation Date comprise all the financial information of the Operating Entities.

No statutory financial statements have been prepared for the Company since there are no statutory audit requirements in the jurisdiction where it was incorporated.

3. APPLICATION OF IFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied the accounting policies which conform the International Accounting Standards (“IASs”), IFRSs, amendments and the related interpretations issued by the IASB, which are effective for the Group’s financial period beginning on 1 January 2023, throughout the Track Record Period.

New and amendments to IFRSs in issue but not yet effective

At the date of this report, the Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback ²
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ²
Amendments to IAS 1	Non-current Liabilities with Covenants ²
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements ²
Amendments to IAS 21	Lack of Exchangeability ³
IFRS 18	Presentation and Disclosure in Financial Statements ⁴

¹ Effective for annual periods beginning on or after a date to be determined

² Effective for annual periods beginning on or after 1 January 2024

³ Effective for annual periods beginning on or after 1 January 2025

⁴ Effective for annual periods beginning on or after 1 January 2027

IFRS 18 sets out requirements on presentation and disclosures in financial statements and will replace IAS 1 “Presentation of Financial Statements”. IFRS 18 will be effective for annual periods beginning on or after 1 January 2027 with early application permitted. The management of the Group has commenced the assessment of the impact of IFRS 18 on the Group, but is not yet in a position to state whether the adoption would have a material impact on the presentation and disclosures of the Group.

Except as described above, the management of the Group considers that the application of all the amendments to IFRSs is unlikely to have a material impact on the Group’s financial position and performance in foreseeable future.

4. MATERIAL ACCOUNTING POLICY INFORMATION

The Historical Financial Information has been prepared in accordance with the following accounting policies which conform with IFRSs issued by the IASB. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for share-based payment that are within the scope of IFRS 2 "Share-based Payment", and leasing transactions that are accounted for in accordance with IFRS 16 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs are to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when a company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the Track Record Period are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Merger accounting for business combination involving business under common control

The Historical Financial Information incorporates the financial statements items of the combining businesses in which the common control combination occurs as if they had been consolidated from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statements of profit or loss and other comprehensive income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

Revenue from contracts with customers

The Group recognises revenue when a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service that is distinct or a series of distinct goods or services that are substantially the same.

Except for granting of a license that is distinct from other promised goods or services, control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs;
or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

For granting of a license that is distinct from other promised goods or services, the nature of the Group's promise in granting a license is a promise to provide a right to access the Group's intellectual property if all of the following criteria are met:

- the contract requires, or the customer reasonably expects, that the Group will undertake activities that significantly affect the intellectual property to which the customer has rights;
- the rights granted by the license directly expose the customer to any positive or negative effects of the Group's activities; and
- those activities do not result in the transfer of a good or a service to the customer as those activities occur.

If the criteria above are met, the Group accounts for the promise to grant a license as a performance obligation satisfied over time. Otherwise, the Group considers the grant of license as providing the franchisees the right to use the Group's intellectual property and the performance obligation is satisfied at a point in time at which the license is granted.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer.

The Group principally generates its revenue from the following major sources: 1) sales of goods and equipment to franchisees, and 2) royalty and franchising income. Further details of the Group's revenue recognition policies are as follows:

(i) Sale of goods and equipment to franchisees

The Group enters into a series of agreements with each franchisee, which mainly include a license agreement and a sales agreement (collectively "Franchise Agreements"), whereby the franchisees are licensed to operate the franchised stores and are authorised to sell, in their own stores, the freshly-made tea drinks made by certain equipment and raw materials purchased from the Group. Revenue from sale of equipment and raw materials to franchisees is recognised at the point in time when the franchisees accept the products and the control over those products is transferred to the franchisees.

For sales of goods and equipment to franchisees, the Group has determined that the franchisees are the customers of the Group. The franchisees operate retail stores at their own chosen locations under the framework set out under the Franchise Agreements. At inception of the Franchise Agreements, franchisees are required to place a deposit to the Group throughout the franchise period. The deposits are refundable upon the termination of the Franchise Agreements, provided that the franchisees settled all outstanding balances with the Group.

The franchisees employ and manage their own staffs to operate the stores and serve their customers (i.e. end consumers), and undertake the costs associated with the operations. The franchisees sell the freshly-made tea drinks based on the menu and recipe provided by the Group.

The franchisees are responsible for the placement, physical custody and condition of the equipment and raw materials after the deliveries are accepted in stores. In general, the Group does not have any obligation or historical practices to accept any return of unsold products, except for rare cases such as a latent defect subject to product recall.

(ii) Royalty and franchising income

As part of the Franchise Agreements, the franchise rights are granted for one year to franchisees upon payment of a non-refundable upfront initial payments and are subsequently renewable annually by the franchisees at no cost. Under the Franchise Agreements, franchisees pay a non-refundable upfront initial fee including the pre-opening training services fee upon entering into Franchise Agreements and monthly royalty fee.

The non-refundable upfront initial fee is charged for pre-opening support services provided to the franchisees, including market and location analysis, certain advisory services like license application and pre-opening marketing, etc. As these services are highly interrelated with the franchise right, they are not individually distinct from the ongoing franchising arrangement with the franchisees. As a result, initial franchise fees, which are considered as consideration for the Group to provide right to access the Group's intellectual property, are recognised on a straight-line basis over the expected franchise period, typically of 5 years. Unrecognised non-refundable upfront initial fee is recognised as contract liabilities in the consolidated statements of financial position.

Franchisees are also required to pay a monthly royalty fee, which is determined based on the higher of (1) a predetermined fixed amount, or (2) a fixed percentage of the applicable franchisee's stores gross revenue. Fixed amount royalty fees are recognised monthly. For fixed percentage royalty fees, the Group applies "sales-based royalty" under IFRS 15 "Revenue from Contracts with Customers" to recognise the royalty fees when the sales to end customers occurred or the performance obligation to which some or all of the sales-based royalty has been allocated has been satisfied (or partially satisfied), whichever is the later.

The pre-opening training services provided to the franchises are considered to be distinct as the training contents are largely unrelated to the Group's brand name and trademarks.

The non-refundable upfront initial fee and fixed royalty fee are recognised as a performance obligation satisfied over time by reference to time passage of service provided, when the customers simultaneously receive and consume the benefits from the Group's performance. The progress towards complete satisfaction of a performance obligation is measured based on output method.

Revenue from provision of pre-opening training services is recognised over the period in which the services are rendered. The progress towards complete satisfaction of a performance obligation in respect of pre-opening training services is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

Contracts with multiple performance obligations (including allocation of transaction price)

For Franchise Agreements that contain more than one performance obligations (including non-refundable upfront initial fee and pre-opening training services), the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

Except the non-refundable upfront initial fee exceeds one year, the Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. The Group determines that the payment terms for non-refundable upfront initial fee were structured primarily for reasons other than the provision of finance to the Group. As a consequence, no significant element of financing is present and the Group does not adjust any of the transaction prices for the time value of money.

Leases*Definition of a lease*

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed. As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the Historical Financial Information would not differ materially from individual leases within the portfolio.

*The Group as a lessee**Short-term leases*

The Group applies the short-term lease recognition exemption to leases properties that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statements of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 “Financial Instruments” and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statements of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability, less any lease incentives receivable, based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

Employee benefits

Retirement benefit costs

The Group participates in government-managed retirement benefit schemes, which are defined contribution schemes, pursuant to which the Group pays a fixed percentage of its staff's wages as contributions to the plans. Payments to such retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

Equity-settled share-based payments transactions

Shares granted to employees

For shares that are granted under the Pre-IPO Employee Incentive Scheme (as defined in Note 31(ii)), the amount of fair value of the equity-settled share-based payments determined at the grant date, which taking into account the consideration paid by the grantees but without taking into consideration all non-market vesting conditions, is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payments reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

At the same time, the Group recognises the cash received from the grantees as a capital contribution from the controlling shareholder(s) of the Company in capital reserve included in other reserves. When shares granted are vested, the amounts previously recognised in share-based payments reserve and capital reserve will be transferred to share premium. If the grantee leaves the Group before end of the vesting period, the amount previously recognised as capital contribution will remain in the same reserve.

For shares that are transferred from the shareholders to the grantees and vest immediately at the date of grant under the share award arrangements (as detailed in Note 31(i)), equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date, the difference between the fair value of the shares granted and nominal payment are recognised as employee expenses immediately to profit or loss and a capital contribution from shareholders in the other reserves.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 "Income Taxes" requirements to recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all taxable temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes to the same taxable entity levied by the same taxation authority.

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below). Property, plant and equipment are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statements of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed annually, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Impairment on property, plant and equipment, right-of-use assets and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the

impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sale of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sale of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets measured at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities measured at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the reporting period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the

effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of each reporting period following the determination that the asset is no longer credit-impaired.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade and other receivables, lease deposits, amounts due from related parties, amounts due from subsidiaries and bank balances) which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables.

For all other financial instruments which are subject to impairment under IFRS 9, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument’s external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor’s ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor’s ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- a) significant financial difficulty of the issuer or the borrower;
- b) a breach of contract, such as a default or past due event;
- c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Repayment history; and
- Nature and size of debtors.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is designated as at FVTPL.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

For financial liabilities that are designated as at FVTPL, the amount of changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, dividend payables, amounts due to related parties and amounts due to subsidiaries are subsequently measured at amortised cost, using the effective interest method.

Redeemable shares with other preferential rights

At the date of issue, the redeemable shares with other preferential rights are designated as at FVTPL. In subsequent period, changes in fair value (including dividend and interest incurred) are recognised in profit or loss as fair value gain or loss except for changes in the fair value that is attributable to changes in the credit risk (excluding changes in fair value of the derivatives component) is recognised in other comprehensive income, unless the recognition of the effects of changes in the credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to the credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss, they are transferred to retained profits upon derecognition.

Transaction costs relating to the issue of the redeemable shares with other preferential rights are charged to profit or loss immediately.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key sources of estimation uncertainty at the end of each reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

Revenue recognition from royalty and franchise business over time

During the years ended 31 December 2021, 2022 and 2023, revenue from royalty and franchise business (excluding pre-opening training services and others) is recognised over time amounted to RMB97,426,000, RMB153,355,000 and RMB200,026,000, respectively. As at 31 December 2021, 2022 and 2023, the balance of contract liabilities amounted to RMB271,148,000, RMB251,456,000 and RMB246,986,000, respectively (details are set out in Notes 6 and 24).

Franchise rights, which represent primarily the right to access the Group's brand name and trademarks, are granted to franchisees upon upfront initial payments for the first year and are renewable annually by the franchisees at no cost, the control of services is transferred over time. Based on the historical franchise information of the franchised shops, the management of the Group determined that license fees from franchise business are recognised as contract liabilities upon receipt of the upfront initial payments and are released to the profit or loss as revenue over estimated franchise period of five years for each of the reporting period.

Actual franchise periods may differ from estimated franchise periods. The management of the Group would periodically review the estimated franchise periods of the franchisees and considers if any adjustment to the current estimation is needed.

Fair value measurement of redeemable shares with other preferential rights

As at 31 December 2023, the redeemable shares with other preferential rights amounting to RMB1,021,000,000 are measured at fair value being determined based on unobservable inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could result in the material adjustments to the fair value of the redeemable shares with other preferential rights. See Notes 26 and 32(c) for further disclosures.

6. REVENUE AND SEGMENT INFORMATION

The Group's revenue is primarily derived from the sales of goods and equipment to franchisees and royalty and franchising income from franchisees in the PRC. The franchisees of the Group would usually settle by prepayments, except for the royalty income which is usually granted to franchisees for a credit period of 30 days in accordance with the terms of the contract.

(i) Disaggregation of revenue from contracts with franchisees

	Year ended 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sale of goods and equipment:			
– Goods	3,048,007	3,813,075	5,164,203
– Equipment	398,857	206,444	255,777
	<u>3,446,864</u>	<u>4,019,519</u>	<u>5,419,980</u>
Royalty and franchising income:			
– Non-refundable upfront initial fee	49,281	80,142	103,558
– Royalty income	48,145	73,213	96,468
– Pre-opening training services	61,309	18,287	31,569
	<u>158,735</u>	<u>171,642</u>	<u>231,595</u>
Others	<u>38,610</u>	<u>40,509</u>	<u>52,732</u>
	<u><u>3,644,209</u></u>	<u><u>4,231,670</u></u>	<u><u>5,704,307</u></u>

(ii) Timing of revenue recognition

	Year ended 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Timing:			
– A point in time	3,466,214	4,048,247	5,456,858
– Over time	177,995	183,423	247,449
	<u>3,644,209</u>	<u>4,231,670</u>	<u>5,704,307</u>
	<u><u>3,644,209</u></u>	<u><u>4,231,670</u></u>	<u><u>5,704,307</u></u>

(iii) Transaction price allocated to the remaining performance obligation for contracts with franchisees

The transaction price allocated to the remaining performance obligations for non-refundable upfront initial fee (unsatisfied or partially unsatisfied) as at 31 December 2021, 2022 and 2023 and the expected timing of recognising revenue are as follows:

	As at 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Within one year	60,298	71,000	69,664
More than one year but not more than two years	61,692	71,397	63,707
Two to five years	124,569	81,874	83,823
	<u>246,559</u>	<u>224,271</u>	<u>217,194</u>

Except for non-refundable upfront initial fee, sale of goods and equipment, royalty income and pre-opening training services are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

(iv) Segment information

Information is reported to Mr. Wang Xiao Kun, who is one of the Controlling Shareholders and also an executive director of the Company, being the chief operating decision maker (“CODM”) of the Group, for the purposes of resource allocation and performance assessment. The accounting policies are the same as the Group’s accounting policies described in Note 4. No other analysis of the Group’s results nor assets and liabilities is regularly provided to the CODM for review and the CODM reviews the overall results and financial position of the Group as a whole. Accordingly, the CODM has identified one operating segment and only entity-wide disclosures on revenue, major customers and geographical information are presented in accordance with IFRS 8 “Operating Segments”.

(v) Geographical information

During the Track Record Period, the Group operated within one geographical segment because all of its revenue was generated in the PRC and all of its non-current assets were located in the PRC. Accordingly, no geographical segment information is presented.

(vi) Information about major customers

No single customer contributes 10% or more of total revenue of the Group during each reporting period.

7a. OTHER INCOME

	Year ended 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Government grant (<i>Note (i)</i>)	39	34,689	54,603
Interest income on:			
– bank deposits	1,353	1,602	6,954
Compensations received (<i>Note (ii)</i>)	1,683	1,376	2,565
Others	512	1,554	1,373
	<u>3,587</u>	<u>39,221</u>	<u>65,495</u>

Notes:

- (i) The government grant recognised mainly represents subsidies granted by the local authorities in the PRC for a period of five years since 2022 to reward the Group's effort in supporting the local economy, in which no future related costs is expected to be incurred. The amount recognised for each reporting period represents amount received on which conditions imposed for the relevant year are fulfilled and the management of the Group considered the future conditions could be successfully fulfilled.
- (ii) Compensations mainly represent payments from the Group's suppliers for providing substandard products.

7b. OTHER GAINS AND LOSSES, NET

	Year ended 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loss on disposal 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)
	<u>10,897</u>	<u>19,380</u>	<u>28,483</u>

7c. OTHER EXPENSES

	Year ended 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Surcharge for overdue tax payment (<i>Note</i>)	(4,732)	(323)	–
Donations	(2,700)	(1,000)	(13,580)
	<u>(7,432)</u>	<u>(1,323)</u>	<u>(13,580)</u>

Note: Surcharge for overdue tax payment during the Track Record Period primarily includes the overdue of value-added tax and Enterprise Income Tax ("EIT") for the operations in 2019 and 2020.

8. FINANCE COSTS

	Year ended 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest on:			
Lease liabilities	<u>(2,672)</u>	<u>(4,569)</u>	<u>(3,692)</u>

9. INCOME TAX EXPENSE

	Year ended 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Current tax:			
PRC EIT	178,025	177,068	231,218
Deferred tax (<i>Note 17</i>):			
Current year	(34,874)	8,918	(16,150)
	<u>143,151</u>	<u>185,986</u>	<u>215,068</u>

The income tax expense for the Track Record Period can be reconciled to the profit before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Profit before taxation	<u>921,668</u>	<u>1,150,745</u>	<u>1,365,848</u>
Tax at PRC EIT rate of 25%	230,417	287,686	341,462
Tax effect of expenses not deductible for tax purposes	2,972	5,141	23,585
Tax effect of tax losses not recognised	803	6,218	512
Utilisation of tax losses previously not recognised	–	(38)	(4,681)
Effect of tax concessions (<i>Note</i>)	<u>(91,041)</u>	<u>(113,021)</u>	<u>(145,810)</u>
Taxation for the year	<u>143,151</u>	<u>185,986</u>	<u>215,068</u>

Note: Certain subsidiaries that are engaged in the “Encouraged Industries in the Western Region” are eligible for the preferential EIT rate at 15% for the years ended 31 December 2021, 2022 and 2023.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and implementation regulations of the EIT Law, the statutory EIT rate of the Operating Entities and the subsidiaries of the Company operating in the PRC is 25% for the three years ended 31 December 2023, unless otherwise specified above.

10. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	Year ended 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Directors', supervisors' and chief executive's remuneration (<i>Note 11</i>)	121,807	11,662	8,789
Other staff costs			
– Salaries and other allowances	102,902	185,658	299,519
– Retirement benefit scheme contributions	12,061	18,631	26,198
Total staff costs	<u>236,770</u>	<u>215,951</u>	<u>334,506</u>
Cost of inventories recognised as expenses	2,331,384	2,762,534	3,722,433
Depreciation of property, plant and equipment	3,600	6,245	16,183
Amortisation of right-of-use assets	22,071	39,883	47,225
Amortisation of intangible assets	177	1,755	3,599
Total depreciation and amortisation	<u>25,848</u>	<u>47,883</u>	<u>67,007</u>

11. DIRECTORS', SUPERVISORS' EMOLUMENTS AND EMPLOYEES' REMUNERATION**Directors' and supervisors' emoluments***Directors and supervisors*

Details of the executive directors and supervisors appointed by the Company during the Track Record Period and up to date of this report are as follows:

Names	Position	Date of appointment as the directors of the Company
Mr. Wang Xiao Kun	Chairman and executive director and former chief executive (<i>Note</i>)	31 December 2020
Ms. Dai Li (戴利)	Executive director	31 December 2020
Ms. Gu Ji Lin (古計林)	Executive director (<i>Note</i>)	12 May 2021
Mr. Wang Hong Xue (汪紅學)	Executive director and chief executive (<i>Note</i>)	31 December 2020
Mr. Chen Ke Yuan (陳克遠)	Executive director	31 December 2020
Mr. Zhang Yu (張禹)	Supervisor	31 December 2020
Ms. Liu Wei Hong	Supervisor	12 May 2021
Mr. Zhu Ming Xing (朱明星)	Supervisor	12 May 2021

Note: Mr. Wang Xiao Kun has resigned as the Company's chief executive on 4 August 2023. On the same day, Mr. Wang Hong Xue was appointed as the Company's chief executive. Also, Ms. Gu Ji Lin has resigned as the Company's executive director on 4 August 2023.

The executive directors' emoluments shown below were for their services in connection with management of the Group. The supervisors' emoluments shown below were for their services as supervisors of the Group.

Directors' and chief executive's remuneration for the Track Record Period including the emoluments for services as directors of the group entities prior to becoming the directors of the Company, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

Year ended 31 December 2021

	Salaries and allowances	Contributions to retirement benefit scheme	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive directors			
Mr. Wang Xiao Kun	2,560	42	2,602
Ms. Dai Li	1,151	41	1,192
Mr. Wang Hong Xue	1,006	41	1,047
Mr. Chen Ke Yuan	544	41	585
Ms. Gu Ji Lin	495	34	529
Supervisors			
Mr. Zhang Yu	159	20	179
Ms. Liu Wei Hong	162	33	195
Mr. Zhu Ming Xing	570	32	602
	<u>6,647</u>	<u>284</u>	<u>6,931</u>

Year ended 31 December 2022

	Salaries and allowances	Contributions to retirement benefit scheme	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive directors			
Mr. Wang Xiao Kun	4,314	60	4,374
Ms. Dai Li	1,762	60	1,822
Mr. Wang Hong Xue	1,554	60	1,614
Mr. Chen Ke Yuan	707	60	767
Ms. Gu Ji Lin	777	60	837
Supervisors			
Mr. Zhang Yu	240	33	273
Ms. Liu Wei Hong	1,078	48	1,126
Mr. Zhu Ming Xing	790	59	849
	<u>11,222</u>	<u>440</u>	<u>11,662</u>

Year ended 31 December 2023

	Salaries and allowances <i>RMB'000</i>	Contributions to retirement benefit scheme <i>RMB'000</i>	Total <i>RMB'000</i>
Executive directors			
Mr. Wang Xiao Kun	3,269	63	3,332
Ms. Dai Li	1,006	63	1,069
Mr. Wang Hong Xue	1,116	63	1,179
Mr. Chen Ke Yuan	515	63	578
Ms. Gu Ji Lin	406	36	442
Supervisors			
Mr. Zhang Yu	251	45	296
Ms. Liu Wei Hong	1,086	48	1,134
Mr. Zhu Ming Xing	696	63	759
	<u>8,345</u>	<u>444</u>	<u>8,789</u>

There was no arrangement under which a director or the supervisor waived or agreed to waive any remuneration during the reporting period.

On 22 May 2023, Dr. Chen Da (陳達) was appointed as the non-executive director of the Company. He has not received any remuneration during the year ended 31 December 2023.

On 10 August 2023, Mr. Yeung Chi Tat (楊志達), Dr. Tang Yong (唐勇), and Ms. Cheng Li (程麗) were appointed as the independent non-executive director of the Company, and the respective appointments will become effective upon the Listing.

In addition, Ms. Gu Ji Lin received share-based payments amounted to approximately RMB114,876,000 during the year ended 31 December 2021, and her total emoluments amounted to RMB115,405,000 for 2021.

Except for the above, none of the directors, supervisors, or chief executive received any share-based compensation during the Track Record Period.

Five Highest Paid Employees

The five highest paid individuals of the Group included 4, 3 and 4 directors and supervisors for the years ended 31 December 2021, 2022 and 2023, respectively, whose emoluments are included in the disclosures above. The emoluments of the remaining 1, 2 and 1 individuals for the years ended 31 December 2021, 2022 and 2023, respectively, are as follows:

	Year ended 31 December		
	2021 <i>RMB'000</i>	2022 <i>RMB'000</i>	2023 <i>RMB'000</i>
Salaries and other benefit	767	3,124	1,744
Retirement benefit scheme contributions	74	165	103
	<u>841</u>	<u>3,289</u>	<u>1,847</u>

The number of the highest paid employees who are not the directors or supervisors of the Group whose remuneration fell within the following bands is as follows:

	Number of employees		
	Year ended 31 December		
	2021	2022	2023
Emolument bands			
Nil to Hong Kong dollar ("HK\$") 1,000,000	–	–	–
HK\$1,000,001 to HK\$1,500,000	1	–	–
HK\$1,500,001 to HK\$2,000,000	–	2	1
	<u>1</u>	<u>2</u>	<u>1</u>
	<u>1</u>	<u>2</u>	<u>1</u>

During the reporting period, no remuneration was paid by the Group to the directors or supervisors of the Group or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

12. DIVIDENDS

The Group

	Year ended 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Dividends for equity shareholders of the Company recognised as distribution during the year	379,031	600,000	1,021,183
Dividends for non-controlling interests of Operating Entities and the Company's subsidiaries recognised as distribution during the year	3,411	3,168	–
	<u>382,442</u>	<u>603,168</u>	<u>1,021,183</u>
	<u>382,442</u>	<u>603,168</u>	<u>1,021,183</u>

For the Operating Entities and the Company's subsidiaries, the rate of dividend and number of shares ranking for the above dividends are not presented as such information is not considered meaningful having regard to the purpose of the report.

The Company

For the year ended 31 December 2021

The Company declared a dividend of RMB379,031,000 with RMB3.79 per share in respect of the financial year. The amount of RMB379,031,000 was paid during the same year.

For the year ended 31 December 2022

The Company declared a dividend of RMB600,000,000 with RMB6.00 per share in respect of the financial year. The amount of RMB600,000,000 was paid during the same year.

For the year ended 31 December 2023

In February, March and April 2023, the Company declared three batches of dividend totaling RMB596,525,000 with RMB5.97 per share, with a total of 100,000,000 shares, in respect of the financial year. The amount of RMB500,000,000 was paid during the same year and RMB96,525,000 was netted-off against amounts due from shareholders (Hengsheng Herui and Mr. Wang Xiao Kun).

In October 2023, the Company declared a dividend of RMB449,496,000 with RMB3.38 per share, with a total of 132,987,085 shares, in respect of the financial year. The full amount was paid during the same year. This declared dividend is calculated based on the Company's number of issued shares and redeemable shares with other preferential rights as at the date of declaration. The amount of RMB422,500,000 and RMB2,158,000 were recognised as dividend distributed to the holders of ordinary shares and the grantees of the Pre-IPO Employee Incentive Scheme, respectively. The amount of RMB24,838,000 was recognised in profit or loss and included in the fair value change of the redeemable shares with other preferential rights.

13. EARNINGS PER SHARE

The calculation of the earnings per share attributable to owners of the Company is based on the following data:

Earnings

	Year ended 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Earnings for the purpose of calculating basic and diluted earnings per share (profit for the year attributable to owners of the Company)	<u>755,816</u>	<u>954,316</u>	<u>1,139,211</u>

Number of shares

	Number of ordinary shares		
	Year ended 31 December		
	2021	2022	2023
Weighted average number of ordinary shares for the purpose of basic earnings per share (Note (i))	992,210,000	1,000,000,000	1,160,958,904
Effect of dilutive potential ordinary shares:			
Dilutive effect of shares issued for Pre-IPO Employee Incentive Scheme	<u>N/A</u>	<u>N/A</u>	<u>136,554</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share (Note (ii))	<u>N/A</u>	<u>N/A</u>	<u>1,161,095,458</u>

Notes:

- (i) For the year ended 31 December 2021, the weighted average number of ordinary shares for the purpose of basic earnings per share is determined on the assumption that the Reorganisation (including weighted effect of capital injection to Operating Entities) and the Share Subdivision as described in Note 36 had been effective at the beginning of the Track Record Period.

For the years ended 31 December 2022 and 2023, the weighted average number of ordinary shares for the purpose of basic earnings per share is determined on the assumption that the Share Subdivision had been effective at the beginning of the Track Record Period.

- (ii) No diluted earnings per share for the years ended 31 December 2021 and 2022 were presented as there were no potential ordinary shares in issue for the respective years.

The computation of diluted earnings per share for the year ended 31 December 2023 does not assume the removal of other preferential rights (detail as set out in Note 26) attached on the Company's shares granted to the Pre-IPO Investors (the "Removal") since the Removal would result in an increase in earnings per share.

14. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold improvements <i>RMB'000</i>	Furniture and fixtures and office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Plants and machineries <i>RMB'000</i>	Buildings <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
COST							
At 1 January 2021	4,508	827	14,177	301	–	–	19,813
Additions	7,571	3,394	1,126	5,623	–	4,723	22,437
Disposals/written off	(4,504)	(76)	(11,265)	(17)	–	–	(15,862)
At 31 December 2021	7,575	4,145	4,038	5,907	–	4,723	26,388
Additions	11,474	1,112	616	7,127	–	109,184	129,513
Disposals	–	(8)	(1,349)	(311)	–	–	(1,668)
At 31 December 2022	19,049	5,249	3,305	12,723	–	113,907	154,233
Additions	14,539	3,067	789	17,390	–	70,761	106,546
Reclassification	–	–	–	–	162,173	(162,173)	–
Disposals	–	(152)	(86)	(93)	–	–	(331)
At 31 December 2023	33,588	8,164	4,008	30,020	162,173	22,495	260,448
ACCUMULATED DEPRECIATION							
At 1 January 2021	1,124	150	1,473	9	–	–	2,756
Charge for the year	1,064	535	1,783	218	–	–	3,600
Elimination on disposals/written off	(1,114)	(60)	(2,242)	(2)	–	–	(3,418)
At 31 December 2021	1,074	625	1,014	225	–	–	2,938
Charge for the year	3,886	1,193	254	912	–	–	6,245
Elimination on disposals	–	(3)	(463)	(55)	–	–	(521)
At 31 December 2022	4,960	1,815	805	1,082	–	–	8,662
Charge for the year	8,342	1,753	677	1,801	3,610	–	16,183
Elimination on disposals	–	(15)	(44)	(50)	–	–	(109)
At 31 December 2023	13,302	3,553	1,438	2,833	3,610	–	24,736
CARRYING VALUES							
At 31 December 2021	6,501	3,520	3,024	5,682	–	4,723	23,450
At 31 December 2022	14,089	3,434	2,500	11,641	–	113,907	145,571
At 31 December 2023	20,286	4,611	2,570	27,187	158,563	22,495	235,712

The Company

	Leasehold improvements RMB'000	Furniture and fixtures and office equipment RMB'000	Total RMB'000
COST			
At 1 January 2021	–	–	–
Additions	1,140	2,103	3,243
At 31 December 2021	1,140	2,103	3,243
Additions	270	73	343
At 31 December 2022	1,410	2,176	3,586
Additions	–	118	118
At 31 December 2023	1,410	2,294	3,704
ACCUMULATED DEPRECIATION			
At 1 January 2021	–	–	–
Charge for the year	158	143	301
At 31 December 2021	158	143	301
Charge for the year	393	617	1,010
At 31 December 2022	551	760	1,311
Charge for the year	583	642	1,225
At 31 December 2023	1,134	1,402	2,536
CARRYING VALUES			
At 31 December 2021	982	1,960	2,942
At 31 December 2022	859	1,416	2,275
At 31 December 2023	276	892	1,168

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives, after taking into account the residual values, using the straight-line method and at the following rates per annum:

Leasehold improvements	3-5 years
Furniture and fixtures and office equipment	3-5 years
Motor vehicles	5 years
Plants and machineries	10 years
Buildings	30-40 years

15. RIGHT-OF-USE ASSETS

The Group

	Leased offices RMB'000	Leased warehouses RMB'000	Leasehold land RMB'000	Leased retail stores RMB'000	Leased motor vehicles RMB'000	Total RMB'000
COST						
At 1 January 2021	21,559	15,024	–	4,758	565	41,906
Additions	18,787	24,313	–	3,530	393	47,023
Expiration of leases	–	(646)	–	–	–	(646)
Termination of leases	(2,812)	(10,941)	–	(2,360)	(565)	(16,678)
At 31 December 2021	37,534	27,750	–	5,928	393	71,605
Additions	26,200	34,301	30,143	9,422	–	100,066
Expiration of leases	(1,521)	(6,627)	–	(3,584)	(85)	(11,817)
Termination of leases	(6,905)	(8,257)	–	–	(308)	(15,470)
At 31 December 2022	55,308	47,167	30,143	11,766	–	144,384
Additions	41,889	3,084	–	3,608	–	48,581
Expiration of leases	(16,365)	(7,022)	–	(1,607)	–	(24,994)
Modification of leases	4,088	–	–	–	–	4,088
At 31 December 2023	84,920	43,229	30,143	13,767	–	172,059
ACCUMULATED DEPRECIATION						
At 1 January 2021	3,451	2,436	–	426	133	6,446
Charge for the year	11,096	8,556	–	2,198	221	22,071
Expiration of leases	–	(646)	–	–	–	(646)
Termination of leases	(3,774)	(4,653)	–	(376)	(133)	(8,936)
At 31 December 2021	10,773	5,693	–	2,248	221	18,935
Charge for the year	18,160	17,348	251	4,010	114	39,883
Expiration of leases	(1,521)	(6,627)	–	(3,584)	(85)	(11,817)
Termination of leases	(4,266)	(3,231)	–	–	(250)	(7,747)
At 31 December 2022	23,146	13,183	251	2,674	–	39,254
Charge for the year	20,481	21,196	603	4,945	–	47,225
Expiration of leases	(16,365)	(7,022)	–	(1,607)	–	(24,994)
At 31 December 2023	27,262	27,357	854	6,012	–	61,485
CARRYING VALUES						
At 31 December 2021	26,761	22,057	–	3,680	172	52,670
At 31 December 2022	32,162	33,984	29,892	9,092	–	105,130
At 31 December 2023	57,658	15,872	29,289	7,755	–	110,574

	Year ended 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Expense relating to short-term leases	613	642	654
Variable lease payments not included in the measurement of lease liabilities	469	–	–
Total cash outflow for leases	(23,160)	(78,350)	(49,566)
Additions to right-of-use assets	47,023	100,066	52,669

For the Track Record Period, the Group leases various offices, warehouses, retail stores and motor vehicles for its operations. Lease contracts are entered into for fixed term of 1 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The Group has obtained the land use right certificate for the leasehold land. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the land use right.

