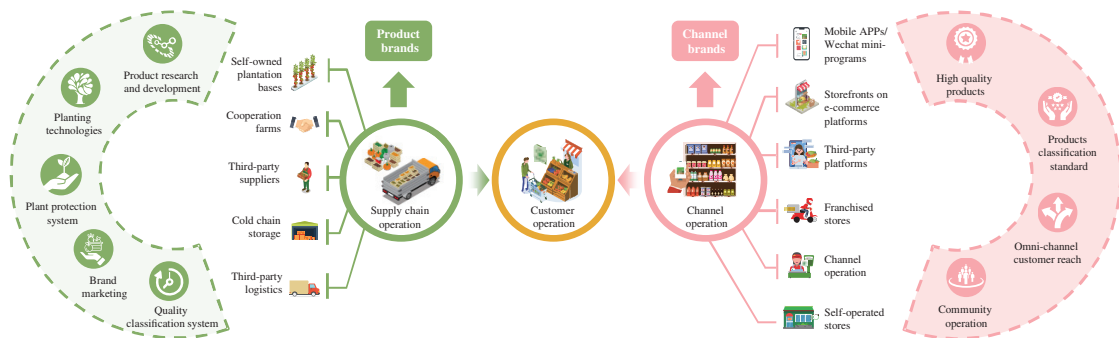


Business Overview

According to Frost & Sullivan, we are the largest fruit retail operator in China in terms of total fruit retail sales value in 2021, accounting for 1.0% of total market share in China. We have a number of renowned fruit product brands and channel brands and operate the largest community-based fruit specialty retail network with OMO and store-as-warehouse features in China, providing consumers with flexible delivery services such as just-in-time and next-day delivery. Through internal development and external empowerments, we are able to exert influence and management across the entire industry chain from fruit farming to retail end. We participate in the cultivation phase to secure high-quality fruits, implement professional and standardized quality management throughout the entire industry chain, provide consumers with delicious fruits at affordable prices, and achieve high turnover and low loss rate.



As an enterprise that has specialized in fruit industry for over 20 years, led by our Chairman, we have developed a set of deep understanding, knowledge and insights into the special features of fruits and the industry itself, which we call our industry epistemology. Upon this, we have established our management system and built our core business model. We use these understanding, knowledge and insights to guide our daily operations and undertake to “offer delicious fruits and enjoyable lifestyle to people” as our duty.

We primarily focus on selling fruits. Currently, we offer over 60 types of fruits. In addition, we also sell fruit-based products, such as dried fruits and juice. We have also commenced to distribute other fresh groceries, including vegetables, meat, seafood, grains and oils and dairy products, through our mobile APPs and WeChat mini-program.

Our core business model

Why do we choose the way?

Establishing standardized fruit quality classification system for fruit products. . .

- Fruits are non-standard products; the foundation of a brand is the consistency of consumer experience, which is based on uniform product standards; the establishment of our standardized fruit quality classification system for fruit products is the foundation for building our fruit retail channel brands and product brands

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Our core business model	Why do we choose the way?
Developing fruit product brands	<ul style="list-style-type: none">• Fruits are suitable for branding as consumers can directly perceive the quality difference by eating fruits without cooking• Branded fruits can form competitiveness, obtain brand premium and avoid price competition in a homogeneous product market
Establishing specialty retail system with channel brands	<ul style="list-style-type: none">• Fruits are suitable for specialty retail model as their relatively big ticket size, high purchase frequency and high consumer stickiness can bring high efficiency to retailers• Channel brands can form competitiveness in the retail industry and cultivate a loyal customer base through established brand recognition and reputation and <i>vice versa</i>
Community-based fruit specialty retail network with OMO and store-as-warehouse features, as well as delivery services such as just-in-time and next-day delivery	<ul style="list-style-type: none">• Fruit is a fresh product with high purchase frequency, rich consumption scenarios and more flexible demand. Therefore, we provide convenience to consumer through our community-based fruit specialty retail network with OMO features, offering flexible delivery options such as just-in-time and next-day delivery, and under either option, the consumer may opt to pick up in a designated store or request for home delivery• Fruits satisfy more than functional needs, and provide emotional relevancy. In China, gifting fruits is traditionally an expression of emotional enjoyments. In-store fruit display, tasting and face-to-face sales add additional value by bringing consumers a pleasant shopping experience and stimulating consumption; it is the fundamental reason for the long-term existence of offline fruit stores• The store-as-warehouse features can improve distribution efficiency, expand the reach of stores, and reduce fulfillment cost, thus allowing us to provide good value-for-money to consumer with “delicious and affordable” products

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Our core business model

Why do we choose the way?