During the years ended 31 December 2021 and 2022, certain leases related to office premises and warehouses were early terminated, respectively. The carrying values of the right-of-use assets were RMB7,742,000 and RMB7,723,000, associated with these leases liabilities were RMB7,962,000 and RMB8,593,000, and that resulted a gain on early termination of leases amounted to RMB220,000 and RMB870,000, respectively, being recognised in the profit or loss for the years ended 31 December 2021 and 2022, respectively. There was no early termination of leases during the year ended 31 December 2023.

Restrictions or covenants on leases

The lease agreements do not impose any covenants and the relevant leased assets may not be used as security for borrowing purposes.

Details of the lease maturity analysis of lease liabilities are set out in Note 25.

The Company

	Leased offices
	RMB'000
COST	
At 1 January 2021	–
Additions	1,893
At 31 December 2021 and 2022	1,893
Additions	4,981
Expiration of leases	(2,063)
At 31 December 2023	4,811
ACCUMULATED DEPRECIATION	
At 1 January 2021	–
Charge for the year	710
At 31 December 2021	710
Charge for the year	946

	Leased offices <i>RMB'000</i>
At 31 December 2022	1,656
Charge for the year	901
Expiration of leases	<u>(2,063)</u>
At 31 December 2023	<u>494</u>
CARRYING VALUES	
At 31 December 2021	<u>1,183</u>
At 31 December 2022	<u>237</u>
At 31 December 2023	<u>4,317</u>

16. INTANGIBLE ASSETS

	Software under development <i>RMB'000</i>	The Group		The Company
		Software <i>RMB'000</i>	Total <i>RMB'000</i>	Software <i>RMB'000</i>
COST				
At 1 January 2021	–	–	–	–
Additions	<u>–</u>	<u>7,081</u>	<u>7,081</u>	<u>4,322</u>
At 31 December 2021	–	7,081	7,081	4,322
Additions	<u>–</u>	<u>11,299</u>	<u>11,299</u>	<u>4,501</u>
At 31 December 2022	–	18,380	18,380	8,823
Additions	<u>25,237</u>	<u>13,111</u>	<u>38,348</u>	<u>2,090</u>
At 31 December 2023	<u>25,237</u>	<u>31,491</u>	<u>56,728</u>	<u>10,913</u>
AMORTISATION				
At 1 January 2021	–	–	–	–
Charge for the year	<u>–</u>	<u>177</u>	<u>177</u>	<u>85</u>
At 31 December 2021	–	177	177	85
Charge for the year	<u>–</u>	<u>1,755</u>	<u>1,755</u>	<u>1,259</u>
At 31 December 2022	–	1,932	1,932	1,344
Charge for the year	<u>–</u>	<u>3,599</u>	<u>3,599</u>	<u>1,606</u>
At 31 December 2023	<u>–</u>	<u>5,531</u>	<u>5,531</u>	<u>2,950</u>

	Software under development <i>RMB'000</i>	The Group Software <i>RMB'000</i>	Total <i>RMB'000</i>	The Company Software <i>RMB'000</i>
CARRYING VALUES				
At 31 December 2021	–	6,904	6,904	4,237
At 31 December 2022	–	16,448	16,448	7,479
At 31 December 2023	25,237	25,960	51,197	7,963

All of the Group's and the Company's software were acquired from third parties and the amortisation of the Group's software under development will begin when it is available for use. Software were amortised on a straight-line basis over five years.

17. DEFERRED TAX

The following is the analysis of the deferred tax balances for financial reporting purposes:

The Group

	2021 <i>RMB'000</i>	As at 31 December 2022 <i>RMB'000</i>	2023 <i>RMB'000</i>
Deferred tax assets	74,865	66,482	83,367
Deferred tax liabilities	(23)	(558)	(1,293)
	<u>74,842</u>	<u>65,924</u>	<u>82,074</u>

	Timing difference on revenue recognition <i>RMB'000</i>	Tax losses <i>RMB'000</i>	Others* <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2021	39,312	–	656	39,968
Credit to profit or loss	28,995	5,289	590	34,874
At 31 December 2021	68,307	5,289	1,246	74,842
Charge to profit or loss	(5,442)	(2,359)	(1,117)	(8,918)
At 31 December 2022	62,865	2,930	129	65,924
(Charge) credit to profit or loss	(1,118)	10,262	7,006	16,150
At 31 December 2023	<u>61,747</u>	<u>13,192</u>	<u>7,135</u>	<u>82,074</u>

* Others mainly represent the deferred tax assets and liabilities in relation to temporary differences arising from right-of-use assets and lease liabilities and other timing difference such as deferred deductible advertising expenses and unrealised gain on fair value change of financial assets at FVTPL, all of which are not material.

The Group has unused tax losses of RMB24,692,000, RMB39,976,000 and RMB64,343,000 available for offset against future profits as at 31 December 2021 and 2022 and 2023, respectively. A deferred tax asset has been recognised in respect of RMB21,156,000, RMB11,722,000 and RMB52,768,000 of such losses as at 31 December 2021, 2022 and 2023, respectively. No deferred tax asset has been recognised in respect of the remaining RMB3,536,000, RMB28,254,000 and RMB11,575,000 of such losses as at 31 December 2021, 2022 and 2023, respectively, due to the unpredictability of future profit streams. The losses as at 31 December 2021, 2022 and 2023 will expire in various years before 2026, 2027 and 2028, respectively.

The Company

	Tax losses <i>RMB'000</i>
At 1 January 2021	–
Credit to profit or loss	5,289
At 31 December 2021	5,289
Charge to profit or loss	(2,359)
At 31 December 2022	2,930
Credit to profit or loss	7,162
At 31 December 2023	10,092

18. INVENTORIES

	As at 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	3,306	5,200	4,188
Finished goods	109,778	187,279	196,983
	<u>113,084</u>	<u>192,479</u>	<u>201,171</u>

19. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS**The Group**

	As at 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current			
Trade receivables (<i>Note (i)</i>)	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 (<i>Note (ii)</i>)	52,905	32,237	22,559
	<u>69,566</u>	<u>66,383</u>	<u>62,519</u>

	As at 31 December		
	2021 RMB'000	2022 RMB'000	2023 RMB'000
Non-current			
Prepayments for construction in progress	42,410	–	300
Total	111,976	66,383	62,819

Notes:

- (i) The Group's trade receivables are mainly due from certain royalty and franchising business. These primarily relate to a number of independent shops for whom there is no significant financial difficulty and based on past experience and management's assessment, the overdue amounts can be recovered. The Group does not hold any collateral or other credit enhancements over its trade receivable balances.
- (ii) The Group's prepayments are mainly arising from amounts paid to third parties in relation to the purchase of the Group's raw materials and equipment.

As at 1 January 2021, trade receivables amounted to RMB13,357,000.

Details of impairment assessment of trade and other receivables are set out in Note 32.

The following is an aged analysis of trade receivables, presented based on the dates of delivery of goods/rendering of franchising service at the end of each reporting period.

	As at 31 December		
	2021 RMB'000	2022 RMB'000	2023 RMB'000
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	–
	5,713	6,199	7,191

The management of the Group closely monitors the credit quality of trade and other receivables and consider the debts are of a good credit quality.

The Group allows a credit period of 30 days to its franchisees for the royalty and franchising business.

At the end of each of the reporting periods, the amount of debtors included in the Group's trade receivables balances that are past due as at the reporting date is insignificant and the Group is satisfied with the subsequent settlements and the credit quality of these customers had not seen deteriorated.

The Company

	As at 31 December		
	2021 RMB'000	2022 RMB'000	2023 RMB'000
Other receivables	120	192	855
Value-added tax recoverable	1,285	2,231	3,602
Lease deposits	38	98	–
Advances to staff	–	–	58
Deferred issue costs	1,093	1,427	3,907
Prepayments to third parties	181	188	1,691
	<u>2,717</u>	<u>4,136</u>	<u>10,113</u>

20. AMOUNTS DUE FROM (TO) RELATED PARTIES**a. Amounts due from related parties****The Group**

	As at		Maximum amount outstanding during the year ended				
	1 January	As at 31 December			31 December		
	2021 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000
Trade in nature							
廣州隆盛和餐飲有限公司 (Guangzhou Longshenghe Catering Management Co., Ltd.*) (Notes (i) & (ii))	–	569	–	–	N/A	N/A	N/A
Ms. Liu Wei Hong (Note (ii))	2,112	–	–	–	N/A	N/A	N/A
Mr. Wang Hong Xue (Note (ii))	2,252	380	–	–	N/A	N/A	N/A
Ms. Dai Li (Note (ii))	1,948	–	–	–	N/A	N/A	N/A
Mr. Zhang Yu (張禹) (Note (iii))	3,621	–	–	–	N/A	N/A	N/A
Ms. Liu Li (劉麗) (Note (iii))	3,527	–	–	–	N/A	N/A	N/A
Mr. Wang Zhi Yong (王志勇) (Note (iii))	2,412	–	–	–	N/A	N/A	N/A
Ms. Xu Xiang Lian (徐祥蓮) (Note (iii))	1,033	–	–	–	N/A	N/A	N/A
	<u>16,905</u>	<u>949</u>	<u>–</u>	<u>–</u>			
Non-trade in nature							
Hengsheng Herui (Note (iv))	54,538	133,172	81,873	–	238,172	187,973	86,873
成都和銳瑞商業管理有限公司 (Chengdu Hekunrui Commercial Management Co., Ltd.*) (“Chengdu Hekunrui”) (Note (vi))	–	176	176	176	176	176	176
成都銳麟商業管理有限公司 (Chengdu Kunlin Commercial Management Co., Ltd.*) (“Chengdu Kunlin”) (Note (vi))	–	202	202	202	202	202	202

	As at		Maximum amount outstanding					
	1 January		As at 31 December			during the year ended		
	2021	2021	2022	2023	31 December			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
四川臻森商業管理有限公司 (Sichuan Zhensen Commercial Management Co., Ltd.*) (“Sichuan Zhensen”) (Note (vi))	–	229	229	229	229	229	229	
Mr. Wang Xiao Kun (Note (vii))	–	14,797	9,096	–	14,797	14,797	9,652	
Ms. Liu Wei Hong (Note (vi))	812	–	–	–	820	–	–	
Chengdu Jinbosen (Note (v))	25,407	–	–	–	25,407	–	–	
	<u>80,757</u>	<u>148,576</u>	<u>91,576</u>	<u>607</u>				
	<u>97,662</u>	<u>149,525</u>	<u>91,576</u>	<u>607</u>				

* English name is for identification purpose only.

Notes:

- (i) The related party is controlled by the key management personnel of the Group. The amount are unsecured, interest-free and repayable on demand.
- (ii) These amounts represent receivables from franchised freshly-made tea drink shops owned and operated by certain management or executive directors of the Company who were key management personnel of the Operating Entities/subsidiaries of the Company in relation to sale of goods and equipment and rendering of royalty and franchising services in accordance with the Franchise Agreements.
- (iii) These amounts represent receivables from franchises freshly-made tea drink shops owned and operated by certain close family members of Mr. Wang Xiao Kun and Ms. Liu Wei Hong who are founders of the Company in relation to sale of goods and equipment and rendering of royalty and franchising services in accordance with the Franchise Agreements.
- (iv) Hengsheng Herui is the immediate holding company of the Company. The amount was unsecured, interest-free and repayable on demand.
- (v) Chengdu Jinbosen is the ultimate holding company of the Hengsheng Herui. The amount was unsecured, interest-free and repayable on demand.
- (vi) For non-trade balances, they are unsecured, interest-free and repayable on demand.
- (vii) The amount outstanding represents advance to one of the Controlling Shareholders which was unsecured, interest-free and repayable on demand.

The following is an aged analysis of amounts due from related parties which are trade in nature presented based on the dates of delivery of goods/dates of rendering of management services at the end of each reporting period.

	As at 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Within 90 days	940	–	–
91 to 180 days	9	–	–
	<u>949</u>	<u>–</u>	<u>–</u>

The Company

	As at			Maximum amount outstanding during the year ended			
	1 January	As at 31 December		31 December			
	2021	2021	2022	2023	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-trade in nature							
Hengsheng Herui (<i>Note (i)</i>)	–	133,172	81,873	–	187,973	187,973	86,873
Mr. Wang Xiao Kun (<i>Note (i)</i>)	–	14,797	9,096	–	14,797	14,797	9,652
Chengdu Hekunrui (<i>Note (i)</i>)	–	88	88	88	88	88	88
四川合瑞天昊企業管理諮詢有限公司 (Sichuan Heruitianhao Enterprise Management Consulting Co., Ltd.*) ("Heruitianhao") (<i>Note (i)</i>)	–	12	–	–	12	12	–
	–	148,069	91,057	88			

* English name is for identification purpose only.

Note:

(i) The amounts were unsecured, interest-free and repayable on demand.

b. Amounts due to related parties**The Group**

	As at 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Trade in nature			
Chengdu Hekunrui (<i>Note (i)</i>)	382	–	–
	382	–	–
Non-trade in nature			
成都茶億物流有限公司 (<i>Note (iii)</i>) (Chengdu Chayi Logistics Co., Ltd.*) ("Chayi Logistics")	159	–	–
四川茶裕合瑞貿易有限公司 (<i>Note (iii)</i>) (Sichuan Chayuhuerui Trading Co., Ltd.*) ("Sichuan Chayuhuerui")	1,160	–	–
Heruitianhao (<i>Note (iii)</i>) 長沙茶瑞企業諮詢管理有限公司 (<i>Note (iii)</i>) (Changsha Charui Enterprise Consulting Management Co., Ltd.*)	6,353	–	–
成都匯盟錦行貿易有限公司 (<i>Note (iii)</i>) (Chengdu Huimengjinxing Trading Co., Ltd.*) ("Chengdu Huimengjinxing")	241	–	–
廣州合瑞德業貿易有限公司 (<i>Note (iii)</i>) (Guangzhou Heruideye Trading Co., Ltd.*)	138	–	–
	290	–	–

	As at 31 December		
	2021 RMB'000	2022 RMB'000	2023 RMB'000
廣州合瑞樸薪企業諮詢有限公司 (Note (iii)) (Guangzhou Heruipuxin Enterprise Consulting Co., Ltd.*)	652	—	—
杭州坤成合瑞商貿有限公司 (Note (iii)) (Hangzhou Kunchengherui Trading Co., Ltd.*)	1,692	—	—
杭州銳和深企業管理諮詢有限公司 (Note (iii)) (Hangzhou Ruiheshen Enterprise Management Consulting Co., Ltd.*)	2,727	—	—
南京晟和方管理諮詢有限公司 (Note (iii)) (Nanjing Shenghefang Management Consulting Co., Ltd.*)	691	—	—
南京佳潤琦貿易有限公司 (Note (iii)) (Nanjing Jiarunqi Trading Co., Ltd.*)	593	—	—
上海古測企業管理諮詢有限公司 (Note (iii)) (Shanghai Guce Enterprise Management Consulting Co., Ltd.*)	142	—	—
上海渲鉅賈貿有限公司 (Note (iii)) (Shanghai Xuanju Trading Co., Ltd.*)	197	—	—
Wuhan Consulting (Note (iii))	663	—	—
武漢合瑞坤貿易有限公司 (Note (iii)) (Wuhan Heruikun Trading Co., Ltd.*)	251	—	—
Hengsheng Herui (Note (iv))	5,000	—	—
Chengdu Jinboson (Note (v))	475	—	—
四川合瑞新諮詢管理有限公司 (Sichuan Heruixin Consulting Management Co., Ltd*) (“Sichuan Heruixin”) (Note (iii))	27	—	—
Mr. Wang Hong Xue (Note (ii))	5	—	—
	21,456	—	—
	21,838	—	—

* English name is for identification purpose only.

Notes:

- (i) The related party is controlled by one of the Controlling Shareholders of the Group. The amount is unsecured, interest-free and repayable on demand.
- (ii) These related parties are the directors of the Company. These amounts are unsecured, interest-free and repayable on demand.
- (iii) These related parties are controlled by Hengsheng Herui, the immediate holding company of the Company. They were Operating Entities before Reorganisation and became related parties upon completion of Reorganisation. The amounts are unsecured, interest-free and repayable on demand.
- (iv) Hengsheng Herui is the immediate holding company of the Company. The amount is unsecured, interest-free and repayable on demand.
- (v) Chengdu Jinboson is the ultimate holding company of the Hengsheng Herui. The amount is unsecured, interest-free and repayable on demand.

The following is an aged analysis of an amount due to a related party which is trade in nature presented based on the invoice date at the end of each reporting period.

	As at 31 December		
	2021 <i>RMB'000</i>	2022 <i>RMB'000</i>	2023 <i>RMB'000</i>
91 to 365 days	382	–	–
	<u>382</u>	<u>–</u>	<u>–</u>

The Company

	As at 31 December		
	2021 <i>RMB'000</i>	2022 <i>RMB'000</i>	2023 <i>RMB'000</i>
Trade in nature			
Chengdu Hekunrui	382	–	–
	<u>382</u>	<u>–</u>	<u>–</u>
Non-trade in nature			
Sichuan Heruixin	2	–	–
	<u>384</u>	<u>–</u>	<u>–</u>

The following is an aged analysis of an amount due to a related party which is trade in nature presented based on the invoice date at the end of each reporting period.

	As at 31 December		
	2021 <i>RMB'000</i>	2022 <i>RMB'000</i>	2023 <i>RMB'000</i>
91 to 365 days	382	–	–
	<u>382</u>	<u>–</u>	<u>–</u>

c. Amounts due from subsidiaries

The Company

	As at				Maximum amount outstanding during the year ended		
	1 January	As at 31 December			31 December		
	2021	2021	2022	2023	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-trade in nature							
四川蜀信安和食品科技開發有限公司 (Sichuan Shuxin Anhe Food Technology Development Co. Ltd.*) ("Shuxin Anhe")	–	393	84,993	111,873	393	84,993	111,873
四川蜀味茶韻供應鏈有限公司(Sichuan Shuwei Tea Rhyme Supply Chain Co., Ltd.)* ("Shuwei Tea Rhyme")	–	–	5,556	100,000	–	5,556	106,000
四川蜀信雲茶信息科技有限公司 (Sichuan Shuxin Yuncha Information Technology Co., Ltd.)* ("Shuxin Yuncha")	–	–	16,500	–	–	16,500	42,960
四川茶百道電子商務有限公司 (Sichuan Chabaidao E-commerce Co., Ltd.)* ("ChaPanda E-commerce")	–	–	40	–	–	1,040	40
森冕新材料科技(成都)有限公司 (Senmian New Materials Technology (Chengdu) Co., Ltd.)* ("Senmian New Materials")	–	5,000	–	–	5,000	5,000	–
海南咖弗瑞實業有限公司 (Hainan Cafroi Industrial Co., Ltd.)* ("Cafroi Industrial")	–	–	–	504	–	–	504
四川蜀信同源企業管理諮詢有限公司 (Sichuan Shuxin Tongyuan Enterprise Management Consulting Co., Ltd.)* ("Sichuan Shuxin Tongyuan")	–	–	–	5	–	–	5
	–	5,393	107,089	212,382			
Analysed as:							
Current	–	5,000	5,596	100,509			
Non-current [^]	–	393	101,493	111,873			
	–	5,393	107,089	212,382			

[^] The amounts are non-trade in nature, unsecured, interest-free and are expected to be repaid more than one year.

* English name is for identification purpose only.

d. Amounts due to subsidiaries**The Company**

	As at 31 December		
	2021 <i>RMB'000</i>	2022 <i>RMB'000</i>	2023 <i>RMB'000</i>
Non-trade in nature			
成都市茶百道職業技能培訓學校有限公司 (Chengdu Chabaidao Skills Training Co., Ltd.*) (“ChaPanda Training”)	–	18,000	19,500
Shuxin Zhiyuan	–	33,400	30,400
Shuwei Tea Rhyme	–	56,343	82,343
	–	107,743	132,243

The amounts are non-trade in nature, unsecured, interest-free and repayable on demand.

* English name is for identification purpose only.

21. BANK BALANCES AND CASH**The Group**

Bank balances and cash include demand deposits, short term deposits amounted to RMB128,138,000, RMB226,031,000 and RMB715,989,000 as at 31 December 2021, 2022 and 2023, respectively, for the purpose of meeting the Group's short term cash commitments, which carry interest at market rates range from 0.20% to 1.70% per annum as at 31 December 2021, 2022 and 2023. Besides, the Group holds term deposits with initial terms of over three months amounted to RMB230,000,000, as at 31 December 2023, which carry interest at market rate of 2.9% per annum.

The Company

Bank balances and cash include demand deposits, short term deposits amounted to RMB53,136,000, RMB35,273,000 and RMB553,332,000, respectively for the purpose of meeting the Company's short term cash commitments, which carry interest at market rates range from 0.20% to 1.65% per annum as at 31 December 2021, 2022 and 2023. Besides, the Company holds term deposits with initial terms of over three months amounted to RMB130,000,000, as at 31 December 2023, which carry interest at market rate of 2.9% per annum.

Details of impairment assessment of bank balances are set out in Note 32.

22. FINANCIAL ASSETS AT FVTPL

The balances represent wealth management products issued by financial institutions subscribed by the Group with no guaranteed principal and return, while the total expected return is up to 3.73% per annum for the years ended 31 December 2021, 2022 and 2023 depending on the performance of the underlying financial investments or the change in interest rates as specified in the relevant placements. These wealth management products can be redeemable on demand.

23. TRADE AND OTHER PAYABLES

The Group

	As at 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Trade payables (<i>Note (i)</i>)	116,224	351,149	354,672
Deposits (<i>Note (ii)</i>)	87,835	107,952	145,046
Operational support service fees (<i>Note (iii)</i>)	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 listing expenses	–	–	7,811
	<u>349,365</u>	<u>605,588</u>	<u>770,619</u>

Notes:

- (i) The outstanding payables mainly represent the amounts payable to suppliers of the finished goods and equipment as at 31 December 2021, 2022 and 2023.
- (ii) These amounts represent deposits received from franchisees which will be refunded at the end of their respective franchise periods unless renewals were made.
- (iii) The amounts mainly represent service fees paid to regional agents for assisting the Group to provide operational support services mainly in relation to the franchise network in newer regions and also managing and maintaining those corresponding franchisees based on the regional agency contracts.

The credit period of trade payables is generally from 30 to 90 days from the invoice date.

The following is an aged analysis of trade payables presented based on the invoice date at the end of each reporting period.

	As at 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Within 90 days	65,001	348,927	354,003
91 to 365 days	51,223	1,300	218
Over 365 days	–	922	451
	<u>116,224</u>	<u>351,149</u>	<u>354,672</u>

The Company

	As at 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other payables	152	1,779	2,185
Payroll payable	258	3,421	6,162
Other tax payable	190	–	196
Accrued share issue costs	–	–	992
Accrued listing expenses	–	–	7,811
	<u>600</u>	<u>5,200</u>	<u>17,346</u>

24. CONTRACT LIABILITIES

	As at 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current			
Sale of goods and equipment	31,892	62,672	77,224
Royalty and franchising income	<u>84,887</u>	<u>98,185</u>	<u>99,456</u>
	<u>116,779</u>	<u>160,857</u>	<u>176,680</u>
Non-current			
Royalty and franchising income	<u>186,261</u>	<u>153,271</u>	<u>147,530</u>
	<u><u>303,040</u></u>	<u><u>314,128</u></u>	<u><u>324,210</u></u>

As at 1 January 2021, the Group had contract liabilities of RMB218,478,000, including contract liabilities for sale of goods and equipment amounting to RMB61,231,000 and royalty and franchising income amounting to RMB157,247,000.

The following table shows the revenue recognised to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in prior periods.

	As at 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sale of goods and equipment			
Balance at the beginning of the year	61,231	31,892	62,672
Decrease in contract liabilities as a result of recognition of revenue during the year	(61,231)	(31,892)	(62,672)
Increase in contract liabilities as a result of receiving prepayments for sale of goods during the year	<u>31,892</u>	<u>62,672</u>	<u>77,224</u>
Balance at the end of the year	<u>31,892</u>	<u>62,672</u>	<u>77,224</u>

	As at 31 December		
	2021 RMB'000	2022 RMB'000	2023 RMB'000
Royalty and franchising income			
Balance at the beginning of the year	157,247	271,148	251,456
Decrease in contract liabilities as a result of recognition of revenue during the year	(71,825)	(125,528)	(157,138)
Increase in contract liabilities as a result of receiving royalty and franchising fees during the year	185,726	105,836	152,668
	<u>271,148</u>	<u>251,456</u>	<u>246,986</u>
Balance at the end of the year	<u>303,040</u>	<u>314,128</u>	<u>324,210</u>

25. LEASE LIABILITIES

The Group

	As at 31 December		
	2021 RMB'000	2022 RMB'000	2023 RMB'000
Lease liabilities payable:			
Within one year	28,654	37,496	40,948
Within a period of more than one year but not exceeding two years	20,121	26,384	21,006
Within a period of more than two years but not exceeding five years	8,966	12,195	21,570
	<u>57,741</u>	<u>76,075</u>	<u>83,524</u>
Less: Amount due for settlement within 12 months shown under current liabilities	<u>(28,654)</u>	<u>(37,496)</u>	<u>(40,948)</u>
Amount due for settlement after 12 months shown under non-current liabilities	<u>29,087</u>	<u>38,579</u>	<u>42,576</u>

The weighted average incremental borrowing rates applied to lease liabilities are at range of 5.16% to 5.70% as at 31 December 2021, 2022 and 2023.

The amount of lease liabilities payable to related parties is RMB10,609,000, RMB6,342,000 and RMB22,961,000 as at 31 December 2021, 2022 and 2023, respectively, and the details of lease rental payments to related parties are set out in Note 33.

The Company

	As at 31 December		
	2021 RMB'000	2022 RMB'000	2023 RMB'000
Lease liabilities payable:			
Within one year	959	–	1,033
Within a period of more than one year but not exceeding two years	–	–	1,027
Within a period of more than two years but not exceeding five years	–	–	2,137
	959	–	4,197
Less: Amount due for settlement within 12 months shown under current liabilities	(959)	–	(1,033)
Amount due for settlement after 12 months shown under non-current liabilities	–	–	3,164

The weighted average incremental borrowing rates applied to lease liabilities is 5.70% as at 31 December 2021, 2022 and 2023.

26. REDEEMABLE SHARES WITH OTHER PREFERENTIAL RIGHTS

Pursuant to the capital increase and shareholders agreements entered into on 22 May 2023 and 19 June 2023, respectively (collectively, the “Agreements”) as described in Note 27, the Company issued 7,348,485 shares of the Company attached with certain special rights to TOWER QUALITY LIMITED (the “Leading Pre-IPO Investor”), 上海檀英投資合夥企業(有限合夥) (Shanghai Tanying Investment Partnership (Limited Partnership)*) (“LVC Tanying”), 蘇州悅享股權投資合夥企業(有限合夥) (Suzhou Yuexiang Equity Investment Partnership (Limited Partnership)*) (“Suzhou Yuexiang”), 成都新津昇望交子新消費股權投資基金合夥企業(有限合夥) (Chengdu Xinjin Shengwang Jiaozi New Consumer Equity Investment Fund Partnership (Limited Partnership)*) (“Xinjin Shengwang”), 南京黃番茄股權投資合夥企業(有限合夥) (Nanjing Yellow Tomato Equity Investment Partnership (Limited Partnership)*) (“Yellow Tomato LP”) and 中金同富(泉州)消費產業創業投資基金合夥企業(有限合夥) (CICC Tongfu (Quanzhou) Consumer Industry Venture Capital Fund Partnership (Limited Partnership)*) (“CICC Tongfu”), (collectively with the Leading Pre-IPO Investor, the “Pre-IPO Investors”) at RMB132 per share for a total net cash proceed of approximately RMB970,000,000. The aforesaid transaction (“Pre-IPO Investments”) was completed on 27 June 2023. Certain redemption and other preferential rights, which are identified as the significant terms of the Agreements as described below under (i) to (iii), granted to Pre-IPO Investors would be terminated upon successful initial public offering (the “IPO”).

The significant terms of the Agreements are as follows:

(i) Liquidation preferences

In the event of any liquidation, Leading Pre-IPO Investor shall be entitled to receive, prior and in preference to any distribution of the proceeds of such liquidation event to the holders of ordinary shares. All of the remaining proceeds available for distribution to shareholders shall be distributed pro rata among the holders of ordinary shares.

(ii) Anti-dilution provision

In the event that the Company introduce new investors by issuing additional shares (excluding the employee incentive plan permitted by the investor) before the completion of successful IPO, the share issuance price paid by new investors shall be not lower than the price in this transaction. Otherwise, the Pre-IPO Investors have a right to require: (a) the Company to adjust the share capital of the Pre-IPO Investors based on the weighted average method in order to re-determine the amount of the Company’s registered shares that should be received by the Pre-IPO Investors; (b) the Company to settle the difference in cash, so that the total amount paid by the Pre-IPO Investors divided by the total amount of share capital obtained is equal to the price per share in the new issuance.

* English name is for identification purpose only.

(iii) Redemption

Pre-IPO Investors are granted an option to demand the Company to repurchase its shares mainly under any one of following circumstances:

- (i) at any time on or after 1 January 2026;
- (ii) any breach of the Agreements by any subsidiaries of the Group, the Controlling Shareholders and/or any beneficial owner, or any misrepresentation or misconduct by any subsidiaries of Group, the Controlling Shareholders and/or any beneficial owner, which materially and adversely affects Pre-IPO Investors; or
- (iii) any subsidiary of the Group violates the applicable laws and regulations, causing significant obstacles to the qualified listing of the Company, or causing significant adverse effects or losses to the Pre-IPO Investors or the Group.

The repurchase price is calculated as follows, and the Company shall pay the investor in 60 working days after the investor issue the written repurchase request.

Repurchase price = Investment consideration * (1+8%/365 * the actual number of days between the injection of consideration to the designated account and investor received the total repurchase price) – the dividend that the Company paid to investor.

The redeemable shares with other preferential rights are designated as financial liabilities at FVTPL on initial recognition. The redeemable shares with other preferential rights are measured at fair value with any changes in fair value arising on remeasurement recognised in the profit or loss except for the portion attributable to credit risk change which shall be charged/credited to other comprehensive income, if any. The directors of the Company consider that there is no credit risk change that drives the fair value change of the redeemable shares with other preferential rights during the Track Record Period.

The redeemable shares with other preferential rights were valued at fair value by the management of the Company with reference to an independent valuation.

The Group adopted Black-Scholes option pricing model to determine the fair value of shares subject to redemption and other preferential rights as at 31 December 2023 while the discounted cash flow model was used to determine the underlying equity value of the Company.