Achieving influence and management across the entire industry chain through internal development and external empowerments

- The upstream growers in China’s fruit industry are generally scattered and small in scale, lacking a standard system, the agricultural technology to cultivate high-quality fruits, and the capital resource for large-scale planting
- What affects the quality of fruit is not only its taste, safety and planting techniques, but also its freshness when delivered to consumers, which depends on the ability to control all aspects of the industry chain

Uniform, efficient and standardized management of the franchise system. . . .

- Fruits are non-standard fast-moving products that require timely adjustments to sales and purchasing plans based on market conditions, while franchisees are the ultimate decision makers in store operations under the franchise business model, thus making this model more suitable for quick decisions and fast execution
- Franchise business model offers an asset-lite and cost-effective approach to rapidly expand geographic coverage
- The benefit sharing of the franchise business model provides greater incentive for franchisees to better align their interests with ours

We have built a nationwide community-based fruit specialty retail network with OMO and store-as-warehouse features. As of the Latest Practicable Date, our offline store network had 5,645 stores, covering over 140 cities in 22 provinces and municipalities, mainly in residential areas, commercial streets and other high-traffic areas. Meanwhile, we have been actively exploring online channels, providing consumers with flexible delivery options through sales channels including our mobile APPs, WeChat mini-program, storefronts on mainstream e-commerce platforms such as Tmall and JD.com, as well as on popular social commerce platforms such as Douyin. In addition, we partner with third-party food delivery platforms, such as Meituan, Koubai and Ele.me to provide instant delivery for consumers.

We are committed to becoming the go-to brand for Chinese consumers. We have established the first flavor-oriented fruit quality classification system for fruit products in China, which allows consumers to clearly distinguish the quality differences in fruits and enhances the competitiveness of high-quality fruits. We have launched the instant refund service, which enhances consumer satisfaction and trust in our brand and reinforces Pagoda brand recognition associated with high-quality fruits and services among consumers. “Pagoda”

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is a China Well-known Trademark and has been recognized as a Top 100 China Retail Chain Brand for multiple years. Our high-quality products and services have attracted a large number of loyal consumers. As of the Latest Practicable Date, we had over 73 million members across all distribution channels. Among all these members, over 946 thousand were paying members who paid a membership fee to subscribe for our paid membership plan, with the remaining as non-paying members. Through our multi-level membership plans, we provide more differentiated services to consumers and tap into greater user value. Meanwhile, we obtain direct market insights through consumption data analytics, thereby further optimizing our products and services to meet different consumer needs.

Our revenue decreased by 1.4% from RMB8,976.1 million in 2019 to RMB8,853.7 million in 2020, and increased by 16.2% to RMB10,289.4 million in 2021. Revenue increased by 7.0% from RMB5,525.4 million for the six months ended June 30, 2021 to RMB5,914.7 million in the corresponding period in 2022. Our gross profit decreased by 7.9% from RMB876.4 million in 2019 to RMB807.4 million in 2020, and increased by 43.2% to RMB1,156.4 million in 2021. Our gross profit margin was 9.8%, 9.1% and 11.2% in 2019, 2020 and 2021, respectively. Gross profit increased by 12.7% from RMB601.2 million for the six months ended June 30, 2021 to RMB677.4 million in the corresponding period in 2022. Gross profit margin was 10.9% and 11.5% in the six months ended June 30, 2021 and 2022, respectively.

Our Mission

Our mission is to offer delicious fruits and enjoyable lifestyle to people.

Pagoda would let more and more people enjoy delicious and affordable fruits, spread fruit knowledge and culture to them, and bring them health and happiness.

Our Vision

Our vision is to be the world's largest fruit company.

Through constructing our ecosystem and empowering our partners, we will continue to carry out the whole industry chain layout and development, striving to become the world's largest fruit company in terms of sales volume, the size of service population, and the number of fruit product brands.

Our Value

We are in a sustainable industry with a long-term prospect. Fruit is a product of the nature and can be eaten raw without high temperature processing, generally retaining its active substances. We believe that a successful fruit company should pursue to become a fruit brand with high value-for-money in the minds of consumers, and continue to create business value for various business partners. We offer these value propositions:

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Consumers: We make it easy for consumers to enjoy fresh, safe, and delicious fruits with a wide variety and good value-for-money, providing consumers with a “delicious and affordable” pleasant experience, and leading a healthy and sustainable way of living.