Key valuation assumptions used to determine the fair value of redeemable shares with other preferential rights were as follows:

	As at 31 December 2023
Volatility	40%
Discount rate	11.6%
Weighted average discount for lack of marketability	13%
Dividend yield	0%
Possibility under successful IPO scenario	55%
Possibility under redemption scenario	45%
Time to expiration	2.01 years

Volatility was determined by reference to the comparable companies in the industry.

The movements of the redeemable shares with other preferential rights are set out below:

The Group and the Company	Redeemable shares with other preferential rights <i>RMB'000</i>
At 1 January 2021, 31 December 2021 and 2022	–
Issuance of the redeemable shares with other preferential rights	970,000
Dividend paid	(24,838)
Changes in fair value	75,838
	<hr/>
At 31 December 2023	1,021,000
	<hr/> <hr/>

27. PAID-UP CAPITAL/SHARE CAPITAL AND RESERVES

The Group

For the purpose of the presentation of the consolidated statements of financial position, the balance of share capital as at 1 January 2021 represent the issued aggregate share capital of the ChaPanda Catering, Sichuan Heruixin, Sichuan Chayuhui, 四川錕榮合瑞企業管理有限公司 (Sichuan Kunrongherui Enterprise Management Co., Ltd.*), Heruitianhao, Chengdu Huimengjinxing, Chayi Logistics, which are the holding companies of the Operating Entities undertaking the Listing Business. Upon completion of the Reorganisation, the share capital as at 31 December 2021 and 2022 and 31 December 2023 represented the share capital of the Company.

The Company

	Number of shares	Amount <i>RMB'000</i>
Ordinary shares of RMB1 each		
Authorised:		
At 1 January 2021, 31 December 2021 and 2022	100,000,000	100,000
Increase on 2023 Shareholding Restructuring (as defined and detailed in <i>Note (i)</i>)	25,000,000	25,000
Increase on Pre-IPO Investments (<i>Note (ii)</i>)	7,348,485	7,348 [#]
Increase on Pre-IPO Employee Incentive Scheme (<i>Note (iii)</i>)	638,600	639
	<hr/>	<hr/>
At 31 December 2023	132,987,085	132,987
	<hr/> <hr/>	<hr/> <hr/>
Issued and fully paid:		
At 1 January 2021	100,000,000	–
Capital injection	–	100,000
	<hr/>	<hr/>
At 31 December 2021 and 2022	100,000,000	100,000
Issuance of shares pursuant to the 2023 Shareholding Restructuring (<i>Note (i)</i>)	25,000,000	25,000
Issuance of shares pursuant to the Pre-IPO Employee Incentive Scheme (as defined and detailed in <i>Notes (iii)</i> and <i>31(ii)</i>)	638,600	639
	<hr/>	<hr/>
At 31 December 2023	125,638,600	125,639
	<hr/> <hr/>	<hr/> <hr/>

[#] The corresponding shares issued were reclassified to the redeemable shares with other preferential rights as detailed in Note 26.

Notes:

- (i) Prior to the 2023 Shareholding Restructuring (as defined below), the Company was owned directly 90% by Hengsheng Herui and 10% by Mr. Wang Xiao Kun. Hengsheng Herui was held as to 84.888% by Chengdu Jinbosen, 7.78% by Ms. Dai Li, 3.78% by Mr. Wang Hongxue, 2.222% by Ms. Gu Ji Lin and 1.33% by Mr. Cheng Keyuan, through their respective wholly-owned investment vehicles (together, the “Employee Shareholders”). On 5 May 2023, the Company passed a shareholders’ resolution in relation to (i) the increase of the share capital of the Company from RMB100,000,000 to RMB125,000,000 and (ii) the subscription of the shares by Mr. Wang Xiao Kun, Ms. Liu Wei Hong, and the Employee Shareholders (the “2023 Shareholding Restructuring”). On 11 May 2023, the Company issued a total of 25,000,000 shares to Mr. Wang Xiao Kun, Ms. Liu Wei Hong and the Employee Shareholders in such proportions that correspond to the respective percentages of equity interests ultimately held by them in the Company, at an aggregate consideration of RMB25,000,000. The subscription price was determined at par value of the registered capital increased.
- (ii) On 22 May 2023, the Company, Hengsheng Herui, Mr. Wang Xiao Kun, TOWER QUALITY LIMITED, LVC Tanying, Suzhou Yuexiang, Xinjin Shengwang, Yellow Tomato LP, Shuwei Tea Rhyme, and Shuxin Zhiyuan entered into capital increase and shareholders agreement, pursuant to which, each of TOWER QUALITY LIMITED, LVC Tanying, Suzhou Yuexiang, Xinjin Shengwang and Yellow Tomato LP agreed to subscribe for RMB6,060,606, RMB227,273, RMB303,030, RMB378,788 and RMB227,273 increased registered capital of the Company, at cash considerations of RMB800,000,000, RMB30,000,000, RMB40,000,000, RMB50,000,000 and RMB30,000,000, respectively.

On 19 June 2023, the Company, Hengsheng Herui, Mr. Wang Xiao Kun, CICC Tongfu, Shuwei Tea Rhyme and Shuxin Zhiyuan entered into capital increase and shareholders agreement, pursuant to which, CICC Tongfu agreed to subscribe for RMB151,515 increased registered capital of the Company, at a cash consideration of RMB20,000,000.

The Pre-IPO Investments were completed on 27 June 2023, being the date of payment of full considerations and the completion of share registrations. As the Pre-IPO Investments contain certain special rights, including redemption rights, that are granted to the investors which are outside the control of the Company, the Pre-IPO Investments are accounted for as financial liabilities at FVTPL and the shares held by the Pre-IPO Investments are not considered as ordinary shares. Details are set out in Note 26.

- (iii) On 10 August 2023, 638,600 shares under the Pre-IPO Employee Incentive Scheme (as defined in Note 31(ii)) have been allotted and issued to 四川同創共進企業管理合夥企業(有限合夥) (Sichuan Tongchuang Gongjin Enterprise Management Partnership (Limited Partnership)*) (“Tongchuang Gongjin”), represent treasury shares held by the Company. Details are set out in Note 31.

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Reserves of the Company:

Below table sets out the details of the reserves of the Company:

	Statutory reserves <i>RMB'000</i>	Shares issued for Pre-IPO Employee Incentive shares <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2021	–	–	–	–	–
Profit and total comprehensive income for the year	–	–	–	518,578	518,578
Recognition of equity- settled share-based payments	–	–	114,876	–	114,876
Transfer to statutory reserves	50,000	–	–	(50,000)	–
Dividends recognised as distribution	–	–	–	(379,031)	(379,031)
At 31 December 2021	50,000	–	114,876	89,547	254,423
Profit and total comprehensive income for the year	–	–	–	517,510	517,510
Dividends recognised as distribution	–	–	–	(600,000)	(600,000)
At 31 December 2022	50,000	–	114,876	7,057	171,933
Profit and total comprehensive income for the year	–	–	–	1,201,180	1,201,180
Dividends recognised as distribution	–	–	–	(1,021,183)	(1,021,183)
Issuance of shares pursuant to the Pre-IPO Employee Incentive Scheme (<i>Note 31(ii)</i>)	–	(639)	29,433	–	28,794
Transfer to statutory reserves	16,494	–	–	(16,494)	–
At 31 December 2023	<u>66,494</u>	<u>(639)</u>	<u>144,309</u>	<u>170,560</u>	<u>380,724</u>

28. RETIREMENT BENEFIT PLANS

The employees of the Group in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

The amounts of contributions made by the Group in respect of the retirement benefits scheme amounting to approximately RMB12,345,000, RMB19,071,000 and RMB26,642,000 for each of the three years ended 31 December 2021, 2022 and 2023, respectively.

29. CAPITAL COMMITMENTS

	As at 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure in respect of: the acquisition of property, plant and equipment and intangible assets contracted for but not provided in the Historical Financial Information	102,081	83,416	12,237

The Group's share of the capital commitments made jointly with other joint venture parties relating to its joint venture, but not recognised at the end of each reporting period is as follows:

	As at 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Commitments to investment in the joint venture	–	–	10,000

30. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of debt, which includes amounts due to related parties (Note 20), lease liabilities (Note 25) and redeemable shares with other preferential rights (Note 26), net of cash and equity attributable to owners of the Group, comprising share capital and retained profits.

The management of the Group reviews the capital structure from time to time. As a part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, the issue of new shares and new debts.

31. SHARE-BASED PAYMENTS**(i) Share award arrangements**

On 10 October 2019, the Founders entered into share award agreements with Ms. Dai Li, Mr. Wang Hong Xue and Mr. Chen Ke Yuan, who are key management personnel of the Operating Entities, to recognise their contributions to the Listing Business and in order to motivate them to strive for the future development of the Group. Pursuant to the respective agreements, the Founders committed to award their 8%, 4% and 2% equity interests in Hengsheng Herui to Ms. Dai Li, Mr. Wang Hong Xue and Mr. Chen Ke Yuan at cash considerations of RMB4,000,000, RMB2,000,000 and RMB1,000,000, respectively. The fair value of the shares granted as at 10 October 2019 amounted to approximately RMB27,704,000, RMB13,852,000 and RMB6,927,000, respectively.

On 8 February 2021, the Founders entered into a share award agreement with Ms. Gu Ji Lin, in order to motivate her to strive for the future development of the Group (the "Share Award 1"). Pursuant to the agreement, the Founders committed to award their 1.112% equity interests in Hengsheng Herui to Ms. Gu Ji Lin. The fair value of the shares granted as at 8 February 2021 amounted to RMB20,804,000.

On 12 October 2021, Ms. Dai Li, Mr. Wang Hong Xue and Mr. Chen Ke Yuan entered into share award agreements with Ms. Gu Ji Lin in order to motivate her to strive for the future development of Hengsheng Herui (the "Share Award 2"). Pursuant to the agreements, Ms. Dai Li, Mr. Wang Hong Xue and Mr. Chen Ke Yuan committed to award their 0.22%, 0.22% and 0.67% equity interests in the Hengsheng Herui to Ms. Gu Ji Lin. The fair value of the shares granted as at 12 October 2021 amounted to RMB18,865,000, RMB18,865,000 and RMB57,453,000, respectively.

All awarded shares above were immediately vested on the grant date and the fair values were determined by the directors of the Company with reference to valuations carried out by an independent qualified professional valuer not connected to the Group. The awarded shares are vested immediately at the date of grant and the fair values at the respective dates of grant were determined using discounted cash flow model, the key inputs used in the model includes growth rates of revenue and pre-tax discount rate. For Share Award 1, the calculation uses discounted cash flow model based on financial forecasts in which the growth rates of revenue are between 2% to 12%, and the pre-tax discount rate is 18% at 8 February 2021. For Share Award 2, the calculation uses discounted cash flow model based on financial forecasts in which the growth rates of revenue are between 2% to 16%, and the pre-tax discount rate is 16.7% at 12 October 2021.

For Share Award 1 and Share Award 2, share-based payments of RMB20,248,000 and RMB94,628,000 after taking into account the consideration for subscription of the equity interests, have been recognised in profit or loss for the year ended 31 December 2021 which is included in “administrative expenses”, respectively.

(ii) Pre-IPO Employee Incentive Scheme

On 27 June 2023, the Group has adopted the pre-IPO employee incentive scheme (the “Pre-IPO Employee Incentive Scheme”) and established a limited partnership, Tongchuang Gongjin, as the pre-IPO employee incentive platform, with a view to improve the enthusiasm and creativity of the eligible participants of the Pre-IPO Employee Incentive Scheme (the “Eligible Participants”), promoting the sustainable growth of the performance of the Group, bringing value-added benefits to the Eligible Participants while enhancing the value of the Group, and thus realising the common development of both the Eligible Participants and the Group. Tongchuang Gongjin had, in turn, subscribed for 638,600 shares, representing approximately 0.4802% of the total issued shares (as at the date of the adoption of the Pre-IPO Employee Incentive Scheme), including the redeemable shares with other preferential rights but without taking into account the Share Subdivision (as described in Note 36).

The Eligible Participants, as limited partners of the pre-IPO employee incentive platform, shall subscribe for partnership interest therein according to the amount approved by the board of directors of the Company, and make the corresponding contribution in accordance with the arrangement of the board of directors of the Company, thereby holding indirect interest in the shares of the Company.

The corresponding interests in Tongchuang Gongjin were granted to Eligible Participants on 10 August 2023 and all contribution payments have been paid in full. The Eligible Participants made aggregate contribution payments of RMB29,433,000 into the pre-IPO employee incentive platform, which in turn subscribed for 638,600 shares of the Company without taking into the Share Subdivision. Assuming the Share Subdivision is completed, the subscription price per each corresponding share underlying the awards granted would be RMB4.609 per share.

The shares of the Company shall subject to transfer restrictions and such restrictions shall be released in the following manner:

- 30% of the total number of shares shall be released from transfer restrictions from the business day following the first anniversary of the date of listing to the last business day right before the second anniversary of the date of listing;
- 30% of the total number of shares shall be released from transfer restrictions from the business day following the second anniversary of the date of listing to the last business day before the third anniversary of the date of listing; and
- 40% of the total number of shares shall be released from transfer restrictions from the business day following the third anniversary of the date of listing to the last business day before the fourth anniversary of the date of listing.

In addition to the timetable sets forth above, the release of the shares shall be further subject to the achievement of the certain performance targets of the Company and the grantee respectively (individually and collectively, the “Performance Target(s)”). The remuneration committee of the board of directors of the Company shall review and determine the fulfilment of the Performance Target(s), and report to the board of directors of the Company accordingly.

Details of the Eligible Participants, representing directors, supervisors and senior management of the Company under the Pre-IPO Employee Incentive Scheme are set out in Appendix VI Statutory and General Information of the Prospectus.

The shares issued to and held by Tongchuang Gongjin under the Pre-IPO Employee Incentive Scheme were recognised as treasury shares by the Company and had been deducted from shareholders' equity as shown in the consolidated statements of changes in equity under "Shares issued for Pre-IPO Employee Incentive Scheme" reserve. The cash consideration received by the Company amounted to RMB29,433,000 has been recognised in capital reserve included in other reserves of equity, as the Company does not have any obligation to repurchase any granted shares if they were subsequently forfeited or not vested.

The directors determined the fair value of shares granted under the Pre-IPO Employee Incentive Scheme at grant date, based on the equity value of the Company which was derived by calibrating the result of the valuation of latest transaction price. The fair value amounted to RMB37,147,000 of the aforesaid granted shares at grant date, after net of the cash consideration received would be recognised as expense on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The corresponding share-based payment expense has not been recognised in profit or loss for the year ended 31 December 2023 as vesting period has yet to commenced.

32. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

The Group

	As at 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets			
Financial assets measured at FVTPL	387,728	772,804	1,391,562
<i>At amortised cost</i>			
Bank balances and cash	128,138	226,031	945,989
Amounts due from related parties	149,525	91,576	607
Trade and other receivables*	13,726	17,101	20,477
	<u>291,389</u>	<u>334,708</u>	<u>967,073</u>
	<u>679,117</u>	<u>1,107,512</u>	<u>2,358,635</u>
Financial liabilities			
<i>At FVTPL</i>			
Redeemable shares with other preferential rights	–	–	1,021,000
<i>At amortised cost</i>			
Trade and other payables**	281,411	537,293	639,034
Amounts due to related parties	21,838	–	–
	<u>303,249</u>	<u>537,293</u>	<u>639,034</u>
	<u>303,249</u>	<u>537,293</u>	<u>1,660,034</u>

* Value-added tax recoverable, advances to staff, deferred issue costs and prepayments are excluded.

** Certain other payables, payroll payable and other tax payable are excluded.

The Company

	As at 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets			
Financial assets measured at FVTPL	–	–	341,794
<i>At amortised cost</i>			
Bank balances and cash	53,136	35,273	683,332
Amounts due from related parties	148,069	91,057	88
Amounts due from subsidiaries	5,393	107,089	212,382
Other receivables*	158	290	855
	<u>206,756</u>	<u>233,709</u>	<u>896,657</u>
	<u>206,756</u>	<u>233,709</u>	<u>1,238,451</u>
Financial liabilities			
<i>At FVTPL</i>			
Redeemable shares with other preferential rights	–	–	1,021,000
<i>At amortised cost</i>			
Other payables**	152	1,779	10,988
Amounts due to related parties	384	–	–
Amounts due to subsidiaries	–	107,743	132,243
	<u>536</u>	<u>109,522</u>	<u>143,231</u>
	<u>536</u>	<u>109,522</u>	<u>1,164,231</u>

* Value-added tax recoverable, advances to staff, deferred issue costs and prepayments are excluded.

** Payroll payable and other tax payable are excluded.

b. Financial risk management objectives and policies

The Group's and Company's major financial instruments include trade and other receivables, financial assets measured at FVTPL, amounts due from/to related parties/subsidiaries, bank balances and trade and other payables, dividend payables and redeemable shares with other preferential rights. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group and the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk*(i) Currency risk*

The Group's businesses are principally conducted in RMB and all of the Group's monetary assets and liabilities are denominated in RMB. The only scenario in which the Group uses foreign currency is to purchase coconut milk from the South East Asia using United States Dollars, 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. The management considers the Group's 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 the Group from satisfying foreign currency demand in the future.

The Company has no significant foreign currency risk as the operation of the Company is denominated in RMB, which is also the functional currency of the Company.

(ii) Interest rate risk

The Group and the Company consider that the overall interest rate risk is not significant and no sensitivity analysis is presented for the Group and the Company.

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

The Group and the Company are also exposed to fair value interest rate risk in relation to lease liabilities (see Note 25 for details) and the Group and the Company consider that the exposure of such interest rate risk arising from fixed rate lease liabilities is insignificant.

(iii) Other price risk

The Group and the Company are exposed to equity price risk through its redeemable shares with other preferential rights.

The sensitivity analysis of the redeemable shares with other preferential rights has been disclosed in Note 32c.

Credit risk and impairment assessment

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

In determining the ECL for trade and other receivables, amounts due from related parties and amounts due from subsidiaries, the management of the Group and the Company have 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 recognised financial assets of the Group and the Company as stated in the statements of financial position best represents the Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and Company and due to failure to discharge an obligation by the counterparties. The average loss rates for majority of the financial assets measured at amortised cost are assessed to be less than 1%.

(i) Trade receivables arising from contracts with franchisees

The franchisees of the Group would usually settle by prepayments, except for the royalty income, so trade receivables mainly comprise of receivables from franchisees to whom calculation of royalty income based on operating gross receipts is applied. Management has assessed that trade debtors have not had a significant increase in credit risk since initial recognition and risk of default is insignificant.

The Group performs impairment assessment under ECL model on trade receivables with credit-impaired individually. The trade receivables that are not credit-impaired are grouped based on shared credit risk characteristics by reference to the aging of outstanding balances. For each of the three years ended 31 December 2023, the Group assessed the ECL are insignificant.

(ii) Impairment assessments on bank balances/other receivables/amounts due from related parties/amounts due from subsidiaries

The Group and the Company assessed the loss allowances for bank balances, other receivables and amounts due from related parties and amounts due from subsidiaries on 12m ECL basis.

In determining the ECL for other receivables, amounts due from related parties and amounts due from subsidiaries, the management of the Group and the Company have taken into account the forward-looking information as appropriate. There had been no significant increase in credit risk since initial recognition. The management of the Group and the Company have considered the consistently low historical default rate in connection with payments, management's expectation on the timing for repayment from related parties and concluded that credit risk inherent in the Group's and the Company's outstanding balances of other receivables, amounts due from related parties and amounts due from subsidiaries is insignificant.

The management of the Group and the Company consider the bank balances that are deposited with the financial institutions with high credit rating to be low credit risk financial assets. The management of the Group and the Company consider 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.

Liquidity risk

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

The following table details the Group's and the Company's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows. The table includes both interest and principal cash flows, where applicable.

The Group

	Weighted average interest rate	On demand or within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
As at 31 December 2021						
<i>Non-interest bearing</i>						
Trade and other payables	N/A	281,411	–	–	281,411	281,411
Amounts due to related parties	N/A	21,838	–	–	21,838	21,838
		<u>303,249</u>	<u>–</u>	<u>–</u>	<u>303,249</u>	<u>303,249</u>
<i>Interest bearing</i>						
Lease liabilities	5.16-5.70%	<u>30,268</u>	<u>22,096</u>	<u>10,842</u>	<u>63,206</u>	<u>57,741</u>
		<u>333,517</u>	<u>22,096</u>	<u>10,842</u>	<u>366,455</u>	<u>360,990</u>
As at 31 December 2022						
<i>Non-interest bearing</i>						
Trade and other payables	N/A	<u>537,293</u>	<u>–</u>	<u>–</u>	<u>537,293</u>	<u>537,293</u>
<i>Interest bearing</i>						
Lease liabilities	5.16-5.70%	<u>39,899</u>	<u>29,067</u>	<u>14,708</u>	<u>83,674</u>	<u>76,075</u>
		<u>577,192</u>	<u>29,067</u>	<u>14,708</u>	<u>620,967</u>	<u>613,368</u>

	Weighted average interest rate	On demand or within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
As at 31 December 2023						
<i>Non-interest bearing</i>						
Trade and other payables	N/A	639,034	–	–	639,034	639,034
<i>Interest bearing</i>						
Lease liabilities	5.16-5.70%	44,900	24,273	26,510	95,683	83,524
Redeemable shares with other preferential rights	8.00%	–	–	1,100,787	1,100,787	1,021,000
		44,900	24,273	1,127,297	1,196,470	1,104,524
		<u>683,934</u>	<u>24,273</u>	<u>1,127,297</u>	<u>1,835,504</u>	<u>1,743,558</u>
The Company						
	Weighted average interest rate	On demand or within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
As at 31 December 2021						
<i>Non-interest bearing</i>						
Other payables	N/A	152	–	–	152	152
Amounts due to related parties	N/A	384	–	–	384	384
		536	–	–	536	536
<i>Interest bearing</i>						
Lease liabilities	5.70%	973	–	–	973	959
		<u>1,509</u>	<u>–</u>	<u>–</u>	<u>1,509</u>	<u>1,495</u>
As at 31 December 2022						
<i>Non-interest bearing</i>						
Other payables	N/A	1,779	–	–	1,779	1,779
Amounts due to subsidiaries	N/A	107,743	–	–	107,743	107,743
		<u>109,522</u>	<u>–</u>	<u>–</u>	<u>109,522</u>	<u>109,522</u>
As at 31 December 2023						
<i>Non-interest bearing</i>						
Other payables	N/A	10,988	–	–	10,988	10,988
Amounts due to subsidiaries	N/A	132,243	–	–	132,243	132,243
		<u>143,231</u>	<u>–</u>	<u>–</u>	<u>143,231</u>	<u>143,231</u>

	Weighted average interest rate	On demand or within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
<i>Interest bearing</i>						
Lease liabilities	5.70%	1,100	1,155	2,630	4,885	4,197
Redeemable shares with other preferential rights	8.00%	–	–	1,100,787	1,100,787	1,021,000
		1,100	1,155	1,103,417	1,105,672	1,025,197
		144,331	1,155	1,103,417	1,248,903	1,168,428

Note: The timing of the cash outflow for the redeemable shares with other preferential rights as disclosed in Note 26 is determined based on the term that the Pre-IPO Investors may request the Company to redeem if there is no successful IPO by 1 January 2026.

c. Fair value

The management of the Group have closely monitored and determined the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of financial instruments, the Group uses market-observable data to the extent it is available. For instruments with significant unobservable inputs under level 3, the Group establish the appropriate valuation techniques and inputs to the model.

Of the financial assets and liabilities held by the Group, wealth management products and redeemable shares with other preferential rights are measured through fair value in the Historical Financial Information are disclosed in Note 22 and Note 26.

The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at	Fair value hierarchy	Valuation techniques and key inputs
Wealth management products	31 December 2021: RMB387,728,000 31 December 2022: RMB772,804,000 31 December 2023: RMB1,391,562,000	Level 2	Quoted value provided by financial institutions
Financial liabilities			
Redeemable shares with other preferential rights	31 December 2021: Nil 31 December 2022: Nil 31 December 2023: RMB1,021,000,000	Level 3	Black-Scholes option pricing model: Key inputs: volatility, discount rate, dividend yield, weighted average discount for lack of marketability, probability of successful IPO and redemption and time to expiration (<i>Note (i)</i>)

Note:

- (i) Except for discount rate as detailed below, the sensitivity analyses on other unobservable inputs are not significant. A slight increase in the discount rate used in isolation would result in a significant decrease in the fair value measurement of the redeemable shares with other preferential rights, and vice versa. An 1% increase or decrease in the discount rate holding all other variables constant will decrease or increase the fair value of redeemable shares with other preferential rights as follows:

	As at 31 December 2023 RMB'000
Discount rate:	
– increase by 1%	(52,000)
– decrease by 1%	89,000

The management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate to their fair values.

33. RELATED PARTY TRANSACTIONS

Apart from disclosed in Notes 20a, 20b and 25 to the Historical Financial Information, the Group entered into the following transactions with related parties during the Track Record Period:

i. Transactions with related parties

Name of related parties	Relationship	Nature of transactions	Year ended 31 December		
			2021 RMB'000	2022 RMB'000	2023 RMB'000
Chengdu Jinbosen	Ultimate holding company	Interest expenses on lease liabilities (Note (v))	62	105	127
		Disposals of property, plant and equipment	5,005	–	–
Transaction with franchised shops owned and controlled by Ms. Dai Li	Executive director of the Company	Sale of goods and equipment	836	–	–
Transaction with franchised shops owned and controlled by Mr. Wang Hong Xue	Executive director and chief executive of the Company	Sale of goods and equipment	3,628	740	125
Transaction with franchised shops owned and controlled by Ms. Liu Wei Hong	Controlling Shareholder	Sale of goods and equipment	1,111	–	–
Mr. Wang Xiao Kun and Ms. Liu Wei Hong	Controlling Shareholders	Interest expenses on lease liabilities (Note (i))	27	174	140
		Short-term leases payment	532	–	–

Name of related parties	Relationship	Nature of transactions	Year ended 31 December		
			2021 RMB'000	2022 RMB'000	2023 RMB'000
Chengdu Hekunrui	Controlled by one of the Controlling Shareholders	Interest expenses on lease liabilities (Note (ii))	169	119	305
Chengdu Kunlin	Companies controlled by one of the Controlling Shareholders	Interest expenses on lease liabilities (Note (iii))	185	130	329
Sichuan Zhensen	Companies controlled by one of the Controlling Shareholders	Interest expenses on lease liabilities (Note (iv))	417	267	25
成都市麗蓉錦盛企業管理有限公司 (Chengdu Lirong Jinsheng Enterprise Management Co., Ltd.*)	Company controlled by the key management personnel of the Group	Disposals of property, plant and equipment	885	–	–
成都晶辰企業管理有限公司 (Chengdu Jingchen Enterprise Management Co.*)	Company controlled by the key management personnel of the Group	Disposals of property, plant and equipment	2,635	–	–
Transaction with franchised shops owned and controlled by Ms. Liu Li	A close family member of Mr. Wang Xiao Kun	Sale of goods and equipment	2,648	–	–
Transaction with franchised shops owned and controlled by Mr. Wang Zhi Yong	A close family member of Mr. Wang Xiao Kun	Sale of goods and equipment	1,543	–	–
Transaction with franchised shops owned and controlled by Ms. Xu Xiang Lian	A close family member of Ms. Liu Wei Hong	Sale of goods and equipment	237	–	–
Transaction with franchised shops owned and controlled by Mr. Zhang Yu	A close family member of Mr. Wang Xiao Kun	Sale of goods and equipment	1,515	–	–

* English name is for identification purpose only.

Notes:

- (i) In 2020, the Group entered into a 24-month and a 25-month lease agreement for the use of offices with Ms. Liu Wei Hong and Mr. Wang Xiao Kun, respectively. Right-of-use assets and lease liabilities both amounted to RMB1,696,000 were recognised at inception. The amounts of lease liabilities as at 1 January 2021 are RMB1,438,000 and the two agreements were early terminated on 30 April 2021.

In May 2021, the Group entered into a short-term lease agreement for the use of offices and expense relating to the short-term lease amounted to RMB532,000, which was recognised during 2021.

During the year ended 31 December 2022, the Group entered into a 4-year lease agreement for the use of offices with Ms. Liu Wei Hong and Mr. Wang Xiao Kun, with right-of-use assets and lease liabilities both amounted to RMB2,905,000 being recognised at inception. The amounts of lease liabilities as at 31 December 2022 are RMB2,117,000.

During the year ended 31 December 2023, the Group modified certain terms of the original lease agreement with Ms. Liu Wei Hong and Mr. Wang Xiao Kun, into a 5-year lease agreement for the use of offices. The amounts of lease liabilities as at 31 December 2023 are RMB4,198,000.

- (ii) During the year ended 31 December 2021, the Group entered into 3-year lease agreements for the use of office with Chengdu Hekunrui, with right-of-use assets and lease liabilities both amounted to RMB3,696,000 being recognised at inception. The amounts of lease liabilities as at 31 December 2021 and 2022 are RMB2,262,000 and RMB440,000, respectively and the agreement was expired on 31 March 2023.

During the year ended 31 December 2023, the Group entered into a 5-year lease agreement for the use of office with Chengdu Hekunrui, with right-of-use assets and lease liabilities both amounted to RMB9,400,000 being recognised at inception. The amounts of lease liabilities as 31 December 2023 are RMB7,667,000.

- (iii) During the year ended 31 December 2021, the Group entered into a 2-year lease agreement for the use of office with Chengdu Kunlin, with right-of-use assets and lease liabilities both amounted to RMB4,237,000 being recognised at inception. The amounts of lease liabilities as at 31 December 2021 and 31 December 2022 are RMB2,593,000 and RMB504,000, respectively.

During the year ended 31 December 2023, the Group entered into a 5-year lease agreement for the use of office with Chengdu Kunlin, with right-of-use assets and lease liabilities both amounted to RMB10,142,000 being recognised at inception. The amount of lease liabilities as at 31 December 2023 is RMB7,965,000.

- (iv) During the year ended 31 December 2021, the Group entered into two three-year lease agreements for the use of office with Sichuan Zhensen, with right-of-use assets and lease liabilities both amounted to RMB6,735,000 being recognised at inception. The amounts of lease liabilities as at 31 December 2021, 2022 and 2023 are RMB3,971,000, RMB415,000 and nil, respectively.

During the year ended 31 December 2022, the Group entered into a 15-month lease agreement for the use of office with Sichuan Zhensen, with right-of-use assets and lease liabilities both amounted to RMB2,299,000 being recognised at inception. The amounts of lease liabilities as at 31 December 2022 and 2023 are RMB1,826,000 and nil, respectively.

- (v) During the year ended 31 December 2021, the Group entered into a 3-year lease agreement for the use of office with Chengdu Jinboson, with right-of-use assets and lease liabilities both amounted to RMB2,170,000 being recognised at inception. The amounts of lease liabilities as at 31 December 2021 and 2022 are RMB1,783,000 and RMB1,040,000, respectively.

During the year ended 31 December 2023, the Group modified certain terms of the original lease agreement with Chengdu Jinboson, into a 5-year lease agreement for the use of office. The amount of lease liabilities as at 31 December 2023 is RMB3,131,000.

ii. Compensation of key management personnel

The remuneration of directors, supervisors and other members of key management of the Group during the Track Record Period were as follows:

	Year ended 31 December		
	2021 RMB'000	2022 RMB'000	2023 RMB'000
Salaries and allowances	7,191	14,000	12,861
Retirement benefit scheme contributions	316	571	835
Share-based payments	114,876	–	–
	<u>122,383</u>	<u>14,571</u>	<u>13,696</u>

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows as cash flows from financing activities.

	Dividend payables RMB'000	Lease liabilities RMB'000	Non-trade amounts due to related parties RMB'000	(Deferred)/ accrued share issue costs RMB'000	Redeemable shares with other preferential rights RMB'000	Total RMB'000
At 1 January 2021	28,819	38,086	69	–	–	66,974
Financing cash flows	(408,355)	(22,078)	21,743	(1,093)	–	(409,783)
<i>Non-cash changes</i>						
Dividends declared (Note 12)	382,442	–	–	–	–	382,442
Set off arrangement (Note 2)	(2,906)	–	(356)	–	–	(3,262)
New leases entered (Note 15)	–	47,023	–	–	–	47,023
Leases early terminated (Note 15)	–	(7,962)	–	–	–	(7,962)
Interest expenses (Note 8)	–	2,672	–	–	–	2,672
	<u>–</u>	<u>2,672</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,672</u>
As at 31 December 2021	–	57,741	21,456	(1,093)	–	78,104
Financing cash flows	(603,168)	(47,565)	(21,456)	(334)	–	(672,523)
<i>Non-cash changes</i>						
Dividends declared (Note 12)	603,168	–	–	–	–	603,168
New leases entered (Note 15)	–	69,923	–	–	–	69,923
Leases early terminated (Note 15)	–	(8,593)	–	–	–	(8,593)
Interest expenses (Note 8)	–	4,569	–	–	–	4,569
	<u>–</u>	<u>4,569</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>4,569</u>
As at 31 December 2022	–	76,075	–	(1,427)	–	74,648
Financing cash flows	(949,496)	(48,912)	–	(1,488)	970,000	(29,896)
<i>Non-cash changes</i>						
Dividends declared (Note 12)	1,046,021	–	–	–	(24,838)	1,021,183
Set off arrangement (Note 12)	(96,525)	–	–	–	–	(96,525)
New leases entered (Note 15)	–	48,581	–	–	–	48,581
Modification of leases (Note 15)	–	4,088	–	–	–	4,088
Interest expenses (Note 8)	–	3,692	–	–	–	3,692
Deferred issue costs (Note 19)	–	–	–	3,907	–	3,907
Fair value adjustment	–	–	–	–	75,838	75,838
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>75,838</u>	<u>75,838</u>
As at 31 December 2023	–	83,524	–	992	1,021,000	1,105,516

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The Company

	As at 31 December		
	2021 RMB'000	2022 RMB'000	2023 RMB'000
Unlisted investments, at cost			
– Shuwei Tea Rhyme	50,000	50,000	220,000
– Shuxin Anhe	50,000	50,000	100,000
– Shuxin Zhiyuan	5,000	5,000	5,000
– ChaPanda E-commerce (Note (i))	N/A	1,000	1,000
– Senmian New Materials	13,400	13,400	13,400
– Shuxin Yuncha	10,000	10,000	60,000
– ChaPanda Training	5,000	5,000	5,000
– Sichuan Shuxin Tongyuan (Note (i))	N/A	N/A	2,500
– Cafrui Industrial (Note (i))	N/A	N/A	3,000
	133,400	134,400	409,900

Note:

- (i) The Company established ChaPanda E-commerce, Sichuan Shuxin Tongyuan and Cafrui Industrial with equity interest of 100% in February 2022, April 2023 and October 2023, respectively. All of which are not the principal subsidiaries of the Company, and therefore not disclosed in the table below.

The Company has following principal subsidiaries either control through direct and indirect equity interests and Operating Entities:

Name of subsidiaries/ Operating Entities	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Company			At date of this report	Principal activities
			At 31 December 2021	At 31 December 2022	At 31 December 2023		
Directly owned							
Shuwei Tea Rhyme [^]	PRC 12 January 2021	Paid-up capital RMB50,000,000/ registered capital RMB50,000,000	100%	100%	100%	100%	Supply chain management
Shuxin Zhiyuan [^]	PRC 14 January 2021	Paid-up capital RMB5,000,000/ registered capital RMB5,000,000	100%	100%	100%	100%	Franchise management, marketing campaigns and operation
Senmian New Materials [^]	PRC 6 May 2021	Paid-up capital RMB20,000,000/ registered capital RMB20,000,000	67%	67%	67%	67%	Production of biodegradable straws and packaging
Shuxin Anhe [^]	PRC 28 May 2021	Paid-up capital RMB50,000,000/ registered capital RMB50,000,000	100%	100%	100%	100%	Development of manufacturing facilities

Name of subsidiaries/ Operating Entities	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Company			At date of this report	Principal activities
			At 31 December 2021	At 31 December 2022	At 31 December 2023		
Shuxin Yuncha [^]	PRC 10 August 2021	Paid-up capital RMB10,000,000/ registered capital RMB10,000,000	100%	100%	100%	100%	IT services and maintenance
ChaPanda Training [^]	PRC 18 September 2021	Paid-up capital RMB5,000,000/ registered capital RMB5,000,000	100%	100%	100%	100%	Provision of trainings franchisees
Indirectly owned							
四川茶擔當物流配送有限公司 [^] (Sichuan Tea Logistics Distribution Co., Ltd.*)	PRC 26 January 2021	Paid-up capital RMB1,000,000/ registered capital RMB1,000,000	100%	100%	100%	100%	Provision for logistics and distribution service

* English name is for identification purpose only.

[^] These entities were incorporated or established in the PRC as companies with limited liability under the Company Law of the PRC.

No statutory financial statements have been prepared for the above subsidiaries and the Operating Entities since there are no statutory audit requirements in the jurisdiction where they were established/incorporated.

None of the subsidiaries had issued any debt securities at the end of each reporting period.

The above table lists the subsidiaries of the Company which, in the opinion of the management, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

As at 31 December 2021, 2022 and 2023, the Company has 8, 11, and 16 subsidiaries that are not material to the Group. Most of these entities operate either as investment holding entities, trading entities, or management service entities with insignificant financial contributions.

36. EVENTS AFTER REPORTING PERIOD

The other events and transactions took place subsequent to 31 December 2023 are detailed as below.

Share Subdivision

Pursuant to the resolutions of the shareholders dated 10 August 2023, the shares will be split on a one-for-ten basis immediately prior to the Listing, and the nominal value of the shares will be changed from RMB1.0 each to RMB0.1 each (the "Share Subdivision"). Immediately after the Share Subdivision, the registered share capital of the Company will be RMB132,987,000 with 1,329,870,850 shares in a nominal value of RMB0.1 each.

37. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Company, any of its subsidiaries or the Group have been prepared in respect of any period subsequent to 31 December 2023.

The information set out in this Appendix does not form part of the accountants' report on the historical financial information of the Group for the each of the three years then ended 31 December 2023 (the "Accountants' Report") prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set forth in Appendix I to this Prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in the Prospectus and the Accountants' Report set forth in Appendix I to this Prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company prepared in accordance with Rule 4.29 of the Listing Rules is for illustration only, and is set out in this appendix to illustrate the effect of the proposed Global Offering (as defined in this Prospectus) on the consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2023, as if the Global Offering had taken place on such date.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2023 or as at any subsequent dates following the Global Offering.

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company is prepared based on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2023 as derived from the Accountants' Report set out in Appendix I to this Prospectus, and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2023 RMB'000 Note 1	Estimated net proceeds from the Global Offering RMB'000 Note 2	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2023 RMB'000	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2023 per Share	
				RMB	HK\$ Note 4
Based on Offer Price of HK\$17.50 per H Share	771,879	2,264,911	3,036,790	2.17	2.39

Notes:

- (1) The amount is based on the audited consolidated net assets of the Group attributable to owners of the Company as at 31 December 2023 of RMB823,076,000, extracted from the Accountants' Report of the Group set out in Appendix I to this Prospectus and adjusted for intangible assets as at 31 December 2023 of RMB51,197,000.
- (2) The estimated net proceeds from the Global Offering are based on 147,763,400 H Shares at the Offer Price of HK\$17.50 (equivalent to RMB15.86) per H Share after deduction of underwriting fees and commissions and other listing related expenses paid or payable by the Company, other than those expenses which had been recognised in profit or loss on or prior to 31 December 2023. The calculation of such estimated net proceeds does not take into account any Shares (i) which may be allotted and issued upon the exercise of the Over-Allotment Option or (ii) which may be allotted and issued or repurchased by the Company under the general mandates for the allotment and issue or repurchase of Shares granted to the directors of the Company.

For the purpose of the estimated net proceeds from the Global Offering, the amount denominated in HK\$ has been converted into RMB at the rate of HK\$1 to RMB0.90629, which was the exchange rate prevailing on 3 April 2024 with reference to the rate published by the People's Bank of China. No representation is made that the HK\$ amounts have been, could have been or may be converted to RMB, or vice versa, at that rate or any other rates or at all.

- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2023 per Share is arrived at on the basis that 1,397,763,400 shares were in issue including 1,250,000,000 ordinary shares in issue as at 31 December 2023 and 147,763,400 H Shares assuming that the Share Subdivision and Global Offering had been completed on 31 December 2023 and without taking into account any Shares (i) which may be allotted and issued upon the exercise of the Over-Allotment Option or (ii) which may be allotted and issued or repurchased by the Company under the general mandates for the allotment and issue or repurchase of Shares granted to the directors of the Company, (iii) the 6,386,000 shares issued and held by a limited partnership under the Pre-IPO Employee Incentive Scheme, which represent treasury shares held by the Company (as detailed in Note 31(ii) of the Accountants' Report of the Group set out in Appendix I to this Prospectus) or (iv) the Termination of Potential Rights (as defined and described in Note (5) below) of the Company's redeemable shares with other preferential rights existing on 31 December 2023.
- (4) For the purpose of the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2023 per Share, the amount denominated in HK\$ has been converted into RMB at the rate of HK\$1 to RMB0.90629, which was the exchange rate prevailing on 3 April 2024 with reference to the rate published by the People's Bank of China. No representation is made that the HK\$ amounts have been, could have been or may be converted to RMB, or vice versa, at that rate or any other rates or at all.
- (5) No adjustment has been made to unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2023 to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2023. In particular, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company on the table as shown on II-1 above have not been adjusted to show the effect of the following:

In May and June 2023, the Company issued a total of 7,348,485 redeemable shares with other preferential rights (without taking into account the Share Subdivision) at a total cash consideration of RMB970,000,000 to pre-IPO investors as set out in section E of "History, Reorganization, and Corporate Structure" of the Prospectus. Upon completion of the Global Offering, certain redemption and other preferential rights of these redeemable shares with other preferential rights (as detailed in Note 26 of the Accountants' Report of the Group set out in Appendix I to this Prospectus) existing on 31 December 2023 would be terminated (the "Termination of Potential Rights"), and assuming no further changes in fair value of the redeemable shares with other preferential rights existing on 31 December 2023 upon Global Offering, the carrying amount of RMB1,021,000,000 would have been reclassified to ordinary shares under equity.

Assuming the Termination of Potential Rights, Share Subdivision and Global Offering had been completed on 31 December 2023, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company would have increased from approximately RMB3,036,790,000 to approximately RMB4,057,790,000 based on Offer Price of HK\$17.50 per H Share. The number of shares used for calculating the unaudited pro forma adjusted consolidated net tangible assets of the Group per Share would be 1,471,248,250 shares, comprising 1,250,000,000 shares in issue as at 31 December 2023, 73,484,850 shares reclassified to ordinary shares under equity upon Termination of Potential Rights, after the effect of the Share Subdivision, and 147,763,400 H Shares to be issued pursuant to Global Offering, respectively. It does not take into account any Shares which may be issued upon the exercise of the Over-Allotment Option, or any Shares which may be issued or repurchased pursuant to the Company's general mandate. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share would have increased to RMB2.76 (equivalent to HK\$3.05) based on the Offer Price of HK\$17.50 per H Share.

All the amounts in this note have been converted from RMB to HK\$ at the rate of RMB0.90629 to HK\$1, which was the exchange rate prevailing on 3 April 2024 with reference to the rate published by the People's Bank of China. No representation is made that RMB amounts have been, could have been or could be converted to HK\$, or vice versa, at that rate or at any other rates or at all.

B. ASSURANCE REPORT FROM INDEPENDENT REPORTING ACCOUNTANTS ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this Prospectus.

Deloitte.**德勤****INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****To the Directors of Sichuan Baicha Baidao Industrial Co., Ltd.**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Sichuan Baicha Baidao Industrial Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets as at 31 December 2023 and related notes as set out on pages II-1 to II-3 of Appendix II to the prospectus issued by the Company dated 15 April 2024 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-3 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed global offering on the Group's financial position as at 31 December 2023 as if the proposed global offering had taken place at 31 December 2023. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's historical financial information for each of the three years ended 31 December 2023, on which an accountants' report set out in Appendix I to the Prospectus has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1 “Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements” issued by the HKICPA, which requires the firm to design, implement and operate a system of quality management including policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2023 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
15 April 2024

TAXATION OF SECURITY HOLDERS

The taxation of income and capital gains of holders of H Shares is subject to the laws and practices of the PRC and of jurisdictions in which holders of H Shares are residents or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current effective laws and practices, and no predictions are made about changes or adjustments to relevant laws or policies, and no comments or suggestions will be made accordingly. The discussion has no intention to cover all possible tax consequences resulting from the investment in H Shares, nor does it take the specific circumstances of any particular investor into account, some of which may be subject to special provisions. Accordingly, you should consult your own tax advisor regarding the tax consequences of an investment in H Shares. The discussion is based upon laws and relevant interpretations in effect as of the date of this Prospectus, which is subject to change or adjustment and may have retrospective effect. No issues on PRC or Hong Kong taxation other than income tax, capital appreciation and profit tax, business tax/appreciation tax, stamp duty and estate duty were referred in the discussion. Prospective investors are urged to consult their financial advisors regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

The PRC Taxation

Taxation on Dividends

Individual Investor

Pursuant to the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) (the “IIT Law”), which was last amended on August 31, 2018 and the Regulation on the Implementation of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法實施條例》), which was last amended on December 18, 2018, dividends from sources within China paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realized by such investors on the transfer of shares are generally subject to a 20% PRC income tax rate, in each case, subject to any reduction or exemption set forth in applicable tax treaties and PRC laws.

Pursuant to Notice on Matters Concerning the Levy and Administration of Individual Income Tax after the Repeal of Guo Shui Fa [1993] No. 045 (《國家稅務總局關於國稅發[1993] 045號文件廢止後有關個人所得稅徵管問題的通知》) issued and implemented by the SAT on June 28, 2011, domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends to overseas resident individuals in the jurisdiction of the tax treaty, withhold individual income tax at the rate of 10%. When a tax rate of 10% is not applicable, the withholding company shall: (a) return the excessive tax amount pursuant to due procedures if the applicable tax rate is lower than 10%; (b) withhold such foreign individual income tax at the effective tax rate agreed on if the applicable tax rate is between 10% and 20%; or (c) withhold such foreign individual income tax at a rate of 20% if no taxation treaty is applicable.

Meanwhile, pursuant to the Notice on Issues Concerning the Differentiated Individual Income Tax Policies on Dividends and Bonuses of Listed Companies 《(關於上市公司股息紅利差別化個人所得稅政策有關問題的通知)》 promulgated by the MOF, the SAT and the CSRC on September 7, 2015 and came into effect on September 8, 2015, where an individual acquires the stocks of listed companies from the market of public offerings and transfer of stock, to the extent that the holding period is over one year, the income from the dividends and bonuses thereof are temporarily exempted from individual income tax. Where an individual acquires the stocks of listed companies from the market of public offering and transfer of stock, to the extent that the holding period is one month or less (one month inclusive), the income from dividends thereof shall be included in the taxable income in full amount; and to the extent that the holding period is more than one month and up to one year (one year inclusive), the incomes from the dividends thereof shall be included in the taxable income at a tax rate of 50%. The aforesaid income is subject to an individual income tax at a flat rate of 20%.

Pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) issued on August 21, 2006, effective on December 8, 2006, if the beneficial owner directly holds at least 25% of the equity capital in a PRC company, a withholding tax at the rate of 5% shall be paid in connection with the dividend paid by the PRC company to such Hong Kong tax resident; while if the beneficial owner directly holds less than 25% of the equity capital in a PRC company, a withholding tax at the rate of 10% shall be paid in connection with the dividend paid by the PRC company to such Hong Kong tax resident.

Enterprise Investors

In accordance with the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) (the “**EIT Law**”), which was last amended as of December 29, 2018, and Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法實施條例》) which was last amended on April 23, 2019, a non-resident enterprise is generally subject to a 10% corporate income tax on PRC-sourced income (including dividends received from a PRC resident enterprise that issues shares in Hong Kong), if such non-resident enterprise does not have an establishment or place in the PRC or has an establishment or place in the PRC but the PRC-sourced income is not effectively connected with such establishment or place in the PRC. The withholding tax may be reduced pursuant to applicable treaties for the avoidance of double taxation. Such income tax for non-resident enterprises is deducted at source, where the payer of the income is required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due.

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

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

Tax Treaties

Non-PRC resident investors residing in jurisdictions which have entered into treaties or arrangements for the avoidance of double taxation with the PRC are entitled to a reduction of the corporate income taxes imposed on the dividends received from PRC companies. The PRC currently has entered into treaties/arrangements regarding avoidance of double taxation with a number of countries and regions including HK, Macau, Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Non-PRC resident enterprises entitled to preferential tax rates in accordance with the relevant income tax treaties or arrangements may apply to the Chinese tax authorities for a refund of the corporate income tax in excess of the agreed tax rate, and the refund payment is subject to approval by the Chinese tax authorities.

*Taxation on Share Transfer**Value-Added Tax (“VAT”) and Local Additional Tax*

Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner (《關於全面推開營業稅改徵增值稅試點的通知》) (the “**Circular 36**”), which was implemented on May 1, 2016, entities and individuals engaged in the services sale in the PRC are subject to VAT and “engaged in the services sale in the PRC” means that the seller or buyer of the taxable services is located in the PRC. Circular 36 also provides that transfer of financial products, including transfer of the ownership of marketable securities, shall be subject to VAT at 6% on the taxable revenue (which is the balance of sales price upon deduction of purchase price), for a general or a foreign VAT taxpayer. However, individuals who transfer financial products are exempt from VAT, which is also provided in Notice of the Ministry of Finance and the State Administration of Taxation on Several Policies concerning the Exemption of Business Tax on Transactions of Individual Financial Commodities and Other Transactions (《財政部、國家稅務總局關於個人金融商品買賣等營業稅若干免稅政策的通知》) effective on January 1, 2009. According to these regulations, if the holder is a non-resident individual, the PRC VAT is exempted from the sale or disposal of H shares; if the holder is a non-resident enterprise and the H-share buyer is an individual or entity located outside China, the holder is not necessarily required to pay the PRC VAT, but if the H-share buyer is an individual or entity located in China, the holder may be required to pay the PRC VAT. However, it is still uncertain whether the non-Chinese resident enterprises are required to pay the PRC VAT for the disposal of H shares in practice.

At the same time, VAT payers are also required to pay urban maintenance and construction tax, education surtax and local education surcharge (hereinafter collectively referred to as “**Local Additional Tax**”), which shall be usually subject to 12% of the value-added tax and consumption tax actually paid (if any).

*Income tax**Individual Investors*

According to the IIT Law, gains on the transfer of equity interests in the PRC resident enterprises are subject to individual income tax at a rate of 20%. Pursuant to the Circular on Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from the Transfer of Shares (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) issued by the Ministry of Finance and the SAT on March 30, 1998, from January 1, 1997, income of individuals from transfer of the shares of listed enterprises continues to be exempted from individual income tax. The SAT has not expressly stated whether it will continue to exempt tax on income of individuals from transfer of the shares of listed enterprises in the latest amended Individual Income Tax Law.

However, on December 31, 2009, the Ministry of Finance, SAT and China Securities Regulatory Commission jointly issued Notice of the Ministry of Finance, the State Administration of Taxation and China Securities Regulatory Commission on Relevant Issues Concerning the Individual Income Tax on Individual Income from Transfer of Non-tradable Shares of Listed Companies (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》) (No. 167 [2009] of the Ministry of Finance), which came into effect on December 31, 2009, which states that individuals' income from the transfer of listed shares obtained from the public offering of listed companies and transfer market on the Shanghai Stock Exchange and the Shenzhen Stock Exchange shall continue to be exempted from individual income tax, except for the relevant shares which are subject to sales restriction (as defined in the Supplementary Notice of the Ministry of Finance, State Administration of Taxation and China Securities Regulatory Commission on Issues Concerning the Levy of Individual Income Tax on Individuals' Income from the Transfer of Restricted Stocks of Listed Companies (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的補充通知》) (No. 70 [2010] of the Ministry of Finance) jointly issued and implemented by such departments on November 10, 2010). As of the Latest Practicable Date, no aforesaid provisions have expressly provided that individual income tax shall be levied from non-Chinese resident individuals on the transfer of shares in PRC resident enterprises listed on overseas stock exchanges.

Enterprise Investors

In accordance with the EIT Law, a non-resident enterprise is generally subject to corporate income tax at the rate of a 10% on PRC-sourced income, including gains derived from the disposal of equity interests in a PRC resident enterprise, if it does not have an establishment or premise in the PRC or has an establishment or premise in the PRC but its PRC-sourced income has no real connection with such establishment or premise. Such income tax payable for non-resident enterprises are deducted at source, where the payer of the income is required to withhold the income tax from the amount to be paid to the non-resident enterprise. Such tax may be reduced or exempted pursuant to relevant tax treaties or agreements on avoidance of double taxation.

Stamp Duty

Pursuant to the Stamp Duty Law of the People's Republic of China 《(中華人民共和國印花稅法)》 promulgated on June 10, 2021 and effective on July 1, 2022, the PRC stamp duty is applicable to the entities and individuals that conclude taxable vouchers or conduct securities trading within the territory of the PRC, and the entities and individuals outside the territory of the PRC that conclude taxable vouchers that are used inside China. Therefore, the purchase and disposal of H shares by non-PRC investors outside of the PRC does not apply to the relevant provisions of the Stamp Duty Law of the PRC 《(中華人民共和國印花稅法)》.

Estate Duty

As of the Latest Practicable Date, no estate duty has been levied in China under the PRC laws.

Taxation in Hong Kong*Tax on Dividends*

Under the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends paid by our company.

Profit Tax

No profit tax is imposed in Hong Kong in respect of the sale of H shares. However, trading profits from the sale of the H shares by persons carrying on any industry, profession or business in Hong Kong, where such profits are derived from or arise in Hong Kong from such industry, profession or business will be subject to Hong Kong profits tax. Trading profits from sales of the H shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading profits from sales of H shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong. The trading profits from sales of the H shares for certain categories of taxpayers are likely to be regarded as deriving trading profits rather than capital gains (for example, financial institutions, insurance companies and securities dealers) unless these taxpayers can prove that the investment securities are held for long-term investment purposes. Shareholders should take advice from their own professional advisers as to their particular tax position.

Currently, the profit tax rate for the first HK\$2 million of assessable profits of an incorporated company is 8.25%, and profits above such amount is subject to a tax rate of 16.5%. The profit tax rate for the first HK\$2 million of assessable profits of an unincorporated company is 7.5%, and profits above such amount is subject to a tax rate of 15%.

Stamp Duty

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.10% on the higher of the consideration for or the market value of the H shares, will be payable by the purchaser on every purchase and by the seller on every sale of any Hong Kong securities, including H shares (in other words, a total of 0.20% is currently payable on a typical sale and purchase transaction involving H Shares). In addition, a fixed duty of HK\$5.00 is currently payable on any instrument of transfer of H Shares. Where one of the parties is a resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If no stamp duty is paid on or before the due date, a penalty of up to 10 times the duty payable may be imposed.

AFRC Transaction Levy

The AFRC Transaction Levy was applicable to all sale and purchase of securities at 0.00015% per side with effect from January 1, 2022, which will be regarded as one of the transaction costs.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 abolished estate duty in respect of deaths occurring on or after February 11, 2006.

FOREIGN EXCHANGE CONTROL IN THE PRC

The lawful currency of the PRC is Renminbi, which is currently subject to foreign exchange controls and cannot be freely converted into foreign currency. The SAFE, under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

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

On June 20, 1996, PBOC promulgated the Regulations for the Administrative Regulations on Settlements, Sales and Payments in Foreign Exchange (《結匯、售匯及付匯管理規定》) ([1996] No. 210 of the People's Bank of China June 20, 1996) (the “**Settlement Regulations**”), which became effective on July 1, 1996. The Settlement Regulations do not impose any restrictions on convertibility of foreign exchange under current items, while imposes restrictions on foreign exchange transactions under capital items.

According to the Announcement of the People's Bank of China on Reforming the RMB Exchange Rate Regime (《關於完善人民幣匯率形成機制改革的公告》) (Announcement No. 16 [2005] of the People's Bank of China), which was issued by the PBOC and implemented on July 21, 2005, the PRC has started to implement a managed floating exchange rate system in which the exchange rate would be determined based on market supply and demand and adjusted with reference to a basket of currencies since July 21, 2005. Therefore, the Renminbi exchange rate was no longer pegged to the U.S. dollar. PBOC would publish the closing price of the exchange rate of the Renminbi against trading currencies such as the U.S. dollar in the interbank foreign exchange market after the closing of the market on each working day, as the central parity of the currency against Renminbi transactions on the following working day.

According to the relevant laws and regulations in the PRC, PRC enterprises (including foreign investment enterprises) which need foreign exchange for current item transactions may, without the approval of the foreign exchange administrative authorities, effect payment through foreign exchange accounts opened at financial institutions that carries foreign exchange business or operating institutions that carries settlement and sale business, on the strength of valid receipts and proof. Foreign investment enterprises which need foreign exchange for the distribution of profits to their shareholders and PRC enterprises which, in accordance with regulations, are required to pay dividends to their shareholders in foreign exchange may, on the strength of resolutions of the board of directors or the shareholders' meeting on the distribution of profits, effect payment from foreign exchange accounts opened at financial institutions that carries foreign exchange business or institutions that carries settlement and sale business, or effect exchange and payment at financial institutions that carry foreign exchange business or institutions that carry settlement and sale business.

Decision of the State Council on Cancelling and Adjusting a Group of Administrative Approval Items and Other Matters (《國務院關於取消和調整一批行政審批項目等事項的決定》) ((No. 11 [2015] of the State Council)) promulgated on October 23, 2014 has canceled the approval requirement of the SAFE and its branches for the remittance and settlement of the proceeds raised from the overseas listing of the foreign shares into RMB domestic accounts.

On December 26, 2014, the SAFE issued the Notice of the State Administration of Foreign Exchange on Issues Concerning the Foreign Exchange Administration of Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》) (No. 54 [2014] of the State Administration of Foreign Exchange), pursuant to which a domestic company shall, within 15 business days of the date of the end of its overseas listing issuance, register the overseas listing with the SAFE's local branch at the place of its incorporation; and the proceeds from an overseas listing of a domestic company may be remitted to the domestic account or deposited in an overseas account, but the use of the proceeds shall be consistent with the content of the document and other disclosure documents.

On February 13, 2015, the SAFE issued the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies for the Foreign Exchange Management Policies of Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (No. 13 [2015] of the State Administration of Foreign Exchange), which came into effect on June 1, 2015. The notice has cancelled the confirmation of foreign exchange registration under domestic direct investment and the confirmation of foreign exchange registration under overseas direct investment, instead, banks shall directly examine and handle foreign exchange registration under domestic direct investment and foreign exchange registration under overseas direct investment, and the SAFE and its local offices shall indirectly regulate the foreign exchange registration of direct investment through banks.

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

On January 26, 2017, the SAFE issued the Notice of the State Administration of Foreign Exchange on Further Promoting the Reform of Foreign Exchange Administration and Improving the Examination of Authenticity and Compliance (《國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知》) (No. 3 [2017] of the State Administration of Foreign Exchange) to further expand the scope of settlement for domestic foreign exchange loans, allow settlement for domestic foreign exchange loans with export background under goods trading, allow repatriation of funds under domestic guaranteed foreign loans for domestic utilization, allow settlement for domestic foreign exchange accounts of foreign institutions operating in the Free Trade Pilot Zones, and adopt the model of full-coverage RMB and foreign currency overseas lending management, where a domestic institution engages in overseas lending, the sum of its outstanding overseas lending in RMB and outstanding overseas lending in foreign currencies shall not exceed 30% of its owner's equity in the audited financial statements of the preceding year.

On October 23, 2019, the SAFE issued the Notice by the State Administration of Foreign Exchange of Further Facilitating Cross-border Trade and Investment (《關於進一步促進跨境貿易投資便利化的通知》) (No. 28 [2019] of the SAFE), which canceled restrictions on domestic equity investments made with capital funds by non-investing foreign-funded enterprises. In addition, restrictions on the use of funds for foreign exchange settlement of domestic accounts for the realization of assets have been removed and restrictions on the use and foreign exchange settlement of foreign investors' security deposits have been relaxed. Eligible enterprises in the pilot area are also allowed to use revenues under capital, such as capital funds, foreign debts and overseas listing revenues for domestic payments without providing materials to the bank in advance for authenticity verification on an item by item basis, while the use of funds should be true, in compliance with applicable rules and conforming to the current capital revenue management regulations.

PRC LEGAL SYSTEM

The PRC legal system is based on the Constitution of the PRC (《中華人民共和國憲法》) (the “**Constitution**”), which was adopted on September 20, 1954 and subsequently amended on January 17, 1975, March 5, 1978, December 4, 1982, April 12, 1988, March 29, 1993, March 15, 1999, March 14, 2004 and March 11, 2018 and is made up of written laws, administrative regulations, local regulations, autonomous regulations, separate regulations, rules and regulations of departments of the State Council, rules and regulations of local governments, international treaties of which the PRC government is a signatory, and other regulatory documents. Court judgments may be used as judicial reference and guidance. However, they do not constitute legally binding precedents.

According to the Constitution and the Legislation Law of the PRC (《中華人民共和國立法法》) (the “**Legislation Law**”), which was adopted on March 15, 2000 and amended on March 15, 2015 and March 13, 2023, National People’s Congress (the “**NPC**”) and the Standing Committee of NPC (the “**SCNPC**”) are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing civil and criminal matters, state organs and other matters. The SCNPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend any parts of laws enacted by the NPC during the adjournment of the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws. The State Council is the highest organ of the PRC administration and has the power to formulate administrative regulations based on the Constitution and laws. The people’s congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of their own respective administrative areas, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations. The people’s Congress of the National Autonomous Region has the power to formulate autonomous regulations and separate regulations in accordance with the political, economic and cultural characteristics of the local ethnic groups, and make flexible provisions on the provisions of laws and administrative regulations, but shall not violate the basic principles of laws or administrative regulations, and shall not make flexible provisions on the provisions of the constitution law and the law of regional ethnic autonomy, as well as other relevant laws and administrative regulations on ethnic autonomy.

The ministries and commissions of the State Council, PBOC, the State Audit Administration as well as the other organs endowed with administrative functions directly under the State Council may, in accordance with the laws as well as the administrative regulations, decisions and orders of the State Council and within the limits of their power, formulate rules. The people’s governments of the provinces, autonomous regions, and municipalities directly under the central government, cities divided into districts and autonomous prefectures may enact rules, in accordance with laws, administrative regulations and the local regulations of their respective provinces, autonomous regions or municipalities.

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

The Constitution has supreme legal authority and no laws, administrative regulations, local regulations, autonomous regulations or separate regulations may contravene the Constitution. The authority of laws is greater than that of administrative regulations, local regulations and rules. The authority of administrative regulations is greater than that of local regulations and rules. The authority of local regulations is greater than that of the rules of the local governments at or below the corresponding level. The authority of the rules enacted by the people's governments of the provinces or autonomous regions is greater than that of the rules enacted by the people's governments of the cities divided into districts or autonomous prefectures within the administrative areas of the provinces and the autonomous regions. The NPC has the power to alter or annul any inappropriate laws enacted by its Standing Committee, and to annul any autonomous regulations or separate regulations which have been approved by its Standing Committee, but which contravene the Constitution or the Legislation Law.