Franchisees: We provide franchisees with globally sourced high-quality fruit products, as well as store location guidelines, store opening support, staff training, business operation guidance and IT support to help the business development of each franchisee partner who loves the fruit business, meanwhile assisting each store to meet our standards through daily supervision and support.

Suppliers: We have established a standard system to cultivate high-quality fruits. We promote modern planting concepts to plantation bases and fruit farmers that we partner with and provide them with advanced planting and post-harvest technology solutions to not only cultivate high-quality fruits but also contribute to a healthier environment. We assist them in branding, marketing and promotion, and further empower them through our supply chain finance and information system to increase yields, enhance efficiency and reduce costs.

Other Partners: We are closely connected with other business partners along the industry chain, including but not limited to research institutions and college departments specializing in agriculture and multicultural technologies. By constructing a vertically integrated value chain with the support of our industrial information platform, we have achieved mutual benefit and win-win situations with our partners.

Our Competitive Strengths

China’s leading fruit retail operator with vertically integrated industry chain and renowned channel brands and product brands

We are the largest fruit retail operator in China, with community-based fruit specialty retail network with OMO and store-as-warehouse features, providing consumers with flexible delivery services such as just-in-time and next-day delivery. According to Frost & Sullivan, we ranked the first among all retail enterprises in China in terms of fruit retail sales value in 2021, accounting for 1.0% of total market share in China. We also ranked the first among fruit specialty retail enterprises. We have the largest offline retail network in the fruit industry in China. As of the Latest Practicable Date, our offline store network had 5,645 stores, covering over 140 cities in 22 provinces and municipalities in China. We provide convenient and diverse online shopping options to consumers through mobile APPs, WeChat mini-program, storefronts on e-commerce and social commerce platforms, such as Tmall, JD.com and Douyin, as well as storefronts on third-party food delivery platforms, such as Meituan, Koubei and Ele.me. In 2021, our total number of orders exceeded 290 million, of which approximately 23% were placed through online channels. The fruit specialty retail network with OMO and store-as-warehouse features and the high-frequency consumption nature of fruits provide us with continuous and extensive reach to consumers. As of the Latest Practicable Date, we had over 73 million members across all distribution channels with over 946 thousand paying members and the cumulative number of users of our WeChat mini-program reached 51 million. We are

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the leading fruit retail operator with scale, growth and profitability. During the Track Record Period, the store retail sales, representing the sales amount of retail stores after discounts or rebates, grew at a CAGR of 7.1% from 2019 to 2021, exceeding the growth rate of 1.8% of the retail sales of the fruit retail industry in China during the same period. In 2021, our net profit reached RMB221.4 million.

Specializing in the fruit industry for more than 20 years, we have made strategic developments and have been able to exert our influence and management across the entire industry chain, which is crucial for us to improve fruit quality and achieve high turnover and low loss rate. We strategically participate in the upstream of the industry chain. By empowering our plantation base partners with agricultural technologies, IT and capital resources and by enforcing strict quality management throughout the entire growth period of fruits, we are able to cultivate high-quality fruits, improve yields, and in turn, establish a Pagoda-centered large-scale, standardized network of high-quality suppliers. We had provided various kinds of agricultural technology related services to 68 suppliers across the country by the end of 2021. In 2021, purchases from these suppliers, in dollar amount, accounted for approximately 30.3% of total purchase of fruits. On the retail end, we have the largest fruit retail network in China, providing large-scale orders for high-quality fruits, and we are able to use consumption data analytics to guide product planning, planting and purchasing on the supply end to coordinate procurement and sales.

We are one of the few companies in the fruit industry in China that have both well-known product brands and channel brands. Differentiated products and services enhance the value of our industry chain, and bring us the pricing power and the capability to continuously improve profitability. We continue to develop and reserve high-quality fruit sources through the management over the entire industry chain, and achieve large-scale planting and procurement of high-quality fruits. Sales of fruits under Excellent and Grade A categories accounted for approximately 70% of the total store retail sales of Pagoda stores, including self-operated stores and franchised stores under our Pagoda channel brand, in 2021. As of the Latest Practicable Date, we had successfully introduced to the market 31 self-owned product brands that are exclusively distributed by us in China under our Excellent and Grade A categories. Such products have competitive advantages and stable quality and supply, such as Red Ballerina strawberry, Mi Clan Chinese gooseberries and Liangzhi apple, which were well received among consumers. Store retail sales of our branded fruits amounted to approximately RMB1.0 billion in 2021, accounting for 8.6% of total fruit sales of Pagoda stores in 2021, and contributed to an increase in prices and profitability. In 2021, the retail price of our own branded fruits was on average twice as high as the retail price of Grade B fruits of the same type. According to Frost & Sullivan, “Pagoda” was the largest fruit channel brand in China by number of stores in 2021. We have launched the instant refund service, which enhances consumer satisfaction and trust in our brand and reinforces Pagoda brand recognition associated with high-quality fruits and services among consumers. “Pagoda” is a China Well-known Trademark and has been recognized as a Top 100 China Retail Chain Brand for multiple years. Our brand has won the recognition of leading global fruit companies. We were