The SCNPC has the power to annul any administrative regulations that contravene the Constitution and laws, to annul any local regulations that contravene the Constitution, laws or administrative regulations, and to annul any autonomous regulations or local regulations which have been approved by the standing committees of the people's congresses of the relevant provinces, autonomous regions or municipalities directly under the central government, but which contravene the Constitution and the Legislation Law. The State Council has the power to alter or annul any inappropriate ministerial rules and rules of local governments. The people's congresses of provinces, autonomous regions or municipalities directly under the central government have the power to alter or annul any inappropriate local regulations enacted or approved by their respective standing committees. The Standing Committees of local people's Congresses have the power to annul inappropriate rules enacted by the people's governments at the corresponding level. The people's governments of provinces and autonomous regions have the power to alter or annul any inappropriate rules enacted by the people's governments at a lower level.

According to the constitution, the power to interpret laws is invested in the SCNPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) implemented on June 10, 1981, if the scope prescribed by laws or decrees needs to be further defined or supplementary provisions need to be made, the SCNPC shall interpret them or make provisions by means of decrees. Issues involving the specific application of laws and decrees in the trial work of the court shall be interpreted by the Supreme People's court. Issues involving the specific application of laws and decrees in the procuratorial work of the procuratorate shall be interpreted by the Supreme People's procuratorate. If there are principled differences in the interpretation of the Supreme People's court and the Supreme People's Procuratorate, they shall be submitted to the SCNPC for interpretation or decision. Issues that do not involve the specific application of laws and decrees in judicial and procuratorial work shall be interpreted by the State Council and the competent departments. If the scope of local laws and regulations needs to be further defined or supplemented, the Standing Committee of the people's Congress of each province, autonomous region and municipality directly under the central government that promulgates such laws and regulations shall interpret or enact regulations. Issues involving the specific application of local laws and regulations shall be interpreted by the competent departments of the people's governments of all provinces, autonomous regions and municipalities directly under the central government.

PRC JUDICIAL SYSTEM

Under the Constitution and the Law of Organization of the People's Courts of the PRC (2018 revision) (《中華人民共和國人民法院組織法》), which is adopted on September 21, 1954 and subsequently amended on July 5, 1979, September 2, 1983, December 2, 1986, October 31, 2006 and October 26, 2018, the PRC judicial system is made up of the Supreme People's Court, the local people's courts, the military courts and other special people's courts.

The local people's courts are comprised of the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts may set up civil, criminal and economic divisions, and certain people's courts based on the facts of the region, population and cases. The intermediate people's courts have divisions similar to those of the basic people's courts and may set up other special divisions if needed. These two levels of people's courts are subject to supervision by people's courts at higher levels. The Supreme People's Court is the highest judicial authority in the PRC. It supervises the administration of justice by the people's courts at all levels and special people's courts. The Supreme People's Procuratorate is authorized to supervise the judgment and ruling of the people's courts at all levels which have been legally effective, and the people's procuratorate at a higher level is authorized to supervise the judgment and ruling of a people's court at lower levels which have been legally effective.

A people's court takes the rule of the second instance as the final rule. A party may appeal against the judgment or ruling of the first instance of a local people's court. The people's procuratorate may present a protest to the people's court at the next higher level in accordance with the procedures stipulated by the laws. In the absence of any appeal by the parties and any protest by the people's procuratorate within the stipulated period, the judgments or rulings of the people's court are final. Judgments or rulings of the second instance of the intermediate people's courts, the higher people's courts and the Supreme People's Court, and judgments or rulings of the first instance of the Supreme People's Court are final. However, if the Supreme People's Court finds some definite errors in a legally effective judgment, ruling or conciliation statement of the people's court at any level, or if the people's court at a higher level finds such errors in a legally effective judgment, ruling or conciliation statement of the people's court at a lower level, it has the authority to review the case itself or to direct the lower-level people's court to conduct a retrial. If the chief judge of all levels of people's courts finds some definite errors in a legally effective judgment, ruling or conciliation statement, and considers a retrial is preferred, such case shall be submitted to the judicial committee of the people's court at the same level for discussion and decision.

The Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》), the “**PRC Civil Procedure Law**”) adopted on April 9, 1991 and amended on October 28, 2007, August 31, 2012, June 27, 2017, December 24, 2021 and September 1, 2023 prescribes the conditions for instituting a civil action, the jurisdiction of the people's courts, the procedures for conducting a civil action, and the procedures for enforcement of a civil judgment or ruling. All parties to a civil action conducted within the PRC must abide by the PRC Civil Procedure Law. Generally, a civil case is initially heard by the court located in the defendant's place of

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domicile. The court of jurisdiction in respect of a civil action may also be chosen by explicit agreement among the parties to a contract, provided that the people's court having jurisdiction should be located at places substantially connected with the disputes, such as the plaintiff's or the defendant's place of domicile, the place where the contract is executed or signed or the place where the object of the action is located, provided that the provisions regarding the level of jurisdiction and exclusive jurisdiction shall not be violated.

A foreign individual, a person without nationality, a foreign enterprise or a foreign organization is given the same litigation rights and obligations as a citizen, a legal person or other organizations of the PRC when initiating actions or defending against litigations at a PRC court. Should a foreign court limit the litigation rights of PRC citizens or enterprises, the PRC court may apply the same limitations to the citizens and enterprises of such foreign country. A foreign individual, a person without nationality, a foreign enterprise or a foreign organization must engage a PRC lawyer in case he or it needs to engage a lawyer for the purpose of initiating actions or defending against litigations at a PRC court. In accordance with the international treaties to which the People's Republic of China is a signatory or participant or according to the principle of reciprocity, a people's court and a foreign court may request each other to serve documents, conduct investigation and collect evidence and conduct other actions on its behalf. All parties to a civil action shall perform the legally effective judgments and rulings. If any party to a civil action refuses to abide by a judgment or ruling made by a people's court or an award made by an arbitration tribunal in the PRC, the other party may apply to the people's court for the enforcement of the same within two years subject to application for postponed enforcement or revocation. If a party fails to satisfy within the stipulated period a judgment which the court has granted an enforcement approval, the court may, upon the application of the other party, mandatorily enforce the judgment on the party.

Where a party applies for enforcement of a judgment or ruling made by a people's court, and the opposite party or his property is not within the territory of the PRC, the applicant may directly apply to a foreign court with jurisdiction for recognition and enforcement of the judgment or ruling. A foreign judgment or ruling may also be recognized and enforced by the people's court in accordance with the PRC enforcement procedures if the PRC has entered into, or acceded to, international treaties with the relevant foreign country, which provided for such recognition and enforcement, or if the judgment or ruling satisfies the court's examination according to the principle of reciprocity, unless the people's court considers that the recognition or enforcement of such judgment or ruling would violate the basic legal principles of the PRC, its sovereignty or national security, or against the social and public interests.

THE PRC COMPANY LAW AND TRIAL ADMINISTRATIVE MEASURES

A joint stock limited company which was incorporated in the PRC and seeking a listing on the Hong Kong Stock Exchange is mainly subject to the following laws and regulations in the PRC:

- The PRC Company Law which was promulgated by the Standing Committee of the NPC on December 29, 1993, came into effect on July 1, 1994, revised on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and December 29, 2023 respectively and the latest revision of which was implemented on October 26, 2018;
- The Trial Administrative Measures which were promulgated by the CSRC on February 17, 2023, came into effect on March 31, 2023, applicable to the overseas share subscription and listing of joint stock limited companies.

Set out below is a summary of the major provisions of the PRC Company Law and the Trial Administrative Measures applicable to the Company.

General Provisions

A joint stock limited company refers to an enterprise legal person incorporated under the PRC Company Law with its registered capital divided into shares of equal par value. The liability of its shareholders is limited to the amount of shares held by them and the company is liable to its creditors for an amount equal to the total value of its assets.

A joint stock limited company shall conduct its business in accordance with laws and administrative regulations. It may invest in other limited liability companies and joint stock limited companies and its liabilities with respect to such invested companies are limited to the amount invested. Unless otherwise provided by law, the joint stock limited company may not be a contributor that undertakes joint and several liabilities for the debts of the invested companies.

Incorporation

A joint stock limited company may be incorporated by promotion or public subscription. It may be incorporated by a minimum of two but not more than 200 promoters, and at least half of the promoters must have residence within the PRC. The promoters must convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and must give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before the meeting. The inaugural meeting may be convened only with the presence of promoters or subscribers representing at least half of the shares in the company. At the inaugural meeting, matters including the adoption of articles of association and the election of members of the board of directors and members of the board of supervisors of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting.

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Within 30 days after the conclusion of the inaugural meeting, the board of directors must apply to the registration authority for registration of the establishment of the joint stock limited company. A company is formally established, and has the status of a legal person, after the business license has been issued by the relevant registration authority. Joint stock limited companies established by the subscription method shall file the approval on the offering of shares issued by the securities administration department of the State Council with the company registration authority for record.

A joint stock limited company's promoters shall be liable for: (i) the payment of all expenses and debts incurred in the incorporation process jointly and severally if the company cannot be incorporated; (ii) the refund of subscription monies to the subscribers, together with interest, at bank rates for a deposit of the same term jointly and severally if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company. According to the Interim Provisions on the Management of the Issuing and Trading of Stocks (《股票發行與交易管理暫行條例》) promulgated by the State Council on April 22, 1993 (which is only applicable to the issuance and trading of shares in the PRC and their related activities), if a company is established by means of public subscription, the promoters of such company are required to sign on the document to ensure that the document does not contain any misrepresentation, serious misleading statements or material omissions, and assume joint and several responsibility for it.

Share Capital

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

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

Increase of Share Capital

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

Reduction of Share Capital

A company may reduce its registered capital in accordance with the following procedures stipulated by the PRC Company Law:

- the company shall prepare a balance sheet and a list of properties;
- the reduction of registered capital must be approved by shareholders in the shareholders' assembly;
- the company shall inform its creditors of the reduction of capital within ten days, and publish an announcement in respect of the reduction in newspapers within thirty (30) days upon passing of the resolution approving the reduction of capital;
- creditors of the company may require the company to settle its debts or provide corresponding guarantees within the statutory time limit; and
- the company must apply to the relevant administrative bureau for industry and commerce for registration of the reduction of registered capital.

Repurchase of Shares

A company shall not purchase its own shares except under any of the following circumstances:

- (1) reducing the registered capital of the company;
- (2) merging with another company that holds its shares;
- (3) using shares for employee stock ownership plan or equity incentives;
- (4) a shareholder requesting the company to purchase the shares held by him since he objects to a resolution of the shareholders' general meeting on the merger or division of the company;
- (5) using shares for converting convertible corporate bonds issued by the listed company; and
- (6) it is necessary for a listed company to protect the corporate value and the rights and interests of shareholders.

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

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

A listed company purchasing its own shares shall perform the obligation of information disclosure. A listed company purchasing its own shares under any of the circumstances set forth in items (3), (5) and (6) shall carry out trading in a public and centralized manner.

Transfer of Shares

Shares held by shareholders may be transferred legally. Under the PRC Company Law, a shareholder should effect a transfer of his shares on a stock exchange established in accordance with laws or by any other means as required by the State Council. Registered shares may be transferred after the shareholders endorse the back of the share certificates or in any other manner specified by the laws or administrative regulations. Following the transfer, the company shall enter the names and domiciles of the transferees into its share register. No changes of registration in the share register described above shall be effected during a period of 20 days prior to convening a shareholders' general meeting or 5 days prior to the record date for the purpose of determining entitlements to dividend distributions, unless otherwise stipulated by laws on the registration of changes in the share register of listed companies. The transfer of bearer share certificates shall become effective upon the delivery of the certificates to the transferee by the shareholder.

Under the PRC Company Law, shares held by promoters may not be transferred within one year of the establishment of the company. Shares of the company issued prior to the public issuance of shares may not be transferred within one year of the date of the company's listing on a stock exchange. Directors, supervisors and the senior management of a company shall declare to the company their shareholdings in it and any changes in such shareholdings. During their terms of office, they may transfer no more than 25% of the total number of shares they hold in the company every year. They shall not transfer the shares they hold within one year of the date of the company's listing on a stock exchange, nor within six months after they leave their positions in the company. The articles of association may set out other restrictive provisions in respect of the transfer of shares in the company held by its directors, supervisors and the senior management.

Shareholders

Under the PRC Company Law, shareholders of a company are entitled to enjoy the return on equity, participate in important decision-making, select managers and enjoy other rights in accordance with the laws.

Shareholders' Assembly

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

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

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An annual session of the shareholders' assembly shall be held once a year. An interim shareholders' assembly session shall be held within two months after the occurrence of any of the following circumstances:

- the number of directors is less than the number stipulated by the PRC Company Law or less than two thirds of the number specified in the articles of association;
- the losses of the company which are not recovered reach one-third of the company's total paid up share capital;
- as requested by shareholders alone or in aggregate holding 10% or more of the shares of the Company;
- when deemed necessary by the board of directors;
- when proposed by the board of supervisors; or
- other circumstances as specified in the articles of associations.

A session of the shareholders' assembly shall be convened by the board of directors and presided over by the chairman of the board of directors.

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

There are no specific provisions in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' assembly. Shareholders alone or in aggregate holding more than 3% of the shares of the company may put forth interim proposals and submit the same in writing to the board of directors 10 days before a shareholders' assembly is held. The board of directors shall notify other shareholders within 2 days after receiving such proposals, and submit the interim proposals to the meeting of the shareholders' assembly for review and approval if such proposals are within the scope of its duties and powers. The contents of the interim proposal shall be within the scope of the functions and powers of the shareholders' assembly, with clear topics and specific matters for resolutions. The shareholders' assembly shall not make any resolution on any matter not listed in a notice as stipulated in either of the preceding two notices. Where holders of bearer shares intend to attend the shareholders' assembly, they shall deposit their share certificates with the company for a period beginning from five days prior to the convening of the meeting to the end of the meeting.

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Pursuant to the PRC Company Law, shareholders present at a shareholders' assembly have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights. An accumulative voting system may be adopted for the election of directors and supervisors at the shareholders' assembly pursuant to the provisions of the articles of association or a resolution of the shareholders' assembly. Under the accumulative voting system, each share shall be entitled to the number of votes equivalent to the number of directors or supervisors to be elected at the shareholders' assembly, and shareholders may consolidate their votes for one or more directors or supervisors when casting a vote.

Pursuant to the PRC Company Law, resolutions of the shareholders' assembly shall be adopted by more than half of the voting rights held by the shareholders present at the meeting. However, resolutions of the shareholders' assembly regarding the following matters shall be adopted by more than two-thirds of the voting rights held by the shareholders present at the meeting:

- (1) the increase or decrease of the registered capital of the Company;
- (2) the division, spin-off, merger, dissolution or transformation of the company;
- (3) any amendment of the Articles of Association.

Under the PRC Company Law, meeting minutes shall be prepared in respect of decisions on matters discussed at the shareholders' assembly. The chairman of the meeting and directors attending the meeting shall sign to endorse such minutes. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

Board

Under the PRC Company Law, a joint stock limited company shall have a board of directors, which shall consist of 5 to 19 members. Members of the board of directors may include representatives of the employees of the company, who shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, but no term of office shall last for more than three years. Directors may serve consecutive terms if re-elected. A director shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a duly re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office, or if the resignation of directors results in the number of directors being less than the quorum.

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

- to convene the shareholders' general meetings and report on its work to the shareholders' general meetings;
- to implement the resolutions passed in shareholders' general meetings;
- to decide on the company's business plans and investment proposals;
- to formulate the company's proposed annual financial budget and final accounts;
- to formulate the company's profit distribution proposals and loss recovery proposals;
- to formulate proposals for the increase or reduction of the company's registered capital and the issuance of corporate bonds;
- to prepare plans for the merger, division, dissolution or change in the form of the company;
- to decide on the establishment of the Company's internal management structure;
- to appoint or dismiss the Company's general manager; and to appoint or dismiss the vice general manager and chief financial officer pursuant to the nomination of the general manager; and to decide on the matters relating to the remuneration of the aforesaid senior management officers;
- to formulate the Company's basic management system; and
- to exercise any other power under the articles of association.

Supervisory Board

A company shall have a supervisory board composed of not less than three members. The supervisory board shall consist of representatives of the shareholders and an appropriate proportion of representatives of the company's staff, of which the proportion of representatives of the company's staff shall not be less than one-third, and the actual proportion shall be determined in the articles of association. Representatives of the company's staff at the supervisory board shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. Directors and senior management shall not act concurrently as supervisors.

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Each term of office of a supervisor is three years and he/she may serve consecutive terms if reelected. A supervisor shall continue to perform his/her duties as a supervisor in accordance with the laws, administrative regulations and the articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The supervisory board may exercise its powers:

- (1) to review the company's financial position;
- (2) to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated laws, regulations, the articles of association or resolutions of the shareholders' general meetings;
- (3) when the acts of director or senior management personnel are detrimental to the company's interests, to require the director and senior management to correct these acts;
- (4) to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' general meetings when the board fails to perform the duty of convening and presiding over shareholders' general meetings under the PRC Company Law;
- (5) to submit proposals to the shareholders' general meetings;
- (6) to bring actions against directors and senior management personnel pursuant to the relevant provisions of the PRC Company Law; and
- (7) to exercise any other authority stipulated in the articles of association.

Supervisors may be present at board meetings and make inquiries or proposals in respect of the resolutions of the board. The supervisory board may investigate any irregularities identified in the operation of the company and, when necessary, may engage an accounting firm to assist its work at the cost of the company.

The chairman of the supervisory board shall convene and preside over supervisory board meetings. Where the chairman of the supervisory board is incapable of performing or is not performing his/her duties, the vice chairman of the supervisory board shall convene and preside over supervisory board meetings. Where the vice chairman of the supervisory board is incapable of performing or is not performing his/her duties, a supervisor recommended by more than half of the supervisors shall convene and preside over supervisory board meetings.

Manager and Senior Management

Under the PRC Company Law, a company shall have a manager who shall be appointed or removed by the board of directors. Meanwhile, under the relevant requirements of the Guidelines for the Articles of Association of Listed Companies, the manager, who reports to the board of directors, may exercise his/her powers:

- (1) to manage the production and operation and administration of the company and arrange for the implementation of the resolutions of the board of directors;
- (2) to arrange for the implementation of the company's annual operation plans and investment proposals;
- (3) to formulate proposals for the establishment of the company's internal management organs;
- (4) to formulate the fundamental management system of the company;
- (5) to formulate the company's specific rules and regulations;
- (6) to recommend the appointment or dismissal of any deputy manager and any financial officer of the company;
- (7) to appoint or dismiss management personnel (other than those required to be appointed or dismissed by the board of directors); and
- (8) to exercise any other authority granted by the board of directors.

Other provisions in the articles of association on the manager's powers shall also be complied with. The manager shall be present at meetings of the board of directors. However, the manager shall have no voting rights at meetings of the board of directors unless he/she concurrently serves as a director.

According to the PRC Company Law, senior management refers to the manager, deputy manager(s), person-in-charge of financial, board secretary (in the case of a listed company) and other personnel as stipulated in the articles of association.

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

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

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

Finance and Accounting

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

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

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

After the losses have been made up and surplus reserves have been set aside, the remaining profits after-tax shall be distributed to shareholders in proportion to the number of shares held by shareholders as in the case of a joint stock limited company, except as otherwise provided in the articles of association. The capital common reserve of a joint stock limited company is made up of the premium over the nominal value of the shares of the company in issue, and other amounts required by the MOF of the State Council to be allocated to the capital common reserve. The company's common reserves shall be used for making up losses, expanding the production and business scale or increasing the registered capital of the company, but the capital reserve fund shall not be used for making up the company's losses. Where the statutory surplus reserve is converted into registered capital, the balance of the statutory reserve shall not be less than 25% of the registered capital prior to such conversion.

Appointment and Dismissal of Accounting Firms

Pursuant to the PRC Company Law, the appointment or dismissal of accounting firms responsible for the auditing of the company shall be determined by the shareholders' meeting, the shareholders' assembly or board of directors in accordance with the articles of association. The accounting firm is to be appointed for a term commencing from the conclusion of an annual meeting of the shareholders' assembly and ending at the conclusion of the next annual

meeting of the shareholders' assembly. The accounting firm should be allowed to make representations when the shareholders' assembly conducts a vote on the dismissal of the accounting firm. The company should provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the accounting firm which it employs without any refusal, withholding and misrepresentation.

Profit Distribution

According to the PRC Company Law, a company shall not distribute profits before losses are covered and the statutory common reserve fund is provided.

Amendments to the Articles of Association

Pursuant to PRC Company Law, the resolution of a shareholders' general meeting regarding any amendment to a company's articles of association requires affirmative votes by at least two-thirds of the votes held by shareholders attending the meeting. According to the Guidelines for the Articles of Association of Listed Companies, if the amendments to the articles of association approved by the resolution of the general meeting of shareholders are subject to approval by the competent authority, they must be reported to the competent authority for approval; if they involve company registration matters, the modification registrations shall be handled according to law. Where the amendments to the articles of association belong to information required to be disclosed by laws and regulations, such amendments shall be announced in accordance with the regulations.

Dissolution and Liquidation

Under the PRC Company Law, a company shall be dissolved for any of the following reasons:

- (1) the term of its operation set out in the articles of association has expired or other events of dissolution specified in the articles of association have occurred;
- (2) the shareholders' general meeting has resolved to dissolve the company;
- (3) the company is dissolved by reason of its merger or division;
- (4) the business license of the company is revoked or the company is ordered to close down or to be dissolved in accordance with the laws;
- (5) the company is dissolved by a people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all shareholders of the company, on the grounds that the operation and management of the company has suffered serious difficulties that cannot be resolved through other means, rendering ongoing existence of the company a cause for significant losses to the shareholders.

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In the event of paragraph (1) above, the company may carry on its existence by amending its articles of association. The amendments to the articles of association in accordance with the provisions described above shall require the approval of more than two-thirds of voting rights of shareholders attending a shareholders' general meeting.

Where the company is dissolved under the circumstances set forth in paragraph (1), (2), (4) or (5) above, it should establish a liquidation committee within 15 days of the date on which the dissolution matter occurs. The liquidation committee shall be composed of directors or any other person determined by a shareholders' general meeting. If a liquidation committee is not established within the prescribed period, the company's creditors may file an application with a people's court to appoint relevant personnel to form a liquidation committee to administer the liquidation. The people's court should accept such application and form a liquidation committee to conduct liquidation in a timely manner. The liquidation committee shall exercise the following functions and powers during the liquidation period:

- (1) to sort out the company's assets and to prepare a statement of financial position and an inventory of assets, respectively;
- (2) to notify creditors by notice or public notices;
- (3) to deal with any outstanding business related to the liquidation;
- (4) to pay outstanding tax together with any tax arising during the liquidation process;
- (5) to settle claims and liabilities;
- (6) to handle the company's remaining assets after its debts have been paid off;
- (7) to represent the company in any civil procedures.

The liquidation committee shall notify the company's creditors within 10 days of its establishment, and publish an announcement in newspapers within 60 days.

A creditor shall lodge his claim with the liquidation committee within 30 days of receipt of the notification or within 45 days of the date of the announcement if he has not received any notification. A creditor shall report all matters relevant to his claimed creditor's rights and furnish relevant evidence. The liquidation committee shall register such creditor's rights. The liquidation committee shall not make any settlement to creditors during the period of the claim.

Upon disposal of the company's property and preparation of the required statement of financial position and inventory of assets, the liquidation committee shall draw up a liquidation plan and submit this plan to a shareholders' general meeting or a people's court for endorsement. The remaining part of the company's assets, after payment of liquidation expenses, employee wages, social insurance expenses and statutory compensation, outstanding taxes and the company's debts, shall be distributed to shareholders in proportion to shares held

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by them. The company shall continue to exist during the liquidation period, although it cannot conduct operating activities that are not related to the liquidation. The company's property shall not be distributed to shareholders before repayments are made in accordance with the requirements described above.

Upon liquidation of the company's property and preparation of the required statement of financial position and inventory of assets, if the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must apply to a people's court for a declaration of bankruptcy in accordance with the laws. Following such declaration by the people's court, the liquidation committee shall hand over the administration of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall prepare a liquidation report and submit it to the shareholders' general meeting or a people's court for confirmation of its completion. Following such confirmation, the report shall be submitted to the company registration authority to cancel the company's registration, and an announcement of its termination shall be published. Members of the liquidation committee are required to discharge their duties in good faith and perform their obligation in compliance with laws. Members of the liquidation committee shall be prohibited from abusing their authority in accepting bribes or other unlawful income and from misappropriating the company's properties. Members of the liquidation committee are liable to indemnify the company and its creditors in respect of any loss arising from their willful or material default.

Liquidation of a company declared bankrupt according to laws shall be processed in accordance with the laws on corporate bankruptcy.

Overseas Listing

On February 17, 2023, upon the approval of the State Council, the CSRC promulgated the Trial Administrative Measures and five relevant guidelines, which became effect on March 31, 2023.

According to the Trial Administrative Measures, (i) where the PRC domestic enterprises directly or indirectly issue securities overseas or list their securities overseas shall file with the CSRC and submit relevant materials; if such PRC domestic enterprises fail to perform the filing procedures, or conceals important facts or fabricate any material content in the filing documents, they may be subject to administrative penalties such as being ordered to make corrections, given warnings and fines, and their controlling shareholders, actual controllers, directly responsible persons in charge and other directly responsible persons may also be subject to administrative penalties such as warnings and fines; (ii) the direct offering and listing overseas of a domestic enterprise refers to the overseas offering and listing by a joint stock limited company registered and established in the PRC; and (iii) any domestic joint stock limited company shall file with the CSRC within three working days after submitting an

application for overseas listing. A PRC domestic enterprise that fails to complete the filing in accordance with the Trial Administrative Measures may be ordered by the CSRC to correct, given a warning, and imposed a fine not less than RMB1 million and not more than RMB10 million.

“Full Circulation” of H Shares

Shareholders of domestic unlisted shares may determine by themselves through consultation the amount and proportion of shares, for which an application will be filed for circulation, provided that the requirements laid down in the relevant laws and regulations and set out in the policies for state-owned asset administration, foreign investment and industry regulation are met, and the corresponding H-share listed company may be entrusted to file the said application for “full circulation.”

An H-share listed company may apply for “Full Circulation” separately or when applying for refinancing abroad. An unlisted domestic joint stock company may apply for “full circulation” when applying for an overseas initial public offering.

Merger and Division

A merger agreement shall be signed by merging companies and the involved companies shall prepare respective statements of financial position and inventory of assets. The companies shall within 10 days of the date of passing the resolution approving the merger notify their respective creditors and publicly announce the merger in newspapers within 30 days. A creditor may, within 30 days of receipt of the notification, or within 45 days of the date of the announcement if he has not received the notification, request the company to settle any outstanding debts or provide relevant guarantees. In case of a merger, the credits and debts of the merging parties shall be assumed by the surviving or the new company.

In case of a division, the company’s assets shall be divided and a statement of financial position and an inventory of assets shall be prepared. When a resolution regarding the company’s division is approved, the company should notify all its creditors within 10 days of the date of passing such resolution and publicly announce the division in newspapers within 30 days. Unless an agreement in writing is reached with creditors before the company’s division in respect of the settlement of debts, the liabilities of the company which have accrued prior to the division shall be jointly borne by the divided companies.

Changes in the business registration of the companies as a result of the merger or division shall be registered with the relevant administration authority for industry and commerce.

In accordance with the laws, cancelation of a company shall be registered when a company is dissolved and incorporation of a company shall be registered when a new company is incorporated.

SECURITIES LAW AND OTHER RELEVANT REGULATIONS

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

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

On December 25, 1995, the State Council promulgated and implemented the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies (《國務院關於股份有限公司境內上市外資股的規定》). These regulations deal mainly with the issue, subscription, trading and declaration of dividends and other distributions of domestic listed and foreign invested shares and disclosure of information of joint stock limited companies having domestic listed and foreign invested shares.

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

ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

The Arbitration Law of the PRC (《中華人民共和國仲裁法》) (the “**Arbitration Law**”) was passed by the Standing Committee of the NPC on August 31, 1994, became effective on September 1, 1995 and was amended on August 27, 2009 and September 1, 2017. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with

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the Arbitration Law and the Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case except when the arbitration agreement is declared invalid.

Under the Arbitration Law and the Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any irregularity on the procedures or composition of arbitrators specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**") adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by all other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (i) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations.

An arrangement was reached between Hong Kong and the Supreme People's Court for the mutual enforcement of arbitral awards. On June 18, 1999, the Supreme People's Court adopted the Arrangements of the Supreme People's Court on the Mutual Enforcement of Arbitral Awards between the Mainland and the Hong Kong Special Administrative Region (《關於內地與香港特別行政區相互執行仲裁裁決的安排》), which became effective on February 1, 2000, and Supplemental Arrangement of the Supreme People's Court for the Mutual Enforcement of Arbitral Awards between the Mainland and the Hong Kong Special Administrative Region (《關於內地與香港特別行政區相互執行仲裁裁決的補充安排》), which promulgated on December 26, 2020. In accordance with these arrangement, awards made by PRC arbitral authorities under the Arbitration Law can be enforced in Hong Kong, and Hong Kong arbitration awards are also enforceable in the PRC.

Judicial judgment and its enforcement

According to the Arrangement of the Supreme People's Court between the Mainland and the HKSAR on Reciprocal Recognition and Enforcement of the Decisions of Civil and Commercial Cases under Consensual Jurisdiction (《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) promulgated by the Supreme People's Court on July 3, 2008 and implemented on August 1, 2008, in the case of final judgment, defined with payment amount and enforcement power, made between the court of China and the court of the Hong Kong Special Administrative Region in a civil and commercial case with written jurisdiction agreement, any party concerned may apply to the People's Court of China or the court of the Hong Kong Special Administrative Region for recognition and enforcement based on this arrangement. "Choice of court agreement in written" refers to a written agreement defining the exclusive jurisdiction of either the People's Court of China or the court of the Hong Kong Special Administrative Region in order to resolve dispute with particular legal relation occurred or likely to occur by the party concerned. Therefore, the party concerned may apply to the Court of China or the court of the Hong Kong Special Administrative Region to recognize and enforce the final judgment made in China or Hong Kong that meet certain conditions of the aforementioned regulations.

Shanghai-Hong Kong Stock Connect

On April 10, 2014, CSRC and Hong Kong Securities and Futures Commission (hereinafter referred to as "HKSFC") issued the Joint Announcement of China Securities Regulatory Commission and Hong Kong Securities and Futures Commission – Principles that Should be Followed when the Pilot Program that Links the Stock Markets in Shanghai and Hong Kong is Expected to be Implemented and approved in principle the launch of the pilot program that links the stock markets in Shanghai and Hong Kong (hereinafter referred to as "Shanghai-Hong Kong Stock Connect") by the Shanghai Stock Exchange (hereinafter referred to as "SSE"), the Stock Exchange, China Securities Depository and Clearing Corporation Limited (hereinafter referred to as "CSDCC") and HKSCC. Shanghai-Hong Kong Stock Connect comprises the two portions of Northbound Trading Link and Southbound Trading Link. Southbound Trading Link refers to the entrustment of China securities houses by China investors to trade stocks listed on the Stock Exchange within a stipulated range via filing by the securities trading service company established by the SSE with the Stock Exchange. During the initial period of the pilot program, the stocks of Southbound Trading Link consist of constituent stocks of the Stock Exchange Hang Seng Composite Large Cap Index and the Hang Seng Composite MidCap Index as well as stocks of A+H stock companies concurrently listed on the Stock Exchange and the SSE. The total limit of Southbound Trading Link is RMB250 billion and the daily limit is RMB10.5 billion. During the initial period of the pilot program, it is required by HKSFC that China investors participating in Southbound Trading Link are only limited to institutional investors and individual investors with a securities account and capital account balance of not less than RMB500,000.