well recognized by Zespri Fruit (Shanghai) Co., Ltd., or Zespri, for many years and was awarded by it as the Best Retailing Customer in 2019, and Pagoda has been recognized as a top-ranked retail channel in terms of sales volume by Zespri for successive years from 2017.

Efficient vertically integrated industry chain built on a standardized system and empowerments through agricultural technologies, IT and capital resources

We have consolidated quality resources across the industry chain, from planting, purchasing, warehousing, logistics to retail. Instead of exerting full and direct control over each part of the industry value chain by acquiring equity interest in entities across the industry value chain, we aim for a vertically integrated industry chain through self-development, long-term cooperation, and agricultural technology, IT and capital empowerment. Through our standardized fruit quality classification system and IT empowerments, we have been able to maintain consistent quality from supply to retail end and efficiently coordinate procurement and sales. We believe that an efficient industry chain is an important foundation for us to provide consumers with delicious fruits from around the world and bring them pleasant consumption experiences. In terms of fruit quality management, leveraging our deep insight into the industry chain and consumer needs, we have formulated fruit quality classification standards, and have further set up professional and standardized quality management systems along the industry chain from planting, purchasing and post-harvest processing, warehousing and distribution to store sales. Our quality testing centers and quality control team, traceability system and mystery customer supervision system help us ensure the implementation of our quality management system and consistent quality of fruits across the entire industry chain. In terms of procurement and sales, we rely on our strong retail network and consumption data accumulation and analysis, and through smart procurement and dynamic sales analysis supported by big data analytics, to guide our procurement team's decision making in a timely manner. Meanwhile, through our close cooperation with a large number of upstream suppliers and our industrial information platform, we have been able to conduct relatively accurate data analysis on the supply side. Through management over the entire industry chain, we are able to efficiently connect the supply and retail end to effectively meet market demand, reduce the losses caused by procurement and sales mismatch, and achieve efficient coordination of procurement and sales across the industry chain.

By integrating and optimizing the industry chain and through digitalization, we continue to improve turnaround speed, reduce distribution costs and enhance overall channel management efficiency. China's fruit industry has a long industry chain with an average of more than five distribution layers between place of origin and end consumers, and coupled with a low cold chain coverage rate in the fruit and vegetable industry, and a relatively high cumulative loss rate across the industry chain. Our procurement platform connects directly with upstream planting enterprises and high-quality suppliers. During the Track Record Period, in terms of dollar amount, purchases of fruit products from the public market for stock replenishment purposes accounted for approximately 29%, 22% and 19% of total purchases of fruit products in the years ended December 31, 2019, 2020 and 2021, respectively. By vertically integrating supply chain and reducing distribution layers, we are able to improve distribution efficiency. Equipped with whole-process cold chain logistics capabilities, we are

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able to use proper temperatures tailored for fruits of various types during transportation to reduce losses. By digitizing the key areas in purchasing, warehousing, logistics and retail, we are able to grasp timely the supply and demand situation from procurement to store end as well as the inventory-to-sales ratio to achieve efficient channel management.

By building an ecosystem in the fruit industry and leveraging the power of our ecosystem partners, we are able to complement each other's competitive advantages and form strong connections between Pagoda and ecosystem partners through the empowerment of agricultural technologies, IT and capital resources. The fruit industry in China has long been scattered by growers and lacking in planting standards and scale, while cultivating high-quality fruits requires advanced technology and large capital investment. Through the empowerment of agricultural technologies, we help our upstream partners establish professional and systematic planting systems, such as assisting and guiding them to adopt domestic and foreign advanced planting technologies, plant protection systems, post-harvest technologies, artificial intelligence and other technological means to cultivate high-quality fruits and improve yields, output stability and operational efficiency. As of the Latest Practicable Date, we had leading post-harvest processing technology and a professional procurement team of 237 people, which enable us to optimize and refine the management of fruit picking periods at the plantation bases of our partners to improve harvesting efficiency and reduce losses. We have provided various kinds of agricultural technology related services to 68 suppliers across the country by the end of 2021. In 2021, purchases from these suppliers, in dollar amount, accounted for approximately 30.3% of total purchase of fruits. We also provide various training and consulting services on comprehensive topics including industry intelligence, plantation and post-harvest technologies, quality standards, branding and marketing solutions.