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On November 10, 2014, CSRC and HKSFC issued a Joint Announcement, approving the official launch of Shanghai-Hong Kong Stock Connect by SSE, the Stock Exchange, CSDCC and HKSCC. Pursuant to the Joint Announcement, trading of stocks under Shanghai-Hong Kong Stock Connect will commence on November 17, 2014.

On September 30, 2016, CSRC issued the Filing Provision on the Placement of Shares by Hong Kong Listed Companies with Domestic Original Shareholders under Southbound Trading Link which came into effect on the same day. The act of the placement of shares by Hong Kong listed companies with domestic original shareholders under Southbound Trading Link shall be filed with CSRC. Hong Kong listed companies shall file the application materials and approved documents with CSRC after obtaining approval from the Stock Exchange for their share placement applications. CSRC will carry out supervision based on the approved opinion and conclusion of the Hong Kong side.

SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG AND PRC COMPANY LAW

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Companies Ordinance and is supplemented by common law and the rules of equity that are applicable to Hong Kong. As a joint stock limited company established in the PRC that is seeking a listing of shares on the Hong Kong Stock Exchange, we are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of certain material differences between Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

Corporate Existence

Under Hong Kong company law, a company with share capital is incorporated by the Registrar of Companies in Hong Kong, which issues a certificate of incorporation to the Company upon its incorporation, and the company will acquire an independent corporate existence henceforth. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain pre-emptive provisions. A public company's articles of association do not contain such pre-emptive provisions.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or public subscription.

Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

Share Capital

Under the Companies Ordinance, the concept of the nominal value (also known as par value) of shares of a Hong Kong company has been abolished, and the companies have increased flexibility to alter its share capital by (i) increasing its share capital; (ii) capitalizing its profits; (iii) allotting and issuing bonus shares with or without increasing its share capital; (iv) converting its shares into larger or smaller number of shares; and (v) cancelling its shares. The concept of authorized capital no longer applies to a Hong Kong company formed on or after March 3, 2014 as well. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, issue new shares of the company. The PRC Company Law has no provisions on minimum registered capital of joint stock companies, except that laws, administrative regulations and State Council decisions have separate provisions on paid-in registered capital and the minimum registered capital of joint stock companies, in which case the company should follow such provisions. The Company's registered capital is the amount of its issued share capital. Any increase in the Company's registered capital must be approved at the general meeting and shall be approved by/filed with the relevant PRC governmental and regulatory authorities (if applicable).

The Companies Ordinance does not prescribe any minimum capital requirement for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws or administrative regulations). For non-monetary assets to be used as capital contributions, appraisals must be carried out to ensure there is no over-valuation or under-valuation of the assets. There is no such restriction on a company incorporated in Hong Kong.

Restrictions on Shareholding and Transfer of Shares

Generally, domestic shares, which are denominated and subscribed for in Renminbi, can be subscribed for and traded by PRC investors, qualified overseas institutional investors or qualified overseas strategic investors.

Overseas listed shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors. If the H shares are eligible securities under the Southbound Trading Link, they are also subscribed for and traded by PRC investors in accordance with the rules and limits of Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect. When the application for "full circulation" has been approved by the CSRC, the domestic unlisted shares of the H-share listed company might be listed and circulated on the Stock Exchange.

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Under the PRC Company Law, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares in issue prior to a public offering of the company cannot be transferred within one year from the listing date of the shares on a stock exchange. Shares in a joint stock limited liability company held by its directors, supervisors and senior management and transferred each year during their term of office shall not exceed 25% of the total shares they held in a company, and the shares they held in a company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of a company's shares held by its directors, supervisors and senior management. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lockup on the company's issue of shares and the 12-month lockup on controlling shareholders' disposal of shares, as illustrated by the undertakings given by the Company and our controlling shareholder to the Hong Kong Stock Exchange.

Financial Assistance for Acquisition of Shares

The PRC Company Law does not prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares.

Notice of Shareholders' General Meetings

Under the PRC Company Law, notices of an annual session of the shareholders' assembly and an interim meeting of the shareholders' assembly must be given to shareholders 20 days and 15 days before the meeting, respectively. For a limited liability company incorporated in Hong Kong, the minimum period of notice is 14 days in case of other shareholders' meetings other than an annual general meeting and 21 days in the case of an annual general meeting.

Quorum for Shareholders' General Meetings

Under Hong Kong company law, the quorum for a shareholders' general meeting must be two members unless the articles of association of the company otherwise provide. For companies with only one member, the quorum must be one member. The PRC Company Law does not specify any quorum requirement for a shareholders' assembly.

Voting at Shareholders' General Meeting

Under the PRC Company Law, the passing of any resolution of a shareholders' assembly requires affirmative votes of shareholders representing more than half of the voting rights represented by the shareholders who attend the assembly except in cases of resolutions on amendments to a company's articles of association, increase or decrease of registered capital, merger, division or dissolution, or change of corporation form, which require affirmative votes of shareholders representing more than two-thirds of the voting rights represented by the shareholders who attend the assembly.

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Under Hong Kong law, (i) an ordinary resolution may be passed by a simple majority of affirmative votes of the shareholders who attend the shareholders' general meeting in person or by proxy, and (ii) a special resolution may be passed by no less than three fourths of affirmative votes of the shareholders who attend the shareholders' general meeting in person or by proxy.

Variation of Class Rights

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate requirements relating to other kinds of shares.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the passing of a special resolution by the shareholders of the relevant class at a separate meeting sanctioning the variation, (ii) with the written consent of shareholders representing at least three-fourths of the total voting rights of shareholders of the relevant class, or (iii) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

Derivative Action by Minority Shareholders

Under Hong Kong company law, a shareholder may, with the leave of the Court, start a derivative action on behalf of a company for any misconduct committed by its directors against the company. For example, leave may be granted where the directors control a majority of votes at a general meeting, and could thereby prevent the company from suing the directors in its own name.

Pursuant to the PRC Company Law, in the event where the directors and senior management of a joint stock limited company violate laws, administrative regulations or its articles of association, resulting in losses to the company, the shareholders individually or jointly holding 1% or more of the shares in the company for more than one hundred and eighty (180) consecutive days may request in writing the board of supervisors to initiate proceedings in the people's court. In the event that the board of supervisors violates as such, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court. Upon receipt of such written request from the shareholders, if the board of supervisors or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within thirty (30) days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the court in their own name.

The Guidelines for the Articles of Association of Listed Companies also provide other remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of shares on the Stock Exchange, each

director and supervisor of a joint stock limited company is required to give an undertaking in favor of the company acting as agent for the shareholders. This allows minority shareholders to take action against directors and supervisors of the company in default.

Minority Shareholder Protection

Under the Companies Ordinance, a shareholder who alleges that the affairs of a company are conducted in a manner unfairly prejudicial to his interests may petition to the Court to make an appropriate order to give relief to the unfairly prejudicial conduct. Alternatively, pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, a shareholder may seek to wind up the company on the just and equitable ground. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated or registered in Hong Kong. The PRC Company Law provides that any shareholders holding 10% or above of voting rights of all issued shares of a company may request a People's Court to dissolve the company to the extent that the operation or management of the company experiences any serious difficulties and its continuous existence would cause serious losses to them, and no other alternatives can resolve such difficulties.

The Guidelines for the Articles of Association of Listed Companies also provide other remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of shares on the Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking in favor of the company acting as agent for the shareholders. This allows minority shareholders to take action against directors and supervisors of the company in default.

Directors

The PRC Company Law, unlike Hong Kong law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on directors' rights to carry out major disposals or companies providing certain benefits, or prohibitions against compensation for loss of office without shareholders' approval. The PRC Company Law restricts the directors of a listed company who have interests or associations in the enterprises involved in the resolution of the board meetings from voting on the said resolution. All the above provisions have been incorporated in the articles of association, which are summarized in Appendix V.

Supervisors

Under the PRC Company Law, a joint stock limited company's directors and senior management are subject to the supervision of a board of supervisors. There is no mandatory requirement for the establishment of a board of supervisors for a company incorporated in Hong Kong.

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Under the PRC Company Law, a joint stock limited company's directors and members of the senior management are subject to the supervision of board of supervisors. There is no mandatory requirement for the establishment of board of supervisors for a company incorporated in Hong Kong. The Guidelines for the Articles of Association of Listed Companies stipulate that supervisors shall abide by the laws, administrative regulations and the articles of association of the company, owe the company a duty of loyalty and diligence, and shall not use their authority to accept bribes or other illegal income or misappropriate the property of the company.

Fiduciary Duties

In Hong Kong, directors owe fiduciary duties to the company, including the duty not to act in conflict with the company's interests. Furthermore, the Companies Ordinance has codified the directors' statutory duty of care. Under the PRC Company Law, directors, supervisors and senior management shall assume the duty of loyalty and diligence.

Financial Disclosure

Under the Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its financial report twenty (20) days before its annual general meeting. In addition, a joint stock limited company of which the shares are publicly offered must publish its financial report. The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its financial statements, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than twenty one (21) days before such meeting. According to the PRC laws, a company shall prepare its financial accounting reports as at the end of each accounting year, and submit the same to accounting firms for auditing as required by law.

Information on Directors and Shareholders

The Company Law gives shareholders the right to inspect the company's articles of association, minutes of the general meetings and financial and accounting reports. Under the articles of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors which is similar to the rights of shareholders of Hong Kong companies under the Companies Ordinance.

Receiving Agent

Under the Hong Kong law, dividends once declared by the board of directors will become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is three years.

Corporate Reorganization

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of voluntary winding up to another company pursuant to Section 237 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to Section 673 and Division 2 of Part 13 of the Companies Ordinance, which requires the sanction of the court. In addition, subject to the shareholders' approval, an intra-group wholly-owned subsidiary company may also be amalgamated horizontally or vertically under the Companies Ordinance. Under PRC law, merger, division, dissolution or change to the status of a joint stock limited liability company has to be approved by shareholders in general meeting.

Mandatory Deductions

Under the Company Law, a joint stock limited liability company is required to make transfers equivalent to certain prescribed percentages of its after-tax profit to the statutory common reserve fund. There are no corresponding provisions under Hong Kong law.

Arbitration of Disputes

In Hong Kong, disputes between shareholders and a company or its directors, managers and other senior management may be resolved through the courts. The Guidelines for the Articles of Association of Listed Companies provide that shareholders may sue directors, supervisors, managers and other senior management of the company, and shareholders may sue the company, and the company may sue its shareholders, directors, supervisors, managers and other senior management personnel.

The Securities Arbitration Rules of the HKIAC contain provisions allowing, upon application by any party, an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties, including witnesses and arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party, other than a PRC party or any of its witnesses or any arbitrator, is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules of the HKIAC, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

Remedies of a Company

Under the Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, the Hong Kong Listing Rules require listed companies' articles to provide for remedies of the company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits from a director, supervisor or senior management).

Dividends

The company has the power in certain circumstances to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of declared dividends) is six years, whereas under PRC laws, the relevant limitation period is three years. The company must not exercise its powers to forfeit any unclaimed dividend in respect of shares until after the expiry of the applicable limitation period.

Closure of Register of Shareholders

The Companies Ordinance requires that the register of shareholders of a company must not be closed for the registration of transfers of shares for more than thirty (30) days (extendable to sixty (60) days in certain circumstances) in a year. Unless otherwise stipulated by laws, share transfers shall not be registered within twenty (20) days prior to convening a shareholders' general meeting or five (5) days before the base date of distribution of dividends.

APPENDIX V SUMMARY OF ARTICLES OF ASSOCIATION OF THE COMPANY

This Appendix sets out summaries of the main clauses of our Articles of Association adopted on August 10, 2023 which shall become effective as at the date on which the H shares are listed on the Stock Exchange. As the main purpose of this appendix is to provide potential investors with an overview of the Articles of Association, it may not necessarily contain all information that is important to potential investors. As discussed in the appendix headed “Appendix VII — Documents Delivered to the Registrar of Companies and Available on Display,” the full document of the Articles of Association is available on display.

DIRECTORS AND BOARD OF DIRECTORS

Power to allocate and issue Shares

The Articles of Association does not contain clauses that authorize the Board of Directors to allocate or issue shares. The Board of Directors shall prepare suggestions for share allotment or issue, which are subject to approval by the Shareholders at the Shareholders’ General Meeting (“**General Meeting**” or “**Shareholders’ Meeting**”) in the form of a special resolution. Any such allotment or issue shall be in accordance with the procedures stipulated in appropriate laws, administrative regulations and supervision rules of shares listed region.

Power to dispose assets of our Company or any subsidiary

The Board of Directors shall determine the authority of external investment, acquisition and sale of assets, asset mortgage, external guarantee matters, entrusted financial management, connected transactions, external donations, and establish strict review and decision-making procedures; major investment projects shall be reviewed by relevant experts and professionals and reported to the General Meeting for approval.

Compensation or payments for loss of office

There are no provisions in the Articles of Association relating to compensation or payments for loss of office.

Loans to Directors

There are no provisions in the Articles of Association relating to loans to directors.

Provision of financial assistance for acquiring the Shares of the Company or shares of any subsidiary

The Company or its subsidiaries (including its subsidiaries) shall not provide any financial assistance to the person who purchases or intends to purchase the Company’s Shares in the form of gifts, advances, guarantees, compensations, or loans.

Disclosure of interests in contracts with the Company or any subsidiary

Directors shall not conclude any contract or engage in any transaction with the Company either in violation of the Articles of Association or without the approval of the General Meeting.

Remuneration

The appointment and removal of the members of the Board of Directors and the Board of Supervisors, as well as their remuneration and payment methods, shall be adopted by the General Meeting by ordinary resolution.

Retirement, appointment, removal

The Board of Directors is composed of eight Directors, including three independent Directors. The Directors of the Company are elected by the General Meeting. At any time, the Board of Directors should have more than one-third independent Directors, and the total number of independent Directors should not be less than three, at least one of whom must have appropriate professional qualifications or possess appropriate accounting or related financial management expertise.

The Board of Directors has one chairman. The chairman of the Board of Directors shall be elected by more than half of all Directors. The Directors shall be elected or replaced by the General Meeting, and may be removed by the General Meeting through an ordinary resolution before the expiration of their term of office.

The chairman of the Board and other Directors serve three-year terms, and the Director can be re-elected and reappointed at the end of the term. The term of office of a Director shall be calculated from the date of appointment until the expiration of the term of office of the current Board of Directors. If the term of office of a Director expires without timely re-election, the original Director shall still perform the duties of a Director in accordance with laws, administrative regulations, departmental rules, and the provisions of these Articles of Association before the newly elected Director takes office.

The general manager or other senior managers may concurrently serve as Directors. However, the total number of Directors holding senior management positions and Directors held by employee representatives shall not exceed half of the total number of Directors of the Company. None of the following persons shall serve as our Director, Supervisor or senior management:

- (i) a person who has no civil capacity or has limited civil capacity;

APPENDIX V SUMMARY OF ARTICLES OF ASSOCIATION OF THE COMPANY

- (ii) a person who has been sentenced to criminal punishment for corruption, bribery, encroachment on property, misappropriation of property or sabotage of the order of the socialist market economy, and less than five years have elapsed since the completion of the sentence, or having been deprived of his/her political rights as a result of a criminal conviction and five years have not elapsed since the date on which execution of the sentence was completed;
- (iii) a person who has served as a Director, factory chief, or manager of an insolvent and liquidated company or enterprise and is held personally liable for such bankruptcy, and three years have not elapsed since the date when the insolvency and liquidation of the company or enterprise is completed;
- (iv) a person who has served as the legal representative of a company or enterprise whose business license has been revoked or ordered to close down due to any violation of law, and is held personally liable for the revocation, and three years have not elapsed since the date when the revocation occurs;
- (v) a person who has a relatively large sum of debt, which was not paid at maturity;
- (vi) a person who has been banned from entering the securities market by the China Securities Regulatory Commission and the deadline has not expired; or
- (vii) other contents stipulated by laws, administrative regulations, departmental rules, or the Hong Kong Listing Rules.

The election, appointment or employment of the Directors, Supervisors or other senior management shall be invalid if such election, appointment or employment is against the Articles of Association. If the Directors, Supervisors or senior management falls into the situations provided in the above-mentioned situations during their term of office, they would be dismissed by our Company.

Borrowing Powers

The Board of Directors shall be entitled to develop proposals for our Company to issue bonds and to list its Shares, and that such bond issues must be approved by the Shareholders by a special resolution at the General Meeting.

ALTERNATIONS TO CONSTITUTIONAL DOCUMENTS

In any of the following circumstances, the Company shall amend its articles of association:

- (i) after the revision of the PRC Company Law or relevant laws and administrative regulations, the matters stipulated in the articles of association conflict with the provisions of the revised laws and administrative regulations;

APPENDIX V SUMMARY OF ARTICLES OF ASSOCIATION OF THE COMPANY

- (ii) the situation of the company changes and is inconsistent with the matters recorded in the articles of association;
- (iii) the General Meeting has decided to amend the articles of association.

If the amendment of the articles of association approved by the Shareholders' Meeting resolution requires approval by the competent authority, it must be submitted to the competent authority for approval; If it involves Company registration matters, change registration shall be handled in accordance with the law.

The Board of Directors shall amend the Articles of Association in accordance with the resolution of the Shareholders' Meeting to amend the Articles of Association and the approval opinions of relevant competent authorities.

The amendment of the Articles of Association constitutes to the information required to be disclosed by laws and regulations and shall be announced in accordance with regulations.

VARIATION OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES

There are no provisions in the Articles of Association relating to variation of rights of existing Shares or classes of Shares of the Company.

SPECIAL RESOLUTIONS – MAJORED REQUIRED

The resolutions of the General Meeting are categorized as ordinary resolutions and special resolutions. An ordinary resolution shall be adopted by a simple majority of the votes held by the Shareholders (including proxies) attending the General Meeting. A special resolution shall be adopted by a two-thirds majority of the votes held by the Shareholders (including proxies) attending the General Meeting.

VOTING RIGHTS (GENERALLY AND ON A POLL)

Shareholders (including proxy) shall exercise their voting rights according to the number of voting Shares they represent, and each Share shall have one vote.

Any Shareholder who, in accordance with the Hong Kong Listing Rules, is required to waive their voting rights or is limited to only casting affirmative or negative votes on a certain matter shall waive their voting rights or voting rights in accordance with the provisions. Any Shareholder vote or representative vote that violates relevant regulations or restrictions will not be counted in the voting results.

When the Shareholders' Meeting considers major matters that affect the interests of small and medium-sized investors, separate votes should be counted for the votes of small and medium-sized investors. The results of individual vote counting should be promptly and publicly disclosed.

APPENDIX V SUMMARY OF ARTICLES OF ASSOCIATION OF THE COMPANY

The Shares held by the Company do not have voting rights, and these Shares are not included in the total number of Shares with voting rights present at the Shareholders' Meeting.

If a Shareholder purchases voting Shares of the Company in violation of the provisions of Article 63 (1) and (2) of the Securities Law, the portion of the Shares exceeding the prescribed proportion shall not exercise voting rights within 36 months after the purchase, and shall not be included in the total number of voting Shares present at the Shareholders' Meeting.

The Board of Directors, independent Directors, Shareholders holding more than 1% of the voting Shares, or investor protection institutions established in accordance with laws, administrative regulations, or the provisions of the China Securities Regulatory Commission may publicly solicit Shareholder voting rights. The solicitation of Shareholder voting rights shall fully disclose specific voting intentions and other information to the solicited party. It is prohibited to solicit Shareholder voting rights in a paid or disguised way. Except for statutory conditions, the Company shall not impose minimum Shareholding ratio restrictions on soliciting voting rights.

Resolutions referred to in Articles 2.2 and 2.10 of the Code on Takeovers and Mergers of Companies and Article 3.3 of the Code on Share Repurchase of Companies issued by the Securities and Futures Commission, and other resolutions referred to in the relevant provisions of the Hong Kong Listing Rules, the Code on Takeovers and Mergers of Companies and the Code on Share Repurchase of Companies, as amended from time to time, that should only be passed by H-share Shareholders in a General Meeting.

When the Shareholders' Meeting deliberates on related transactions, affiliated Shareholders shall not participate in voting, and the number of voting Shares represented by them shall not be included in the total number of valid votes. The announcement of the resolution of the Shareholders' Meeting should fully disclose the voting status of non-related Shareholders (depending on the requirements of the Hong Kong Stock Exchange).

The Shareholders' Meeting adopts a registered voting method. The same voting right can only choose one of on-site, online or other voting methods (if any). In case of repeated voting with the same voting right, the first voting result shall prevail.

Shareholders attending the Shareholders' Meeting shall express one of the following opinions on the proposal submitted for voting: affirmative, negative or abstention. The securities registration and clearing organization shall be the nominee holder of shares on the Interconnection Mechanism for Mainland and Hong Kong Stock Markets (if any), except where declaration is made in accordance with the actual holder's intent.

Where any ballot is not completed in full, is completed incorrectly or unintelligibly, or has no vote recorded, the voter shall be deemed to have waived his voting rights and the voting result for his shares shall be deemed as an "abstention."

REQUIREMENTS FOR ANNUAL GENERAL MEETINGS

The General Meetings are divided into annual general meetings and extraordinary general meetings. The annual general meeting shall be convened once a year and be held within six months of the end of the previous fiscal year.

ACCOUNTING AND AUDITS**Financial and accounting policies**

The Company formulates its financial and accounting system in accordance with laws, administrative regulations, and relevant national departments. If there are other provisions in the Hong Kong Listing Rules, they shall prevail.

The Company shall submit an annual report to the China Securities Regulatory Commission and the Hong Kong Stock Exchange within 4 months from the end of each fiscal year, and an interim report to the dispatched office of the China Securities Regulatory Commission and the Hong Kong Stock Exchange within 2 months from the end of the first 6 months of each fiscal year.

The above annual and mid-term reports shall be prepared in accordance with relevant laws, administrative regulations, and the provisions of the China Securities Regulatory Commission and the Hong Kong Stock Exchange.

The Company shall not establish other accounting books except for statutory accounting books. The assets of the Company shall not be deposited in any account opened in the name of any individual.

Appointment and Dismissal of Accountants

The Company engages accounting firms that comply with the provisions of the Securities Law and the Hong Kong Listing Rules to conduct accounting statement auditing, net asset verification, and other related consulting services. The term of employment is one year and can be renewed. The appointment of an accounting firm by the Company must be decided by a majority of Shareholders at the Shareholders' Meeting, and the Board of Directors shall not appoint an accounting firm before the decision is made at the Shareholders' Meeting. The Company guarantees to provide the accounting firm it engages with true and complete accounting vouchers, accounting books, financial accounting reports, and other accounting materials, and shall not refuse, conceal, or falsely report.

The remuneration of an accounting firm or the method of determining remuneration shall be determined by the Shareholders' Meeting. When the Company dismisses or no longer renews the appointment of an accounting firm, the Shareholders' Meeting shall make a decision and notify the accounting firm 30 days in advance. When the Company's Shareholders'

Meeting votes on the dismissal of an accounting firm, the accounting firm is allowed to state its opinions. If the accounting firm proposes to resign, it shall explain to the Shareholders' Meeting whether the Company has any improper circumstances.

NOTICE AND AGENDA OF GENERAL SHAREHOLDERS' MEETINGS

The Shareholders' Meeting is the organ of authority of the Company. The Company shall convene an extraordinary Shareholders' Meeting within two months from the date of the fact:

- (i) the number of Directors is less than two-thirds of the number specified in the PRC Company Law or the Articles of Association;
- (ii) where the Company's unfunded losses reach one third of the total Share capital paid in;
- (iii) where the Shareholder(s) who individually or jointly hold no less than 10% of the Company's Shares request(s) holding of such a meeting;
- (iv) when deemed necessary by the Board of Directors;
- (v) when the Board of supervisors proposes to convene such a meeting;
- (vi) in other circumstances stipulated by laws, administrative regulations, departmental rules, the Hong Kong Listing Rules, or the Articles of Association.

The General Meeting shall be convened by the Board of Directors. Independent Directors have the right to propose to the Board of Directors to convene an extraordinary Shareholders' Meeting. The Board of Directors shall, in accordance with laws, administrative regulations, the Hong Kong Listing Rules, and the Articles of Association, provide written feedback on whether they agree or disagree to convene an extraordinary Shareholders' Meeting within ten days after receiving the proposal from independent Directors. If the Board of Directors agrees to convene an extraordinary Shareholders' Meeting, a notice of convening the Shareholders' Meeting shall be issued within five days after the Board of Directors' resolution is made; If the Board of Directors does not agree to convene an extraordinary Shareholders' Meeting, the reasons will be explained and announced.

The Supervisory Committee has the right to propose to the Board of Directors the convening of an extraordinary Shareholders' Meeting and shall submit it in writing to the Board of Directors. The Board of Directors shall, in accordance with laws, administrative regulations, the Hong Kong Listing Rules, and the Articles of Association, provide written feedback on whether to agree or disagree with the convening of an extraordinary Shareholders' Meeting within ten days after receiving the proposal. If the Board of Directors agrees to convene an extraordinary Shareholders' Meeting, a notice of convening the Shareholders' Meeting shall be issued within five days after the Board of Directors' resolution is made. Any changes to the original proposal in the notice shall require the consent of the Supervisory

APPENDIX V SUMMARY OF ARTICLES OF ASSOCIATION OF THE COMPANY

Committee. If the Board of Directors does not agree to convene an extraordinary Shareholders' Meeting or fails to provide feedback within ten days after receiving the proposal, it shall be deemed that the Board of Directors is unable or fails to fulfill its duty to convene a Shareholders' Meeting, and the Supervisory Committee may convene and preside over it on its own.

Shareholders who individually or collectively hold 10% or more of the Company's Shares have the right to request the convening of an extraordinary Shareholders' Meeting from the Board of Directors and shall submit it in writing to the Board of Directors. The Board of Directors shall, in accordance with laws, administrative regulations, the Hong Kong Listing Rules, and the Articles of Association, provide written feedback on whether to agree or disagree with the convening of an extraordinary Shareholders' Meeting within ten days after receiving the request. If the Board of Directors agrees to convene an extraordinary Shareholders' Meeting, it shall issue a notice of convening the Shareholders' Meeting within five days after making the Board resolution. Any changes to the original request in the notice shall be subject to the consent of the relevant Shareholders. If the Board of Directors does not agree to convene an extraordinary Shareholders' Meeting or fails to provide feedback within ten days after receiving the request, Shareholders who individually or collectively hold 10% or more of the Company's Shares have the right to propose to the Supervisory Committee to convene an extraordinary Shareholders' Meeting and shall submit a request in writing to the Supervisory Committee. If the Supervisory Committee agrees to convene an extraordinary Shareholders' Meeting, it shall issue a notice of convening the Shareholders' Meeting within five days of receiving the request. Any changes to the original proposal in the notice shall be approved by the relevant Shareholders. If the Supervisory Committee fails to issue a notice of the Shareholders' Meeting within the prescribed period, it shall be deemed that the Supervisory Committee has not convened and presided over the Shareholders' Meeting. Shareholders who individually or collectively hold 10% or more of the Company's Shares for more than 90 consecutive days may convene and preside over the Shareholders' Meeting on their own.

The Company holds a Shareholders' Meeting, and the Board of Directors, Supervisory Committee, and Shareholders who individually or jointly hold more than 3% of the Company's Shares have the right to submit proposals to the Company. Shareholders who individually or collectively hold more than 3% of the Company's Shares may submit temporary proposals and submit them in writing to the convener ten days prior to the convening of the Shareholders' Meeting. The convener shall issue a supplementary notice of the Shareholders' Meeting within two days after receiving the proposal, announcing the content of the temporary proposal.

Except for the circumstances specified in the preceding paragraph, the convener shall not modify the proposals listed in the notice of the Shareholders' Meeting or add new proposals after issuing the notice of the Shareholders' Meeting. Proposals that are not listed in the notice of the Shareholders' Meeting or do not comply with the provisions of Article 52 of the Articles of Association shall not be voted on and a resolution shall be made by the Shareholders' Meeting.

APPENDIX V SUMMARY OF ARTICLES OF ASSOCIATION OF THE COMPANY

The convener will notify all Shareholders by announcement 21 days before the annual general meeting is held, and the extraordinary Shareholders' Meeting will notify all Shareholders by announcement 15 days before the meeting is held. When calculating the advance notice period, the Company should not include the day of the meeting, but include the day of notification.

The notice of the Shareholders' Meeting shall be in writing and include the following contents:

- (i) the time, location, and duration of the meeting;
- (ii) submit matters and proposals for review at the meeting;
- (iii) clearly state in writing that all Shareholders have the right to attend the Shareholders' Meeting and may appoint a proxy in writing to attend and vote at the meeting. The proxy does not need to be a Shareholder of the Company;
- (iv) share registration date of the Shareholders entitled to attend the Shareholders' Meeting;
- (v) name and phone number of the permanent contact person for conference affairs;
- (vi) online or other voting time and voting procedure;
- (vii) other requirements stipulated by laws, administrative regulations, departmental rules, the Hong Kong Listing Rules, and the Articles of Association.

The notice and supplementary notice of the Shareholders' Meeting shall fully and completely disclose all specific contents of all proposals, as well as all the materials or explanations required to enable the Shareholders to make a reasonable judgment on the matters to be discussed. If the matter to be discussed requires independent Directors to express their opinions, the independent Directors' opinions and reasons will be disclosed simultaneously when the notice of the Shareholders' Meeting or supplementary notice is issued.

The resolutions of the Shareholders' Meeting are divided into ordinary resolutions and special resolutions.

The following matters shall be passed by ordinary resolution at the Shareholders' Meeting:

- (i) work reports of the Board of Directors and the Supervisory Committee;
- (ii) the profit distribution plan and loss recovery plan formulated by the Board of Directors;

APPENDIX V SUMMARY OF ARTICLES OF ASSOCIATION OF THE COMPANY

- (iii) appointment or dismissal of the members of the Board of Directors and the Supervisory Committee who are not employee Supervisor(s), and formulate their salary plans and payment methods;
- (iv) the Company's annual budget plan and final accounting plan;
- (v) annual report of the Company; and
- (vi) other matters other than those required by laws, administrative regulations, the Hong Kong Listing Rules, or the Articles of Association to be passed through special resolutions.

The following matters shall be passed by special resolution of the Shareholders' Meeting:

- (i) the increase or decrease in registered capital of the company;
- (ii) the mergers, spin-offs, dissolutions and liquidations of the Company;
- (iii) the amendment to the Articles of Association;
- (iv) to review and approve the purchase or sale of material assets by the Company within 12 consecutive months or the guarantee amount exceeds 30% of the latest audited total assets of the Company;
- (v) to review the Company's equity incentive plan(s); and
- (vi) other matters required by laws, administrative regulations, the Hong Kong Listing Rules or the Articles of Association, as well as those determined by ordinary resolutions of the Shareholders' Meeting with significant impact on the Company, and which require special resolutions to be passed.

TRANSFER OF SHARES

The Shares of our Company holding by the funders thereof shall not be transferred within one year of the date of establishment of our Company.

The Directors, Supervisors, and senior management of our Company shall declare, to our Company, information on their holdings of the Shares of our Company and the changes thereto. The Shares transferrable by them during each year of their term of office shall not exceed 25 percent of their total holdings of the Shares of our Company. The Shares that they hold in our Company shall not be transferred within one year of the date on which the stocks of our Company are listed and traded. The aforesaid persons shall not transfer their Shares of our Company within half a year from the date of their resignation.