We have accumulated strong IT capabilities and established our industrial information platform, which not only streamlines information from our distribution centers and retail stores, but also connects to our suppliers and enables information exchange. As such, we are able to ensure the transparency and consistency of information across our industry chain and further utilize such information to navigate our operations, such as procurement planning. Moreover, our industrial information platform benefits the participating suppliers by means of providing feedback on the sales volume, quality and market demand of their products, which is valuable information for plantation bases and fruit farmers to improve and plan their future operations.

Through capital empowerment, we have established strategic partnerships with dozens of plantation bases and agricultural technology companies in the form of joint ventures and equity investment to exert our influence over quality resources across the industry chain. On one hand, capital investment helps our partners strengthen their business; on the other hand, it enables us to control quality resources through strategic agreements and ensure the stability of quality supplies. At the same time, based on our strict fruit quality classification and pricing system at the procurement side, we are able to give sufficient premiums for high-quality fruits and attract more quality suppliers to join our system, thus building the foundation for our sustainable development.

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As such, we believe that in order to establish a vertically integrated industry chain, it is not necessary to directly own entities across the industry value chain, such as plantation bases. Rather, it is our unique strength and strategy by deepening our empowerments and enhancing the influence and management across the entire industry chain.

Leading fruit brand portfolio enabled by advanced fruit quality classification system and established product brand incubation system

We have pioneered in China in establishing a comprehensive and systematic written flavor-oriented 4-grade fruit quality classification system for fruit products. Consumers can directly perceive the quality difference by eating fruits without cooking. Fruits with consistent good taste can lead to consumer stickiness and lay a solid foundation for product branding. We believe that the delicacy of fruits includes multiple aspects such as flavor, safety and eco-friendliness, which are the primary assessment criteria for fruits and the value that consumers are most concerned about. Leveraging our long-term insights into the industry and consumers, we have developed our proprietary system with key metrics including sweetness and sourness, freshness, crispness, softness, flavor and safety that allow us to rate and classify fruits in detailed quantitative scales, setting out an objective standard to determine the degree of delicacy of fruits. Accordingly, we rate and label our fruits under four categories, namely Excellent (招牌), Grade A, B and C, with different prices catering to different consumers.

We have an established product brand incubation system. Through empowerment of the upstream and strong channel and brand marketing capabilities, we have successfully built our own product brands with competitive advantages. Based on the fruit quality classification system for fruit products, we establish production standards for high-quality fruits, and have been deeply involved in plantation to promote modern planting concepts and planting and post-harvest technologies to plantation bases that we partner with. We provide multi-faceted technical guidance from improving orchard ecology, seed selection and breeding, planting and harvesting to nutrition management, as well as strict quality management, to help plantation bases cultivate high-quality fruits and increase yields. We also offer capital empowerments to expand the production scale of quality bases and obtain preferential purchase rights of high-quality fruits to secure large-scale supply; at the same time, we guide the plantation bases to conduct continuous variety improvement and innovation as well as planting planning based on our consumer insights and market demand information accumulated from our extensive sales network. As of the Latest Practicable Date, we had successfully introduced to the market 31 self-owned product brands that are exclusively distributed by us in China under our Excellent and Grade A categories. Store retail sales of our branded fruits amounted to approximately RMB1.0 billion in 2021, accounting for 8.6% of total fruit sales of Pagoda stores in 2021. Among them, the store retail sales of six branded products exceeded RMB50 million in 2021, including Red Ballerina strawberry and Yake prune. In contrast, in 2021, the franchised stores sold fruits under a total of 12 third-party brands and store retail sales of such fruits amounted to approximately RMB0.9 billion in 2021, accounting for 8.1% of total fruit sales of Pagoda stores in 2021. The remaining fruits were generally non-branded products.

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In terms of sales, we make coordinated planning from product positioning, brand design, to marketing and promotion, to create product brands. We are able to generate significant brand attention through our strong brand communication capabilities and quickly penetrate the national market with our extensive retail network, forming an interactive online and offline sales promotion to rapidly increase brand awareness. We launched Red Ballerina strawberry in January 2019 and quickly established its market awareness through multi-dimensional brand marketing. In addition to advertising and promotional activities tailored to target consumers through social media, we also held a number of branding activities on the Valentine's Day to form emotional resonance with target consumers, including a large-scale thematic marketing campaign called "Heartwarming Red Ballerina" to amplify the emotional attributes of Red Ballerina strawberry, whose short video received more than 5 million hits on major domestic media platforms and the WeChat topic viewership exceeded 17 million. Meanwhile, we launched in-store themed displays and creative strawberry bouquets through our extensive sales network, interacting closely with online themed marketing to deepen the brand image of Red Ballerina strawberry. In the strawberry season of 2021, we further enhanced consumers' awareness and trust in Red Ballerina strawberry through multi-channel and content-rich marketing activities such as live broadcasts from place of origin and short videos, festival-themed promotion, movie IP co-branding and in-store promotion.

Successful fruit product brands not only effectively enhance consumer stickiness, but also create greater room for profitability through brand premiums. We replicated our success in the fruit business and have registered Panda.F brand to promote our fresh groceries business.

China's largest community-based fruit specialty retail network with OMO and store-as-warehouse features and a large and loyal consumer base driven by strong membership operation capability

We have the largest community-based fruit specialty retail network in China with OMO and store-as-warehouse features, providing consumers with a highly convenient consumption experience. In an increasingly busy urban life, the "convenience" of consumption is particularly important for products of high purchase frequency such as fruits. The offline retail stores are mainly located within 15-minute walk from our target end consumers and are part of our end-consumers' community life circle, with significant advantages such as certain path dependency, ease to meet the personalized needs of consumers in the community and flexibility and low cost in store opening. Our smart location identification system can integrate parameters such as changes in the surrounding shopping district, customer traffic and spending power, helping us to advise our franchisees to efficiently and precisely identify their stores in communities with high density of residents and strong consumption. As of the Latest Practicable Date, our offline retail store network had 5,645 stores located in high-traffic areas such as residential areas and commercial streets in over 140 cities. We are also rapidly expanding online channels, providing consumers with home delivery and in-store pickup services for online orders through sales channels including our online mobile Pagoda APP, WeChat mini-program, storefronts on e-commerce and social commerce platforms such as Tmall, JD.com, and Douyin, and storefronts on third-party food delivery platforms such as Meituan, Koubei and Ele.me to further enhance convenience and consumer experience.

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Offline retail stores operate with an efficient store-as-warehouse feature, enabling in-store pickup and home delivery services under our just-in-time and next-day delivery options. Fruit is one of the fresh groceries which product display and face-to-face sales could add the most value to. Through in-store displays, face-to-face sales and tasting activities, we create a strong fruit retailing atmosphere and stimulate consumption. We provide professional staff training for our franchisees, and as of the Latest Practicable Date, we had over 24,000 talents, mainly the employees of our franchisees, with enthusiastic service attitudes and professional marketing techniques working on the front lines to interact with consumers; at the same time, we implement “store-as-warehouse” strategy to achieve fast store-to-home delivery with a commitment to delivering in as fast as 29 minutes. We offer differentiated products to customers opting for home delivery or in-store pickup services to effectively increase purchase frequency and coverage of consumers in the community, while encouraging consumers through social marketing and group promotions to place orders on mobile APPs, WeChat mini-program and third-party platforms and pick up in stores to enhance cross-selling.

We have an extensive consumer reach and build a large and loyal user base through close interaction with consumers both online and offline. In 2021, our average daily orders exceeded 795,000 and purchases from our members accounted for approximately 73% of our total in-store and online sales. As of the Latest Practicable Date, our total membership exceeded 73 million. We value the family culture, and through close interaction with consumers in our stores and community WeChat groups, as well as home delivery services, we have established community stores, which not only serve as an emotional bonding with consumers in the community, but also greatly enhance the brand recognition of Pagoda among target consumers by the good publicity effect. Currently, we have guided store managers to establish approximately 22,400 store-based WeChat groups, pushing interesting and interactive product promotions and membership activities, and interacting and communicating with over 8.7 million community WeChat community followers in real time. We also leverage social media, such as Douyin and Weibo, to capture online traffic and expand our consumer base through live streaming and short video. As of the Latest Practicable Date, we had approximately 10.6 million WeChat followers with our official account, 1.8 million Douyin followers and 336,000 Weibo followers.