APPENDIX V SUMMARY OF ARTICLES OF ASSOCIATION OF THE COMPANY

Where any Director, Supervisor or senior manager of the Company who holds more than 5% of the Company's Shares sells Company's stock he holds within 6 months of the relevant purchase, or purchases any stock he has sold within 6 months of the relevant sale, the proceeds generated therefrom shall be incorporated into the profits of the Company, and the Board of Directors of the Company shall recover the proceeds. However, the following circumstances shall be excluded where a securities company holds more than 5% of the Shares due to its purchase of any remaining Shares under best efforts underwriting or where the provisions of the securities regulatory authority under the State Council are apply.

Shares or other securities with the nature of equity held by Directors, Supervisors, senior executives and individual Shareholders as mentioned in the preceding paragraph include Shares or other securities with the nature of equity held by their spouses, parents or children, or held by them by using other people's accounts. If the Board of Directors of the Company fails to comply with the above paragraph of this Article, the Shareholders are entitled to request the Board of Directors to do so within 30 days. If the Board of Directors of the Company fails to comply within the aforesaid period, the Shareholders are entitled to initiate litigation directly in the People's Court in their own names for the interest of the Company. And if the Board of Directors fails to implement the provisions set forth in this Article, the responsible Directors shall bear joint and several liability in accordance with law.

POWER OF THE COMPANY TO PURCHASE ITS OWN SHARES

The Company shall not acquire its own Shares. However, except for one of the following situations:

- (i) to reduce the registered capital of the Company;
- (ii) to merger with other companies holding Shares in the Company;
- (iii) to use Shares for employee shareholding schemes or as equity incentives;
- (iv) to acquire the Shares of shareholders (upon their request) who vote against any resolution adopted at any general meetings regarding the merger or division of the Company;
- (v) to use the Shares to satisfy the conversion of the convertible corporate bonds into Shares issued by the Company;
- (vi) to safeguard corporate value and Shareholders' interests as the Company deems necessary.

The Company's purchase of its Shares can be carried out through public centralized trading, or other methods recognized by laws, administrative regulations, the Hong Kong Listing Rules, and the China Securities Regulatory Commission.

APPENDIX V SUMMARY OF ARTICLES OF ASSOCIATION OF THE COMPANY

If the Company purchases its Shares due to the circumstances specified in Article 23, Paragraph 1, items 3, 5 and 6 of the Articles of Association, it shall, on the premise of complying with the requirements of the Hong Kong Listing Rules and other securities regulatory rules of the place where the Company's Shares are listed, conduct the purchase through public centralized trading.

POWER OF ANY SUBSIDIARY OF THE ISSUER TO OWN SHARES IN ITS PARENT

There are no provisions in the Articles of Association relating to the power of the Company's subsidiary to own the Shares in its parent.

DIVIDENDS AND OTHER METHODS OF DISTRIBUTION

There are no provisions in the Articles of Association relating to dividends and other methods of distribution of the Company.

PROXIES

Any Shareholder who has the right to attend and vote at the Shareholders' Meeting may attend the meeting in person or entrust one or more (who may not be a shareholder) as their proxy to attend and vote on their behalf.

The power of attorney issued by Shareholders authorizing others to attend the Shareholders' Meeting shall include the following contents:

- (i) the name of the proxy;
- (ii) whether the proxy is authorized to vote;
- (iii) respective instructions on affirmative, negative or abstention voting on each item for consideration listed in the General Meeting's agenda;
- (iv) date of issuance and validity period of the power of attorney;
- (v) signature (or seal) of the Shareholder; If the Shareholder is a corporate Shareholder, the seal of the legal entity shall be affixed.

The power of attorney shall indicate whether the Shareholder's proxy can vote according to its own will if the Shareholder does not provide specific instructions.

Where a Shareholder authorizes another person to sign a proxy statement for voting, the power of attorney for such signing authority or other authorization documents shall be notarized. The notarized power of attorney or other authorization documents, as well as the voting proxy authorization letter, shall be logged at our Company's residence or other

APPENDIX V SUMMARY OF ARTICLES OF ASSOCIATION OF THE COMPANY

designated place in the notice convening the meeting. If the principal is a legal person, the legal representative or person authorized by the Board of Directors or other decision-making body shall attend the Shareholders' Meeting of our Company as a representative.

If a Shareholder is a recognized clearing house (or its agent) as defined in relevant regulations in Hong Kong and amended from time to time, the Shareholder may authorize its legal representative or one or more persons it deems appropriate to act as its representative at any General Meeting of shareholders; provided, however, if more than one person is authorized, the power of attorney or power of attorney shall specify the number and types of Shares involved in each such person's authorization, and the power of attorney shall be signed by authorized personnel of recognized clearing houses. The authorized person may represent the recognized clearing house (or its agent) to attend meetings (without presenting Shareholding certificates, notarized authorization and/or further evidence confirming their formal authorization) and exercise the same legal rights as other Shareholders, including the right to speak and vote, as if the person were an individual Shareholder of our Company.

CALLS ON SHARES AND FORFEITURE OF SHARES

There are no provisions in the Articles of Association relating to calls on Shares and forfeiture of Shares of the Company.

INSPECTION OF REGISTER OF MEMBERS

Our Company establishes a register of members based on the vouchers provided by the securities registration and settlement institution, which is sufficient evidence to prove that shareholders hold our Company's Shares. Shareholders shall enjoy rights and assume obligations according to the types of Shares they hold. Shareholders holding the same type of Shares shall have equal rights and assume the same obligations.

The transfer of Shares must be recorded in the register of members. The original register of members of overseas listed foreign Shares listed in Hong Kong shall be kept in Hong Kong.

Our Company shall keep a copy of the register of members of overseas listed foreign Shares at its domicile. The entrusted overseas agency shall ensure the consistency of the original and duplicate register of members of overseas listed foreign Shares at all times. The register of members kept in Hong Kong must be available for Shareholders to access. Our Company may be allowed to suspend Shareholder registration procedures in accordance with provisions in line with the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

When our Company convenes a Shareholders' Meeting, distributes dividends, liquidates, or engages in other activities that require confirmation of Shareholder identity, the Board of Directors or the convener of the Shareholders' Meeting shall determine the share registration date. After the share registration date is closed, the registered Shareholders shall be the Shareholders who enjoy the relevant rights and interests.

QUORUM FOR GENERAL MEETINGS

There are no provisions in the Articles of Association relating to quorum for general meetings of the Company.

RIGHTS OF THE MINORITIES IN RELATION TO FRAUD OR OPPRESSION THEREOF

If Directors, general managers, and other senior management personnel violate laws, administrative regulations, or the provisions of the Articles of Association while performing their duties, causing losses to our Company, Shareholders who individually or jointly hold more than 1% of our Company's Shares for more than 180 consecutive days have the right to request in writing that the Supervisory Committee file a lawsuit with the people's court; If the Supervisory Committee violates laws, administrative regulations, or the provisions of the Articles of Association while performing its duties, causing losses to our Company, the aforementioned Shareholders may request in writing that the Board of Directors file a lawsuit with the people's court. If the Supervisory Committee or the Board of Directors refuses to file a lawsuit after receiving a written request from the Shareholders specified in the preceding paragraph, or fails to file a lawsuit within 30 days from the date of receiving the request, or if the situation is urgent and the failure to file a lawsuit immediately will cause irreparable damage to our Company's interests, the Shareholders specified in the preceding paragraph have the right to directly file a lawsuit in their own name to the people's court for the benefit of our Company. If another person infringes on the legitimate rights and interests of our Company and causes losses to our Company, Shareholders who individually or jointly hold more than 1% of our Company's Shares for more than 180 consecutive days may file a lawsuit with the people's court in accordance with the provisions of the preceding two paragraphs.

If Directors, general managers, and other senior management personnel violate laws, administrative regulations, or the provisions of the Articles of Association and harm the interests of Shareholders, Shareholders may file a lawsuit with the people's court.

If Shareholders of the Company abuse their Shareholder rights and cause losses to our Company or other Shareholders, they shall bear compensation liability in accordance with the law. If a Company's Shareholders abuse the independent status of our Company's legal person and the limited liability of Shareholders, evade debts, and seriously harm the interests of our Company's creditors, they shall bear joint and several liability for our Company's debts.

The controlling Shareholders and actual controllers of our Company shall not use their affiliated relationships to harm the interests of our Company. Those who violate regulations and cause losses to our Company shall be liable for compensation. The controlling Shareholders and actual controllers of our Company have a fiduciary obligation towards our Company and all Shareholders of our Company. The controlling Shareholder shall strictly exercise the rights of the investor in accordance with the law. The controlling Shareholder, actual controller, and their affiliated parties shall not use profit distribution, asset restructuring,

external investment, fund occupation, loan guarantee, etc. to harm the legitimate rights and interests of our Company and all Shareholders, and shall not use their controlling position to harm the interests of our Company and all Shareholders.

PROCEDURES ON LIQUIDATION

Under the PRC Company Law, a company shall be dissolved for any of the following reasons:

- (i) the expiration of the business term specified in these articles of association or the occurrence of other dissolution reasons specified in the Articles of Association;
- (ii) the Shareholders' Meeting resolves for dissolution;
- (iii) dissolution is required due to the merger or division of our Company;
- (iv) the business license has been revoked, ordered to close down or dissolved in accordance with the law; and
- (v) the Company is dissolved by a people's court in response to the request of Shareholders holding Shares that represent more than 10% of the voting rights of all Shareholders, on the grounds that there are serious difficulties in the operation and management of our Company and its continued existence will cause significant losses to the interests of Shareholders, which cannot be resolved through other means.

If our Company is dissolved due to the provisions of Article 177 (1), (2), (4), and (5) of the Articles of Association, a liquidation committee shall be established within 15 days from the date of the occurrence of the cause of dissolution to begin liquidation. The liquidation committee is composed of Directors or any other person determined by the Shareholders' Meeting. If a liquidation committee is not established within the prescribed time limit for liquidation, creditors may apply to the people's court to designate relevant personnel to form a liquidation committee for liquidation.

The liquidation committee shall notify creditors within ten days of its establishment and make a public announcement in the designated information disclosure newspaper of our Company within sixty days. Creditors shall declare their claims to the liquidation team within 30 days from the date of receiving the notice, or within 45 days from the date of announcement if they have not received the notice.

When applying for creditor's rights, creditors shall explain the relevant matters of the creditor's rights and provide proof materials. The liquidation committee shall register the creditor's rights. During the period of declaring creditor's rights, the liquidation committee shall not pay off the creditor.

APPENDIX V SUMMARY OF ARTICLES OF ASSOCIATION OF THE COMPANY

After clearing our Company's assets, preparing a balance sheet and inventory of assets, the liquidation team shall formulate a liquidation plan and submit it to the Shareholders' Meeting or the people's court for confirmation. The remaining assets of our Company after paying the liquidation expenses, employee salaries, social insurance expenses, and statutory compensation, paying the outstanding taxes, and paying off our Company's debts shall be distributed by our Company according to the proportion of Shares held by Shareholders. During the liquidation period, our Company exists but cannot carry out business activities unrelated to liquidation. Our Company's assets will not be distributed to Shareholders until they have been paid off in accordance with the provisions of the preceding paragraph.

Upon liquidation of the Company's property and preparation of the required statement of financial position and inventory of assets, if the liquidation committee becomes aware that the Company does not have sufficient assets to meet its liabilities, it must apply to a people's court for a declaration of bankruptcy in accordance with the laws. Following such declaration of bankruptcy by the people's court, the people's court shall take over the administration of the liquidation procedure from the liquidation committee.

After the liquidation of our Company is completed, the liquidation committee shall prepare a liquidation report, submit it to the Shareholders' Meeting or the people's court for confirmation, and submit it to our Company registration authority to apply for deregistration of our Company, and announce the termination of our Company. Members of the liquidation committee are required to discharge their duties in good faith and perform their obligation in compliance with laws. Members of the liquidation committee shall be prohibited from abusing their authority in accepting bribes or other unlawful income and from misappropriating the company's properties. Members of the liquidation committee are liable to indemnify the company and its creditors in respect of any loss arising from their willful or gross negligence.

Liquidation of a company which is declared bankrupt according to laws shall be processed in accordance with the laws on corporate bankruptcy.

OTHER PROVISIONS MATERIAL TO THE ISSUER OR THE SHAREHOLDERS THEREOF**General Provisions**

Our Company is a permanently existing joint stock limited company.

All the assets of our Company are divided into Shares of equal value. The Shareholders are responsible for our Company to the extent of their subscribed Shares, and our Company is responsible for our Company's debts with all its assets.

From the effective date, this Articles of Association shall become a legally binding document regulating the organization and behavior of our Company, the rights and obligations between our Company and its Shareholders, and between Shareholders, and shall have legal binding force on our Company, Shareholders, Directors, Supervisors, general manager, and

other senior management personnel. According to the Articles of Association, Shareholders can sue Shareholders, Shareholders can sue Company Directors, Supervisors, general managers, and other senior management personnel, Shareholders can sue our Company, and our Company can sue Shareholders, Directors, Supervisors, general managers, and other senior management personnel.

Share and Transfer

In light of our Company's operational and developmental needs, our Company may increase its capital in accordance with the laws and regulations and subject to a resolution of the General Meeting, by any of the following methods:

- (i) a public offering of shares;
- (ii) a private placement of shares;
- (iii) allotment of bonus shares to existing shareholders;
- (iv) conversion of reserve funds to share capital;
- (v) other methods permitted by laws, administrative regulations and the CSRC.

Our Company may reduce its registered capital. Any reduction of our Company's registered capital shall be subject to the procedures prescribed in the PRC Company Law, Hong Kong Listing Rules and other relevant regulations, as well as the Articles of Association.

Shareholders

Shareholders are entitled to rights and assumes obligations pursuant to the classification and ratio of their shares. Shareholders holding the same classified Share have the same rights and assume the same obligations.

Shareholders of our Company shall enjoy the following rights:

- (i) the right to dividends and other distributions in proportion to the number of Shares held;
- (ii) the right to apply for, convene, preside, attend or appoint proxies to attend General Meetings and to exercise the corresponding right to speak and vote;
- (iii) the right to supervise, present proposals or raise enquiries in respect of our Company's business operations;

APPENDIX V SUMMARY OF ARTICLES OF ASSOCIATION OF THE COMPANY

- (iv) the right to transfer, give as a gift or pledge the Shares it holds in accordance with laws, administrative regulations, Hong Kong Listing Rules and the Articles of Association;
- (v) the right to inspect the Articles of Association, Register of Shareholders, corporate bond stubs, minutes of General Meetings, resolutions of the Board of Directors and resolutions of the Board of Supervisors and accounting reports;
- (vi) in the event of the termination or liquidation of our Company, the right to participate in the distribution of the remaining property of our Company in proportion to the number of Shares held;
- (vii) Shareholders who object to resolutions of merger or division made by the Shareholders' General Meeting may request our Company to purchase Shares held;
- (viii) the right to inspect the Hong Kong Register of Shareholders of our Company, but our Company may suspend the registration of shareholders in accordance with the equivalent provisions of Section 632 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong);
- (ix) other rights provided for by laws, administrative regulations, departmental rules Hong Kong Listing Rules or the Articles of Association.

Where any Shareholder demands to read the relevant information or obtain any of the aforesaid materials, he shall submit to our Company written documents proving the class(es) and number of Shares he holds. Our Company shall provide the relevant information or materials in accordance with the Shareholder's demand after verifying the Shareholder's identity.

Shareholders of our Company shall have the following obligations:

- (i) to abide by laws, administrative regulations and the Articles of Association;
- (ii) to pay the Share subscription price based on the Shares subscribed for by them and the method of acquiring such Shares;
- (iii) not to return Shares unless prescribed otherwise in laws and administrative regulations;
- (iv) not to abuse Shareholders' rights to infringe upon the interests of our Company or other Shareholders; not to abuse our Company's status as an independent legal entity or the limited liability of Shareholders to harm the interests of our Company's creditors;

- (v) to assume other obligations required by laws, administrative regulations and the Articles of Association

Any Shareholder who abuses Shareholders' rights and causes our Company or other Shareholders to suffer a loss shall be liable for making compensation in accordance with the law. Any Shareholder who abuses the status of our Company as an independent legal entity or the limited liability of Shareholders to evade debts and severely harm the interests of our Company's creditors shall assume joint and several liability for our Company's debts;

The Board of Directors

The Board of Directors shall exercise the following functions and powers:

- (i) to convene General Meetings and report to the General Meetings;
- (ii) to implement resolutions of the General Meetings;
- (iii) to decide on our Company's business plans and investment plans;
- (iv) to formulate the annual financial budgets and final accounts of our Company;
- (v) to formulate our Company's profit distribution plans and plans on making up losses;
- (vi) to formulate proposals for the increase or reduction of our Company's registered capital, the issuance of bonds or other securities of our Company and listing of Shares of our Company;
- (vii) to formulate plans for our Company's major acquisition, repurchase the Shares of our Company, or merger, division, dissolution or change of corporate form of our Company;
- (viii) to decide on matters such as investments, purchase and sale of assets, pledge of assets, external guarantee, entrustment of financial management, connected transactions and donations of our Company within the scope of authorization by the General Meeting;
- (ix) to decide on establishment of internal management organs of our Company;
- (x) to decide on the appointment or dismissal of our Company's general manager, secretary of the Board and other members of the senior management and decide on matters of their remuneration and rewards and punishments;
- (xi) to formulate the basic management system of our Company;
- (xii) to formulate proposals to amend the Articles of Association;

APPENDIX V SUMMARY OF ARTICLES OF ASSOCIATION OF THE COMPANY

- (xiii) to manage our Company's disclosures;
- (xiv) to propose to the General Meeting the appointment or replacement of the accounting firm that provides audit service to our Company;
- (xv) to decide on external guarantees of our Company beyond the scope of review by the Shareholders' Meeting;
- (xvi) to decide on matters where our Company purchases or sells significant assets within one year, or the amount of guarantee does not exceed 30% of our Company's latest audited total assets;
- (xvii) approval of related transactions that should be approved by the Board of Directors in accordance with laws, regulations, listing rules of the stock exchange where our Company's Shares are listed, and the provisions of our Company's articles of association;
- (xviii) other powers stipulated by laws, regulations, the Hong Kong Listing Rules, and granted by the Shareholders' Meeting.

Matters beyond the scope of authorization of the General Meeting shall be submitted to the General Meeting for deliberation.

The Board meeting should be attended by more than half of the Directors before it can be held. A resolution made by the Board of Directors must be passed by a majority of all Directors. The voting on Board resolutions shall be based on one person, one vote.

Independent Non-executive Director

At any time, the Board of Directors should have more than one-third of independent Directors, and the total number of independent Directors should not be less than three.

Secretary of the Board of Directors

Our Company shall establish a secretary to the Board of Directors, responsible for the preparation of our Company's Shareholders' Meeting and Board of Directors' meeting, retention of documents, management of our Company's Shareholder materials handling of information disclosure matters, and other matters stipulated in the Articles of Association.

Board of Supervisors

Our Company has a Supervisory Committee. The Supervisory Committee consists of three supervisors, including one employee representative supervisor and one chairman. The chairman of the Supervisory Committee shall be elected by a majority of all supervisors. The chairman of the Supervisory Committee convenes and presides over meetings of the

APPENDIX V SUMMARY OF ARTICLES OF ASSOCIATION OF THE COMPANY

Supervisory Committee; If the chairman of the Supervisory Committee is unable or fails to perform his duties, a supervisor jointly elected by more than half of the supervisors shall convene and preside over the Supervisory Committee meeting.

The Supervisory Committee shall include Shareholder representatives and an appropriate proportion of Company employee representatives, with the proportion of employee representatives not less than one-third. The employee representatives in the Supervisory Committee are democratically elected by our Company's employees through the employee representative assembly, employee assembly, or other forms.

The Supervisory Committee shall exercise the following functions and powers:

- (i) to review and give written opinions on the periodic reports of our Company prepared by the Board of Directors;
- (ii) to examine our Company's financial matters;
- (iii) to supervise the performance by the Directors and senior management of their duties to our Company and propose the dismissal of the Directors and senior management who violates laws, administrative regulations, the Articles of Association or the resolutions of the General Meeting;
- (iv) to demand rectification from the Directors and senior management when the acts of such persons are harmful to our Company's interests;
- (v) to propose the convening of extraordinary General Meetings; to convene and preside the General Meetings in the event that the Board of Directors fails to perform its duties to convene and preside the General Meetings in accordance with the PRC Company Law;
- (vi) to submit proposals to the General Meetings;
- (vii) to file lawsuits against Directors and senior management on behalf of our Company in accordance with Article 151 of the PRC Company Law;
- (viii) in case of any queries or any abnormal matters during the business operation of our Company, to investigate, and if necessary, to engage professionals such as accounting firms or law firms to assist its work with expenses being borne by our Company;
- (ix) other functions and powers as specified in Hong Kong Listing Rules and other relevant regulations, as well as the Articles of Association.

The Supervisors may attend the meetings of the Board of Directors, query or provide suggestions on the resolution matters of the Board meeting.

General Manager

Our Company has one general manager, appointed or dismissed by the Board of Directors. The general manager shall be accountable to the Board of Directors and exercise the following functions and powers:

- (i) to be in charge of the production, operation and management of our Company, to organize the implementation of the resolutions of the Board of Directors, and to report his/her works to the Board of Directors;
- (ii) to organize the implementation of our Company's annual business plans and investment plans;
- (iii) to draft plans for the establishment of our Company's internal management organization;
- (iv) to draft our Company's basic management system;
- (v) to formulate the specific rules and regulations of our Company;
- (vi) to propose to the Board of Directors appointment or dismissal of deputy general manager and chief financial officer of our Company;
- (vii) to appoint or dismiss management personnel other than those required to be appointed or dismissed by the Board of Directors;
- (viii) such other functions and powers conferred by the Articles of Association or the Board of Directors.

The manager shall attend the Board meeting as a nonvoting delegate.

Reserves

In distributing its current-year after-tax profits, our Company shall allocate 10% of its profit to its statutory reserve fund.

Allocations to Company's statutory reserve fund may be waived once the cumulative amount of funds therein exceeds 50% of our Company's registered capital.

Where the statutory reserve fund is not sufficient to cover any loss made by Company in the previous year, the current year's profit shall be used to cover such loss before any allocation is made to the statutory reserve fund pursuant to the preceding paragraph.

APPENDIX V SUMMARY OF ARTICLES OF ASSOCIATION OF THE COMPANY

After an allocation to the statutory reserve fund has been made from the after-tax profit of our Company, and subject to the adoption of a resolution by the General Meeting, an allocation may be made to the discretionary reserve fund.

The remaining after-tax profit after our Company makes up for losses and withdraws provident fund shall be distributed according to the proportion of Shares held by Shareholders.

If the Shareholders' Meeting violates the provisions of the preceding paragraph by distributing profits to Shareholders before the Company makes up for losses and withdraws the statutory reserve fund, Shareholders must return the profits distributed in violation of the regulations to our Company.

Profits shall not be distributed to Shares held by the Company itself.

Our Company's provident fund is used to compensate for its losses, expand its production and operation, or convert it into an increase in our Company's capital. However, the capital reserve fund must not be used to cover our Company's losses.

After converting statutory reserve funds into capital, the amount remaining in the statutory reserve fund shall be no less than 25% of the Company's registered capital.

1. FURTHER INFORMATION ABOUT OUR COMPANY**A. Incorporation**

Our Company was established under the PRC laws on December 31, 2020 by our promoters in accordance with the provisions set out in the PRC Company Law. Our registered office is located at No. 201, Building 1, No. 12 South Tuanjie Road, Qingbaijiang District, Chengdu, Sichuan, the PRC.

We have established a place of business in Hong Kong at 46/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong and were registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on August 22, 2023. Mr. Lee Chung Shing of 46/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong has been appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong. The address for service of process on our Company in Hong Kong is the same as our principal place of business in Hong Kong as set out above.

As our Company was established in the PRC, we are subject to relevant laws and regulations of the PRC. A summary of the relevant aspects of laws and regulations of the PRC and our Articles of Association is set out in Appendix V to this Prospectus.

B. Changes in the Share Capital of Our Company

At the date of our Company's establishment as a joint stock limited company, our registered capital was RMB100 million, all of which was fully paid up.

The changes in the share capital of our Company during the two years immediately preceding the date of this Prospectus is set out as follows:

- (a) On May 5, 2023, the registered capital of our Company was increased from RMB100 million to RMB125 million on May 11, 2023 by way of share subscription as part of the 2023 Shareholding Restructuring;
- (b) On May 22, 2023, registered capital of the Company was increased from RMB125 million to RMB132.1967 million on May 25, 2023 by way of share subscription by our Pre-IPO Investors, including Tower Quality, LVC Tanying, Suzhou Yuexing, Xinjin Shengwang and Yellow Tomato LP;
- (c) On July 19, 2023, the registered capital of our Company was increased from RMB132.1967 million to RMB132.348485 million on July 7, 2023 by way of share subscription by our Pre-IPO Investor, CICC Tongfu;

- (d) On August 10, 2023, the registered capital of our Company was increased from RMB132.348485 million to RMB132.987085 million by way of share subscription by the Pre-IPO Employee Incentive Platform.

Save as aforesaid, as of the Latest Practicable Date, there had been no alterations of our share capital within the two years preceding the date of publication of this Prospectus.

C. Changes in the Share Capital of Our Subsidiaries

The list of our principal subsidiaries is set out in the Accountants' Report, the text of which is set out in Appendix I to this Prospectus.

Details of the changes in the share capital of the Company's subsidiaries within the two years immediately preceding the date of this Prospectus are set out below:

- (a) On July 26, 2022, Chengdu Champagne Liangwei Catering Management Co., Ltd.* (成都香檳靚味餐飲管理有限公司) was established in the PRC as an indirectly wholly-owned subsidiary of our Company with registered capital of RMB100,000.
- (b) On August 1, 2022, Chengdu Wenchang Catering Management Co., Ltd.* (成都溫茶餐飲管理有限公司) was established in the PRC as an indirectly wholly-owned subsidiary of our Company with registered capital of RMB100,000.
- (c) On November 21, 2022, Chengdu Shudu Chayi Catering Management Co., Ltd.* (成都蜀都茶驛餐飲管理有限公司) was established in the PRC as an indirectly wholly-owned subsidiary of our Company with registered capital of RMB500,000.
- (d) On December 22, 2022, Chengdu Chashanli Catering Management Co., Ltd.* (成都茶山里餐飲管理有限公司) was established in the PRC as an indirectly wholly-owned subsidiary of our Company with registered capital of RMB100,000.
- (e) On April 24, 2023, Hainan Cafrui Industrial Co., Ltd.* (海南咖弗瑞實業有限公司) was established in the PRC as a wholly-owned subsidiary of our Company with registered capital of RMB10 million.
- (f) On May 12, 2023, Hainan Cafrui Enterprise Management Consulting Co., Ltd.* (海南咖弗瑞企業管理諮詢有限公司) was established in the PRC as an indirectly wholly-owned subsidiary of our Company with registered capital of RMB6 million.
- (g) On September 8, 2023, Chengdu Hangzhong Road Shuka Catering Co., Ltd.* (成都航中路蜀咖餐飲有限公司) was established in the PRC as an indirectly wholly-owned subsidiary of our Company with registered capital of RMB100,000.

- (h) On October 19, 2023, Sichuan Shuxin Tongyuan Enterprise Management Consulting Co., Ltd.* (四川蜀信同源企業管理諮詢有限公司) was established in the PRC as a wholly-owned subsidiary of our Company with registered capital of RMB200 million.
- (i) On November 15, 2023, Beijing Shuxin Tongyuan Enterprise Management Co., Ltd.* (北京蜀信同源企業管理有限公司) was established in the PRC as a wholly-owned subsidiary of our Company with registered capital of RMB50 million.
- (j) On December 5, 2023, Chengdu Qingheli Shuka Catering Co., Ltd.* (成都青和里蜀咖餐飲有限公司) was established in the PRC as an indirectly wholly-owned subsidiary of our Company with registered capital of RMB100,000.
- (k) On January 17, 2024, Fuzhou Qingkou Tea Industry Co., Ltd.* (福州市清口茶業有限公司) was established in the PRC as an indirectly non-wholly owned subsidiary of our Company with registered capital of RMB20 million.
- (l) On March 12, 2024, Dabaika (Xi'an) Catering Management Co., Ltd.* (達百咖(西安)餐飲管理有限公司) was established in the PRC as an indirectly wholly-owned subsidiary of our Company with registered capital of RMB100,000.

Save as set out above, there has been no alteration in the share capital of the subsidiaries of the Company within two years immediately preceding the date of this Prospectus.

D. Shareholders' Resolutions

Pursuant to the Shareholders' meeting held on August 10, 2023, the following resolutions, among others, were (subject to the relevant regulatory approval, filing and registration) duly passed:

- (a) the sub-division of the Shares with nominal value of RMB1.0 each on the basis of 1:10, effective immediately prior to the Listing, and taking into account the Share Subdivision, the issue of H Shares of nominal value of RMB0.1 each and such H Shares be listed on the Stock Exchange;
- (b) the number of H Shares to be issued before the exercise of the Over-Allotment Option shall not be more than 15% of the total issued share capital of our Company as enlarged by the Global Offering, and granting the Underwriters the Over-Allotment Option of no more than 15% of the number of H Shares issued pursuant to the Global Offering;
- (c) upon completion of the Global Offering and taking into account the Share Subdivision, 1,329,870,850 Unlisted Shares in aggregate will be converted into H Shares on a one-for-one basis;

- (d) authorization of the Board and its authorized persons to handle all matters relating to, among other things, the Global Offering, the issue and listing of the H Shares;
- (e) subject to the completion of the Global Offering, the granting of a general mandate to the Board to repurchase H Shares issued on the Stock Exchange with an aggregate number of not exceeding 10% of the number of the total issued H Shares as at the date of the resolution granting the general mandate (assuming the completion of Share Subdivision);
- (f) subject to the completion of the Global Offering, the granting of a general mandate to the Board to allot and issue Shares at any time within a period up to the date of the conclusion of the next annual general meeting of the Shareholders or the date on which the Shareholders pass a special resolution to revoke or change such mandate, whichever is earlier, upon such terms and conditions and for such purposes and to such persons as the Board in their absolute discretion deem fit, and to make necessary amendments to the Articles of Association, provided that, the number of Shares to be issued shall not exceed 20% of the number of the Shares in issue as at the date of the resolution granting the general mandate (assuming the completion of Share Subdivision); and
- (g) subject to the completion of the Global Offering, the conditional adoption of the Articles of Association, which shall become effective on the Listing Date and the authorization of the Board to amend the Articles of Association in accordance with relevant laws and regulations and upon the request from the Stock Exchange and relevant PRC regulatory authorities.

F. Explanatory Statement on Repurchase of Our Own Securities

The following paragraphs include, among others, certain information required by the Stock Exchange to be included in this Prospectus concerning the repurchase of our own securities.

(a) Reasons for repurchase

The Board considered that the repurchase of the Shares would be beneficial to and in the best interests of the Company and its Shareholders as a whole. It can strengthen the investors' confidence in the Company and promote a positive effect on maintaining the Company's reputation in the capital market. Such repurchases will only be made when the Board believes that such repurchases will benefit the Company and its Shareholder as a whole.

(b) Registered capital

As of the Latest Practicable Date, the registered capital of our Company was RMB132,987,085, comprising 132,987,085 Unlisted Shares in issue of nominal value RMB1.0 each.

Immediately prior to the Global Offering, assuming the completion of the Share Subdivision, the registered share capital of our Company will be RMB132,987,085, comprising 1,329,870,850 Unlisted Shares in issue of nominal value RMB0.1 each.

(c) Exercise of the general mandate to repurchase Shares

Subject to the passing of the special resolution approving the grant of the general mandate to repurchase H Shares at annual general meetings, the Board will be granted general mandate to repurchase H Shares until the end of the relevant period. The general mandate to repurchase Shares would expire on the earlier of:

- (i) the conclusion of the next annual general meeting of the Company of which time it shall lapse unless, by special resolutions passed at that meeting, the authority is renewed, either conditionally or subject to conditions;
- (ii) the revocation or variation of the mandate under the resolution by a special resolution at the next general meeting of the Company; or
- (iii) the revocation or variation of the mandate under the resolution by a special resolution at any general meeting of the Company.