Through multi-level membership plans and consumption data analytics, we conduct integrated online and offline delicacy operations based on the different stages of membership life cycle to provide our members with personalized services and enhance member loyalty. As a result of our more differentiated products and services, monthly purchase frequency and consumption in 2021 of our paying members were approximately 140% and 160% greater, respectively, than those of our non-paying members. Through multiple channels such as mobile APPs, WeChat mini-program, community WeChat groups, WeChat moments and SMS, we are able to reach users with precision and make personalized product recommendations to achieve effective member maintenance. In addition, through our home delivery services, we can effectively divert our store members to online, convert single-channel consumption to omni-channel consumption, and launch a richer product portfolio to meet diversified consumption needs. In 2021, the overall repurchase rate of our members reached 49%, ranking the first among fruit specialty retail operators, according to Frost & Sullivan.

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Highly replicable franchise model backed by a strong brand, supply chain and operational support with a rapidly expanding franchised store network

We have strategically built our franchise business model with a high degree of autonomy, a strong support system and a management mechanism. We believe our success is based on the healthy development of our franchisees. We consider our franchisees as our business partners and have established mutually beneficial relationships. We have partnered with leading international franchise industry consultants to optimize our franchise business model and focus on enhancing the self-initiative of franchisees. We carefully select franchisees with entrepreneurial spirit and full appreciation of the fruit industry and our core values as partners, and through operational support and comprehensive management system, we ensure that franchisees actively participate in the day-to-day operation and management of stores and continue to improve customer service, quality management and loss management. We implement gross profit based incentive mechanism with our franchisees to give them greater incentive to increase efficiency and reduce costs.

We provide our franchisees with strong brand, supply chain and operational support, creating a favorable entrepreneurial platform for many who dream of starting their own business. Prior to store opening, we help interested franchisees make overall planning and choose the optimal store location through our smart location identification system, and provide franchisees with store design and a series of other supporting services. At the beginning of store opening, we provide free coaching for store managers to help franchisees become fully familiar with the daily operation of the store, and we have an established franchisee training system to provide comprehensive and regular training for store managers and staff to train and reserve talents for franchisees. In daily operation, we assign regional operation and supervisory managers to stores to provide guidance on store operation and management. We have established a district-based operation system, based on the dynamic data of the surrounding shopping districts in which the stores are located, we provide personalized product portfolio, pricing and promotional activities for stores through our smart ordering system to help franchisees achieve delicacy operation of stores and reduce their operational difficulties, and allow franchisees to grasp the operation status of their stores in real time through our store assistant information system. We provide strong support in brand promotion and marketing, such as special marketing programs on festivals, holidays and special event days to help franchisees carry out multi-channel promotion. Our expertise in cultivating high-quality fruits at the planting side and strict quality management throughout the industry chain provide a strong guarantee for product quality, which is the foundation of store operations. We encourage cross-learning and healthy competition among franchisees. By setting up exemplary stores, we share good operation and management practices of well-performing franchisees with others, and continuously improve the overall competitiveness of our franchise system.

We implement highly uniform operation management guidance for franchisees to achieve standardized operation of stores to ensure product quality, consumer experience and the healthy development of franchisees. In daily operations, our regional supervisory managers conduct regular inspections on stores, including store appearance, product display, freshness and pricing. We also hire a third party to conduct random inspections on stores through mystery

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customers, which is included in our franchisee evaluation system. On cash flow control, we connect stores' cash settlement system with the headquarter. Sales proceeds from stores are collected by us and settled monthly with franchisees.

Great product freshness, safety and low loss rate enabled by quality control over entire industry chain and a systematic and efficient warehousing and logistics system

We have established a professional and standardized fruit quality control system across the entire industry chain from orchard to store, creating an advanced freshness and loss control mechanism. Our quality control system is centered on fruit sales standards, and complemented by purchasing, warehousing, distribution and store standards throughout the industry chain. At the planting side, we strictly manage the ecological environment of the orchard and the entire growth period of fruits, promote scientific and sustainable planting methods, and strive to produce natural, delicious and safe fruits. At warehousing stage, we implement delicacy management by fruit types and by batches based on the attributes of the fruit to ensure that the fruit meets our uniform standard upon shipping. To ensure the stability and safety of our fruits, we conduct qualitative sample testing of pesticide residues on each truckload before acceptance, and conduct quantitative testing of each fruit type at our quantitative pesticide residue testing centers in each region to analyze in depth the amount and type of pesticide residues. During transportation, we take into account many factors including temperature and humidity, even the speed and layout of the vehicle. Through continuous optimization of operation details, we maintain the quality and freshness of fruits from warehouses to stores, while improving the efficiency and accuracy of the delivery. On the sales side, our smart product freshness management system sets the selling time for each product according to its shelf life, which helps stores make timely price adjustments and promotional strategies to reduce losses and ensure the quality and freshness of fruits to consumers.