Furthermore, we need to complete registration and approval procedures with relevant government authorities for the actual grant of the repurchase mandate to the Board, as applicable. The exercise in full of the general mandate to repurchase H Shares (on the basis of full circulation of the 1,329,870,850 Shares in issue (taking into account the Share Subdivision) as at the Latest Practicable Date and no Shares will be allotted and issued or repurchased by the Company on or prior to the date of the next annual general meeting) would result in a maximum of 132,987,085 H Shares being repurchased by the Company during the relevant period, being the maximum of 10% of the total H Shares in issue as at the date of passing the relevant resolutions (assuming the completion of Share Subdivision and completion of full circulation of H Shares).

(d) Source of funds

In repurchasing its Shares, the Company intends to apply funds from the Company's internal resources (which may include surplus funds and retained profits) legally available for such purpose in accordance with the Articles of Association and the applicable laws, rules and regulations of the PRC.

The Company is empowered by its Articles of Association to repurchase its Shares. Any repurchases by the Company may only be made out of either the funds of the Company that would otherwise be available for dividend or distribution or out of the proceeds of a new issue of shares made for such purpose. Under PRC laws, the Shares so repurchased should be cancelled or transferred within certain period and the Company's registered capital would be reduced by amount equivalent to the aggregate nominal value of the Shares if such Shares were cancelled. The Company may not purchase securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(e) Suspension of repurchase

A listed company shall not repurchase its shares on the Stock Exchange at any time after inside information has come to its knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of: (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for the issuer to announce its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), until the date of the results announcement, the company may not repurchase its shares on the Stock Exchange unless there are exceptional circumstances.

(f) Close associates and core connected persons

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates have a present intention, in the event the general mandate to repurchase Shares is approved, to sell any Shares to our Company.

No core connected person of our Company has notified our Company that they have a present intention to sell Shares to our Company, or have undertaken to do so, if the general mandate to repurchase Shares is approved.

A listed company shall not knowingly purchase its shares on the Stock Exchange from a core connected person (namely a director, chief executive or substantial shareholder of the company or any of its subsidiaries, or a close associate of any of them), and a core connected person shall not knowingly sell their interest in shares of the company to it.

(g) Status of repurchased Shares

Subject to the Articles of Association, the Listing Rules and any other applicable laws and regulations, the Shares repurchased by the Company will be cancelled or transferred within certain period and the Company's registered capital will be reduced by an amount equivalent to the aggregate nominal value of the Shares if such Shares were cancelled.

(h) Takeover implications

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the general mandate to repurchase Shares.

(i) General

If the general mandate to repurchase Shares were to be carried out in full at any time, there may be a material adverse impact on our working capital or gearing position (as compared with the position disclosed in our most recent published audited accounts). However, our Directors do not propose to exercise the general mandate to repurchase Shares to such an extent as would have a material adverse effect on our working capital or gearing position.

Our Directors will exercise the general mandate to repurchase Shares in accordance with the Listing Rules and the applicable laws in the PRC. Neither the Explanatory Statement on Repurchase of Our Own Securities nor the proposed share repurchase has any unusual features.

2. FURTHER INFORMATION ABOUT OUR BUSINESS**A. Summary of Material Contracts**

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years preceding the date of this Prospectus, which are or may be material and a copy of each has been delivered to the Registrar of Companies for registration:

- (a) the shareholders agreement dated June 19, 2023 entered into among the Company, Sichuan Shuwei Tea Rhyme Supply Chain Co., Ltd.* (四川蜀味茶韻供應鏈有限公司), Sichuan Shuxin Zhiyuan Enterprise Management Consulting Co., Ltd.* (四川蜀信致遠企業管理諮詢有限公司), Sichuan Hengsheng Herui Industrial Group Co., Ltd.* (四川恒盛合瑞實業集團有限公司), Wang Xiaokun (王霄錕), Liu Weihong (劉洵宏), Dai Li (戴利), Wang Hongxue (汪紅學), Chen Keyuan (陳克遠), Gu Jilin (古計林), TOWER QUALITY LIMITED, Shanghai Tanying Investment Partnership (Limited Partnership)* (上海檀英投資合夥企業(有限合夥)), Suzhou Yuexiang Equity Investment Partnership (Limited Partnership)* (蘇州悅享股權投資合夥企業(有限合夥)), CICC Tongfu (Quanzhou) Consumer Industry Venture Capital Fund Partnership (Limited Partnership)* (中金同富(泉州)消費產業創業投資基金合夥企業(有限合夥)), Chengdu Xinjin Shengwang Jiaozhi New Consumer Equity

Investment Fund Partnership (Limited Partnership)* (成都新津昇望交子新消費股權投資基金合夥企業(有限合夥)) and Nanjing Yellow Tomato Equity Investment Partnership (Limited Partnership)* (南京黃番茄股權投資合夥企業(有限合夥)), pursuant to which shareholders' rights were agreed among the aforementioned parties; and

(b) the Hong Kong Underwriting Agreement.

B. Our Intellectual Property Rights

Trademarks

As of the Latest Practicable Date, we have registered the following trademarks, which we consider to be material in relation to our business:

Trademark Registered	Place of Registration	Registration/ Application No.	Class	Expiration Date
	Hong Kong	305406354	16, 21, 29, 30, 32, 33, 35, 43	September 28, 2030
	Macau	N/174517	35	April 12, 2028
	Macau	N/174518	43	April 12, 2028
	PRC	43203912	35	September 6, 2030
	PRC	43215025	43	September 13, 2030
	Taiwan	2135481	35	April 15, 2031
	Taiwan	2136394	43	April 15, 2031
	PRC	43235064	43	September 6, 2030
	PRC	43228516	35	September 6, 2030
	PRC	51967147	32, 35, 43	September 6, 2031
	PRC	40662211A	16, 21, 25, 29, 30, 33, 35, 40, 43	October 20, 2030
	PRC	51995377	43	October 6, 2031
	PRC	51998850	35	October 6, 2031
	PRC	58687001	35	February 27, 2032
	PRC	58687575	43	March 20, 2032
	Hong Kong	305828185	35	December 9, 2031
	Hong Kong	305828194	43	December 9, 2031

Trademark Registered	Place of Registration	Registration/ Application No.	Class	Expiration Date
茶百道	PRC	58700254	35	November 6, 2032
	Hong Kong	305832586	35	December 14, 2031
	Hong Kong	305832595	43	December 14, 2031
	PRC	60018958	16, 21, 29, 30, 32, 33, 35, 43	May 27, 2032
	PRC	57948705	16, 21, 25, 29, 30, 32, 33, 35, 40, 43	January 27, 2032
	Hong Kong	305828004	35	December 9, 2031
	Hong Kong	305828013	43	December 9, 2031
	茶百道 CHABAIDAO	Malaysia	TM2019014832	43
	Canada	TMA1120117	16, 21, 29, 30, 32, 33, 35, 43	February 14, 2032
茶百道	Hong Kong	306239160	16, 21, 25, 28, 29, 30, 31, 32, 33, 35, 41, 43	May 9, 2033
	PRC	71680157	29	November 27, 2033
	PRC	71683423	30	November 27, 2033
	PRC	71667848	35	November 27, 2033
	Hong Kong	306253704	16, 21, 25, 28, 30, 31, 32, 33, 41	May 28, 2033
	Hong Kong	306230592	29, 35, 43	April 27, 2033
	PRC	71016892	33	November 27, 2033
茶百道	PRC	71667848	35	November 27, 2033
	PRC	71680157	29	November 27, 2033

Domain Names

As of the Latest Practicable Date, we have registered or been authorized to use the following domain names which we consider to be material in relation to our business:

Domain Name	Registrant	Expiry Date
chabaidao.com	Shuxin Zhiyuan	March 10, 2031
shuxinyc.com	Shuxin Yuncha	August 31, 2025
shuxinyuncha.com	Shuxin Yuncha	August 20, 2024
baichabaidao.cn	Shuxin Yuncha	June 2, 2024
baichabaidao.com	Shuxin Yuncha	June 2, 2024
baichabaidao.com.cn	Shuxin Yuncha	June 2, 2024
chabaidao.cn	Shuxin Yuncha	February 12, 2026

Patents

As of the Latest Practicable Date, we have registered or been authorized to use the following patents which we consider to be material in relation to our business:

Patent	Place of Registration	Registrant	Application Number	Type	Application Date
Doorway (large store) 門頭(大店)	PRC	Shuxin Zhiyuan	CN202230594277.7	design patent	September 8, 2022
Ornament (Astronaut Dingding Cat) 擺件(宇航員丁丁貓)	PRC	Shuxin Zhiyuan	CN202230242738.4	design patent	April 27, 2022
Doorway (large store) 門頭(大店)	PRC	Shuxin Zhiyuan	CN202230171514.9	design patent	March 30, 2022
Chandeliers (吊燈)	PRC	Shuxin Zhiyuan	CN202230171536.5	design patent	March 30, 2022
guide sign (導視牌)	PRC	Shuxin Zhiyuan	CN202230171515.3	design patent	March 30, 2022
Bar (small store) 吧台(小店)	PRC	Shuxin Zhiyuan	CN202230171511.5	design patent	March 30, 2022
Bar (large store) 吧台(大店)	PRC	Shuxin Zhiyuan	CN202230171519.1	design patent	March 30, 2022
Stores (large stores)	PRC	Shuxin Zhiyuan	CN202230171531.2	design patent	March 30, 2022
Stores (small store)	PRC	Shuxin Zhiyuan	CN202230171523.8	design patent	March 30, 2022
Doorway (small store)	PRC	Shuxin Zhiyuan	CN202230171510.0	design patent	March 30, 2022

Patent	Place of Registration	Registrant	Application Number	Type	Application Date
Chabaidao Dingding Cat Cup Plug (茶百道丁丁猫杯塞)	PRC	Shuwei Tea Rhyme	CN202130658670.3	design patent	October 8, 2021
Door header	PRC	Shuxin Zhiyuan	CN202330409180.9	design patent	June 30, 2023
Showcase	PRC	Shuxin Zhiyuan	CN202330409182.8	design patent	June 30, 2023
Stores	PRC	Shuxin Zhiyuan	CN202330409179.6	design patent	June 30, 2023

Save as disclosed above, as of the Latest Practicable Date, there were no other trademarks, domains, copyrights, intellectual property rights, or individual property rights which are or may be material in relation to our business.

3. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUPERVISORS

A. Particulars of Directors' and Supervisors' Service Contracts and Appointment Letters

We have entered into a service contract or a letter of appointment with each of our Directors and Supervisors in respect of, among other things, compliance with the relevant laws and regulations, the Articles of Association and applicable provisions on arbitration.

Save as disclosed above, we have not entered, and do not propose to enter, into any service contracts with any of our Directors or Supervisors in their respective capacities as Directors or Supervisors (other than contracts expiring or determinable by the employer within one year without any payment of compensation (other than statutory compensation)).

B. Remuneration of Directors and Supervisors

Save as disclosed in “Directors, Supervisors and Senior Management” and “Appendix I—Accountants’ Report—Notes to the Historical Financial Information—11. Directors’, Supervisors’ Emoluments and Employees’ Remuneration” for the years ended December 31, 2021, 2022 and 2023, none of our Directors or Supervisors received other remunerations or benefits in kind from us.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors and Supervisors by any member of our Group in respect of the year ending December 31, 2024 is approximately RMB8.3 million.

Save as disclosed above, there is no arrangement under which any Director or Supervisor has waived or agreed to waive any remuneration or benefits in kind during the Track Record Period.

4. DISCLOSURE OF INTERESTS

A. Disclosure of Interests of Directors and Supervisors

Immediately following the completion of the Global Offering assuming that the Over-Allotment Option is not exercised, none of our Directors or Supervisors has any interest and/or short position in the Shares, underlying Shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules to be notified to our Company, once the Shares are listed on the Stock Exchange.

(i) *Interests in our Company*

Name	Position	Nature of Interest	Number and class of Shares held as at the Latest Practicable Date and immediately prior to the Listing ⁽¹⁾	Approximate percentage of shareholding in the total share capital of our Company as at the Latest Practicable Date and immediately prior to the Listing ⁽¹⁾	Approximate percentage of shareholding in the Shares after the Global Offering ⁽¹⁾
Mr. Wang	Chairman of the Board and executive Director	Beneficial owner	239,598,750 Unlisted Shares (L)	18.0167%	16.2150%
		Interest of spouse	76,399,250 Unlisted Shares (L)	5.7449%	5.1704%
		Interest in controlled corporations ⁽²⁾	906,386,000 Unlisted Shares (L)	68.1559%	61.3404%
Ms. Liu (the spouse of Mr. Wang)	Supervisor	Beneficial owner	76,399,250 Unlisted Shares (L)	5.7449%	5.1704%
		Interest of spouse	239,598,750 Unlisted Shares (L)	18.0167%	16.2150%

Name	Position	Nature of Interest	Number and class of Shares held as at the Latest Practicable Date and immediately prior to the Listing ⁽¹⁾	Approximate percentage of shareholding in the total share capital of our Company as at the Latest Practicable Date and immediately prior to the Listing ⁽¹⁾	Approximate percentage of shareholding in the Shares after the Global Offering ⁽¹⁾
		Interests in controlled corporations ⁽²⁾	906,386,000 Unlisted Shares (L)	68.1559%	61.3404%
Ms. Dai Li	Executive Director and deputy general manager (centralized management center)	Beneficial owner	17,505,000 Unlisted Shares (L)	1.3163%	1.1847%
Mr. Wang Hongxue	Executive Director and general manager (president)	Beneficial owner	8,505,000 Unlisted Shares (L)	0.6395%	0.5756%
Mr. Chen Keyuan	Executive Director and head of the legal and internal control center of the Group	Beneficial owner	2,992,500 Unlisted Shares (L)	0.2250%	0.2025%

Notes:

(L) All interests stated are long positions.

(1) The calculation is based on the assumption that (i) the Share Subdivision is completed, (ii) the conversion of the 1,329,870,850 existing Unlisted Shares in issue into H Shares, (iii) the Over-Allotment Option is not exercised, and (iv) the total number of issued shares of the Company immediately upon completion of the Global Offering will be 1,477,634,250 H Shares.

(2) Hengsheng Herui is indirectly controlled by Mr. Wang and Ms. Liu, through Chengdu Jinbosen. Chengdu Jinbosen is a limited liability company established in the PRC and owned as to 60% and 40% by Mr. Wang and Ms. Liu, respectively and is interested in 84.888% equity interests of Hengsheng Herui. Assuming the Share Subdivision is completed, as of the Latest Practicable Date, Hengsheng Herui held 900,000,000 Unlisted Shares of the Company, representing approximately 67.6758% of the issued share capital of the Company. By virtue of the SFO, each of Mr. Wang, Ms. Liu and Chengdu Jinbosen are deemed to be interested in the Shares held by Hengsheng Herui.

Tongchuang Gongjin, our Pre-IPO Employee Incentive Platform established as a limited partnership, is controlled by Mr. Wang as its sole general partner. Mr. Wang is therefore deemed to be interested in the Shares held by Tongchuang Gongjin under the SFO.

(ii) Interests in our associated corporation of our Company

Name	Position in the Company	Nature of Interest	Name of associated corporation ⁽²⁾	Approximate percentage of shareholding in the associated corporation
Mr. Wang ⁽¹⁾	Chairman of the Board and executive Director	Interest in controlled corporation (L)	Hengsheng Herui	84.8880%
Ms. Liu ⁽¹⁾	Supervisor	Interest of spouse (L) Interest in controlled corporation (L)	Hengsheng Herui Hengsheng Herui	84.8880% 84.8880%
Ms. Dai Li ⁽²⁾	Executive Director	Interest of spouse (L) Interest in controlled corporation (L)	Hengsheng Herui Hengsheng Herui	84.8880% 7.7800%
Mr. Wang Hongxue ⁽²⁾	Executive Director	Interest in controlled corporation (L)	Hengsheng Herui	3.7800%
Mr. Chen Keyuan ⁽²⁾	Executive Director	Interest in controlled corporation (L)	Hengsheng Herui	1.3300%

Notes:

(L) All interests stated are long positions.

(1) Mr. Wang and Ms. Liu are spouses. As of the Latest Practicable Date, Chengdu Jinbosen, is held as to 60% and 40% by Mr. Wang and Ms. Liu, which is in turn hold 84.888% equity interests in Hengsheng Herui. Therefore, both Ms. Liu and Mr. Wang are deemed to be interested in the Shares held by Chengdu Jinbosen, as her controlled corporation, and as the spouse interests.

(2) As of the Latest Practicable Date, Hengsheng Herui was held as to 84.888% by Chengdu Jinbosen, 7.78% by Ms. Dai Li, 3.78% by Mr. Wang Hongxue, 2.222% by Ms. Gu Jilin and 1.33% by Mr. Chen Keyuan, each through their respective wholly-owned investment vehicles.

B. Disclosure of Interests of Substantial Shareholders

For information on the persons who will, immediately following the completion of the Global Offering, have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, see the section headed “Substantial Shareholders” in this Prospectus.

Interests of substantial shareholder in non wholly-owned subsidiaries of our Company

Our subsidiary	Registered capital	Party with 10% or more equity interest (other than members of the Group)	Approximate percentage of shareholding
Senmian New Materials	RMB20 million	Yibin Senqian Enterprise Management Co., Ltd.* (宜賓森乾企業管理有限公司)	33%
Qingkou Tea	RMB20 million	Fuzhou Qingkou Ercha Tea Co., Ltd.* (福州市青口二茶茶葉有限公司)	33%

So far as set out above, our Directors are not aware of any persons (other than our Directors, Supervisors or chief executive) who will, immediately following the completion of the Global offering, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

C. Disclaimers

Save as disclosed in this Prospectus:

- (a) save as disclosed in “History, Reorganization and Corporate Structure,” none of our Directors or Supervisors has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this Prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (b) none of our Directors or Supervisors is materially interested in any contract or arrangement subsisting at the date of this Prospectus which is significant in relation to the business of our Group taken as a whole; and
- (c) without taking into account any Shares which may be taken up under the Global Offering, none of our Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Global Offering, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at Shareholders’ meetings of any member of our Group in the Shares or underlying Shares of our Company.

5. PRE-IPO EMPLOYEE INCENTIVE SCHEME

The following is a summary of the principle terms of the Pre-IPO Employee Incentive Scheme, which was adopted by the Company and took effect on June 27, 2023. The Pre-IPO Employee Incentive Scheme does not involve the grant of new Shares or awards by the Company after the Listing.

Under the Pre-IPO Employee Incentive Scheme, Eligible Participants (as defined below) were granted partnership interests in Tongchuang Gongjin (“**Awards**”), our employee incentive platform. Tongchuang Gongjin had, in turn, subscribed for 638,600 Shares (without taking into account the Share Subdivision), representing approximately 0.4802% of our total issued Shares as at the Latest Practicable Date.

A. Purpose

The purpose of the Pre-IPO Employee Incentive Scheme is to improve the enthusiasm and creativity of the Eligible Participants, promote the sustainable growth of the performance of the Group, bring value-added benefits to the Eligible Participants while enhancing the value of the Group, and thus realize the common development of both the Eligible Participants and the Group.

B. Form of the Pre-IPO Employee Incentive Scheme

The grantees, as limited partners of the Pre-IPO Employee Incentive Platform, shall subscribe for partnership interest therein according to the amount approved by the Board, and make the corresponding contribution in accordance with the arrangement of the Board, thereby holding indirect interest in the Shares.

C. Eligible Participants

Persons eligible to participate in the Pre-IPO Employee Incentive Scheme are the employees of our Group who have made contribution to the development of the Group (individually and collectively, the “**Eligible Participant(s)**”).

The Board shall make decisions on the list of grantees and the allocation of the Awards after considering, among other things, the employees’ years of service, on-boarding terms, annual performance, job nature, seniority, and recognition with our corporate identity.

D. Total Number and Subscription Price of the Awards

The grantees made an aggregate capital contribution of RMB29,433,074 into the Pre-IPO Employee Incentive Platform, which in turn subscribed for 638,600 Shares without taking into the Share Subdivision. Assuming the Share Subdivision is completed, the subscription price per each corresponding Share underlying the Awards granted was RMB4.609 per Share.

E. Payment of Contribution

Grantees must subscribe for the partnership interest in cash, and should ensure that their source of funds is genuine and lawful. All contribution payments shall be made fully and timely.

F. Term

The Pre-IPO Employee Incentive Scheme shall take effective from the date of being approved at the Shareholders' general meeting, and terminate upon the occurrence of the following events:

- change of control of the Company;
- merger and demerger of the Company; or
- issuance of an adverse opinion or failure to deliver an opinion on the financial report of the Company's most recent fiscal year by a certified public accountant.

G. Administration

The Board with the assistance of the employee incentive management panel, shall act as the scheme administrator of the Pre-IPO Employee Incentive Scheme, and shall be responsible for, among others,

- setting and adjusting the conditions for granting Awards;
- arranging the grantees for execution the grant agreement, the shareholding platform partnership agreement and other relevant documents;
- determining the price of the interests in the shareholding platform transferred by the grantees according to the Pre-IPO Employee Incentive Scheme;
- interpreting and making amendments to the Pre-IPO Employee Incentive Scheme; and
- other matters that the Board shall be responsible for as stipulated in the Pre-IPO Employee Incentive Scheme.

H. Transfer Restrictions

The Awards shall be subject to transfer restrictions and such restrictions shall be released in the following manner:

- 30% of the total number of Awards shall be released from transfer restrictions from the business day following the first anniversary of the date of Listing to the last business day right before the second anniversary of the date of Listing;
- 30% of the total number of Awards shall be released from transfer restrictions from the business day following the second anniversary of the date of Listing to the last business day before the third anniversary of the date of Listing; and
- 40% of the total number of Awards shall be released from transfer restrictions from the business day following the third anniversary of the date of Listing to the last business day before the fourth anniversary of the date of Listing

(together, the “**Time-Based Release Schedule**”).

In addition to the Time-Based Release Schedule sets forth above, the release of the Awards shall be further subject to the achievement of the certain performance targets of the Company and the grantee respectively (individually and collectively, the “**Performance Target(s)**”). The remuneration committee of the Board shall review and determine the fulfillment of the Performance Target(s), and report to the Board accordingly.

I. Details of the Grantees

As of the Latest Practicable Date, assuming the Share Subdivision is completed, Awards corresponded to a total of 6,386,000 Shares, representing approximately 0.4802% of our total issued Shares, have been granted to the Eligible Participants.

No Shares will be further granted after the Listing pursuant to the Pre-IPO Employee Incentive Scheme. Details of the Awards granted to Directors, Supervisors and senior management of our Company under the Pre-IPO Employee Incentive Scheme are set out below (assuming the Share Subdivision is completed):

Name	Position	Approximate partnership interests in Tongchuang Gongjin as of the Latest Practicable Date	Approximate number of Shares corresponding to awards held by Tongchuang Gongjin ⁽¹⁾	Approximate shareholding percentage corresponding to awards in the total number of Shares in issue immediately prior to the Global Offering ⁽²⁾
Mr. Wang	Chairman of the Board and executive Director	2.72%	174,000	0.01%
Mr. Zhu Mingxing	Supervisor	22.77%	1,454,000	0.11%
Mr. Zhang Yu	Supervisor	1.02%	65,000	0.005%
Dr. Zhang Rui	Deputy general manager (digitalization center)	16.99%	1,085,000	0.08%
Mr. Zhou Dapeng	Financial director	1.36%	87,000	0.01%
Ms. Yi Rui	Deputy general manager (brand marketing center)	6.80%	434,000	0.03%
Subtotal		51.66%	3,299,000	0.25%
Other 20 employees	–	48.34%	3,087,000	0.23%
Total	–	100%	6,386,000	0.48%

Shares corresponding to awards held by Tongchuang Gongjin	Number of grantees	Approximate total number of Shares corresponding to awards held by Tongchuang Gongjin⁽¹⁾	Approximate total shareholding percentage corresponding to awards in the total number of Shares in issue immediately prior to the Global Offering⁽²⁾
0 to 9,999 shares	8	571,000	0.04%
10,000 to 19,999 shares	7	976,000	0.07%
20,000 to 29,999 shares	2	456,000	0.03%
30,000 to 39,999 shares	2	650,000	0.05%
40,000 to 49,999 shares	1	434,000	0.03%

Notes:

- (1) For illustrating the indirect interests of grantees in the Shares, the number of Shares are presented and calculated by multiplying their respective percentage of limited partnership interests in Tongchuang Gongjin by the total number of Shares held by Tongchuang Gongjin, and assuming the Share Subdivision is completed.
- (2) All the Unlisted Shares held by Tongchuang Gongjin will be converted into H Shares, subject to the relevant regulatory approvals and registration.

All Awards granted had been vested and all partnership interests in the Pre-IPO Employee Incentive Platform have been subscribed by and fully paid up by the grantees, and the relevant registration had been completed. No further Awards will be granted after the date of this Prospectus and the Pre-IPO Employee Incentive Scheme will not cause any dilution of the shareholding of our Shareholders after the Listing. As the underlying 638,600 Shares (without taking into account the Share Subdivision) corresponding to the granted Awards had already been issued to the Pre-IPO Employee Incentive Platform by the Company, the Pre-IPO Employee Incentive Scheme shall not be regarded as a “share appreciation scheme.”

6. OTHER INFORMATION

A. Litigation

As of the Latest Practicable Date, saved as disclosed “Business — Legal Proceedings and Non-compliance,” no member of our Group was engaged in any litigation or arbitration of material importance and, so far as our Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of our Group.

B. Sole Sponsor

CICC Tongfu, one of our Pre-IPO Investors, is regarded as a member of the sponsor group of the Sole Sponsor as defined under the Listing Rules. Since CICC Tongfu only held 0.1139% equity interests in the Shares of the Company as of the Latest Practicable Date, the Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Sole Sponsor has made an application on our behalf to the Listing Committee of the Stock Exchange for a listing of, and permission to deal in, all the H Shares to be issued as mentioned in this Prospectus.

Pursuant to the engagement letter entered into between our Company and the Sole Sponsor, we have agreed to pay the Sole Sponsor a fee of US\$500,000 to act as the sponsor of our Company in connection with the proposed listing on the Stock Exchange.

C. Compliance Adviser

Our Company has appointed Guotai Junan Capital Limited as the compliance adviser in compliance with Rule 3A.19 of the Hong Kong Listing Rules.

D. Preliminary Expenses

As of the Latest Practicable Date, our Company had not incurred material preliminary expenses.

E. Promoters

Our Promoters are Mr. Wang Xiaokun and Hengsheng Herui.

Save as disclosed in this Prospectus, within the two years immediately preceding the date of this Prospectus, no cash, securities or other benefit has been paid, allotted or given nor is any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this Prospectus.

F. Qualification of Experts

The qualifications of the experts, as defined under the Hong Kong Listing Rules, who have given opinions in this Prospectus, are as follows:

Name	Qualification
China International Capital Corporation Hong Kong Securities Limited	Licensed to conduct Type 1 (Dealing in securities), Type 2 (Dealing in futures contracts), Type 4 (Advising on securities), Type 5 (Advising on futures contracts) and Type 6 (Advising on corporate finance) of the regulated activities as defined under the SFO
Deloitte Touche Tohmatsu	Certified public accountants and Registered Public Interest Entity Auditor
Jingtian & Gongcheng	Legal advisors to our Company as to the PRC laws
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant

G. Consents of Experts

Each of the experts named in the paragraph headed “—F. Qualification of Experts” in this Appendix has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion of its report and/or letter and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

Save as disclosed in this Prospectus, none of the experts named above has any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

H. Taxation of Holders of H Shares

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty if such sale, purchase and transfer is effected on the H Share register of members of our Company, including in circumstances where such transaction is effected on the Stock Exchange. The current rate charged on each of the purchaser and seller is 0.1% of the consideration of or, if higher, of the fair value of our Shares being sold or transferred. For further information in relation to taxation, see “Taxation and Foreign Exchange—Taxation in Hong Kong” in Appendix III to this Prospectus.

I. Restriction on Share Repurchases

For details of the restrictions on share repurchases by our Company, see “Appendix V—Summary of Articles of Association of the Company.”

J. Binding Effect

This Prospectus shall have the effect, if an application is made in pursuant hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

K. Related Party Transactions

Our Group entered into the related party transactions within the two years immediately preceding the date of this Prospectus as mentioned in “Appendix I—Accountants’ Report—33. Related Party Transactions.”

L. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our major subsidiaries.

M. Miscellaneous

Save as disclosed in this Prospectus:

- (a) within the two years immediately preceding the date of this Prospectus:
 - (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued, or is proposed to be fully or partly paid either for cash or a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share of our Company or any of our subsidiaries; and
 - (iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription for any share in or debentures of our Company;

- (b) there are no founder, management or deferred shares or any debentures in our Company or any of our subsidiaries;
- (c) there are no contracts for hire or hire purchase of plant to or by us for a period of over one year which are substantial in relation to our business;
- (d) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this Prospectus;
- (e) there are no restrictions affecting the remittance of profits or repatriation of capital by us into Hong Kong from outside Hong Kong;
- (f) our Company has no outstanding convertible debt securities or debentures;
- (g) there is no arrangement under which future dividends are waived or agreed to be waived;
- (h) none of our equity and debt securities is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
- (i) our Company is a joint stock limited company and is subject to the PRC Company Law; and
- (j) our Company has adopted a code of conduct regarding Directors' and Supervisors' securities transactions on terms as required under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules.

N. No Material Adverse Change

Our Directors have confirmed that, up to the date of this Prospectus, there had 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.

O. Bilingual Prospectus

The English language and Chinese language versions of this Prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this Prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) the written consents referred to in “Statutory and General Information—6. Other Information—G. Consents of Experts” in Appendix VI to this Prospectus; and
- (b) a copy of each of the material contracts referred to in “Statutory and General Information—2. Further Information about our Business—A. Summary of Material Contracts” in Appendix VI to this Prospectus.

DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be available on display on the website of the Stock Exchange at www.hkexnews.hk and our website at www.chabaidao.com during a period of 14 days from the date of this Prospectus:

- (a) the Articles of Association;
- (b) the audited consolidated financial statements of the Company and its subsidiaries for the years ended December 31, 2021, 2022 and 2023;
- (c) the Accountant’s Report from Deloitte Touche Tohmatsu for the years ended December 31, 2021, 2022 and 2023, the text of which is set forth in Appendix I to this Prospectus;
- (d) the report from Deloitte Touche Tohmatsu on the unaudited pro forma financial information of the Company and its subsidiaries as at December 31, 2023, the text of which is set forth in Appendix II to this Prospectus;
- (e) the material contracts referred to in “Statutory and General Information—2. Further Information about our Business—A. Summary of Material Contracts” in Appendix VI to this Prospectus;
- (f) the written consents referred to in “Statutory and General Information—6. Other Information—G. Consents of Experts” in Appendix VI to this Prospectus;
- (g) the service contracts and appointment letters referred to in “Statutory and General Information—3. Further Information about our Directors and Supervisors” in Appendix VI to this Prospectus;

- (h) the legal opinions issued by Jingtian & Gongcheng, our PRC Legal Advisor, in respect of, among other things, the general corporate matters and property interests of our Group under PRC law;
- (i) the industry report issued by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., the summary of which is set forth in the section headed “Industry Overview” in this Prospectus; and
- (j) the PRC Company Law, the PRC Securities Law and the Trial Administrative Measures, together with unofficial English translations thereof.



茶百道

四川百茶百道實業股份有限公司

Sichuan Baicha Baidao Industrial Co., Ltd.