Through systematic procurement planning and real-time inventory-to-sales management, we can effectively match the procurement and sales sides to achieve fast sales of fruits. From the procurement side, we set up a periodic centralized procurement plan based on historical sales and future sales expectation, and adjust timely the procurement strategy through our diversified purchase channels based on actual store sales. From the sales side, we use our information system to grasp in real time store sales information and inventory stock in transit, in storage and in store, so that we can adjust store sales strategy timely and improve our procurement precision to better capture market opportunities. The two-way management between procurement and sales enables us to efficiently coordinate supply and demand, while improving the operational efficiency of the industry chain and reducing losses.

We have established an efficient warehousing and cold chain logistics system based on the special features of fruits. Our nationwide cold chain warehousing and logistics capabilities put us in a leading position in the fruit retail industry. As of the Latest Practicable Date, we and our regional dealers operated a total of 29 preliminary processing and distribution centers nationwide, with an aggregate floor area of approximately 194,733 sq.m. In terms of floor area, approximately 34% of our preliminary processing and distribution centers are cold chain enabled with a maximum cold chain coverage of single distribution center of up to

approximately 97%. We monitor the ripeness and freshness of fruits in the whole process from warehouse entry to exit, and we set up different temperature zones to adopt differentiated management of fruits of different types such as temperature and humidity. Through systematic warehouse planning and daily delicacy operations, such as controlling different temperature zones according to local seasonal temperature changes or fruit life cycle and optimizing the frequency of inbound and outbound shipments in different temperature zones, the unit energy consumption of our warehouses is much lower than the industry average. We have deployed automation of all-category fruit sorting and packing in our pilot large Level A warehouse, significantly improving the efficiency of warehouse operations while reducing labor costs and human errors.

Success led by experienced management with strong corporate culture

Our founder, Mr. Yu Huiyong, has focused on the fruit industry for more than 20 years, and has a very deep insight into the industry and a clear strategic plan for the long-term development of Pagoda. It takes time and patience to cultivate high-quality fruits, and it is Mr. Yu's unwavering commitment to the fruit industry that enables us to concentrate on the planting side and provide high-quality products to consumers. Our management team has extensive operational and management experience in retail, e-commerce, finance and information technology. With Mr. Yu and Pagoda's values at the core, we have formed a close leadership team with strong execution capabilities. Through over 20 years of continuous development, we have established a sustainable business model that can create a pleasant consumption experience for consumers at an optimized fulfillment cost, so as to promote the development of the fruit industry. Our general manager, Ms. Xu Yanlin, has nearly 20 years of experience in retail and is responsible for our overall development and operation; our founding partner and vice chairman, Mr. Tian Xiqiu, has been working in fruit supply chain for many years and is familiar with fruit plantation bases and trade markets at home and abroad; our executive deputy general manager, Mr. Jiao Yue, has been working in e-commerce for 10 years and is responsible for our retail network operation and management; our deputy general manager, Mr. Gong Jianming, has nearly 20 years of experience in retail and is responsible for the optimization of our franchise system and development of franchise network; our deputy general manager, Mr. Xu Yongjian, has been working in IT for 20 years and is responsible for the construction of our industrial information platform. We also have a professional fruit purchasing team, led by our deputy general manager, Mr. Zhu Qidong, who joined us at the very early stage of Pagoda and has extensive experience in purchasing and front-line operations.

The culture of "altruism" and "trust" is the foundation of our development and is the reason why we are widely recognized by the industry and consumers. Since 2009, we have made a solemn promise of instant refund to consumers if our products do not taste good, to protect consumers' interests and create a pleasant consumption experience. For more than 10 years, we have been keeping our promise, and our trust in consumers has won their trust and loyalty in the Pagoda brand. We aim for long-term cooperation, and through agricultural technology and capital empowerment, we help the plantation bases cultivate high-quality fruits, increase production and sales, and create greater market value. We provide comprehensive support to our franchisees in terms of information system and daily operations

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to enhance their competitiveness and create a healthy growth environment for them. Through “altruism” and mutual trust between Pagoda and our stakeholders, we are working together to promote the healthy development of the fruit industry.

We highly value our corporate social responsibility and actively participate in public welfare. Since 2004, we have set up professional planting technology teams to provide fruit farmers in poor counties with scientific planting concepts and modern agricultural technology, secure the sales of their fruits by order purchase, and help lift poor counties out of poverty through business development. In 2020, our founder, Mr. Yu Huiyong, won the “Agricultural Brand Influencer” award, and Pagoda won the “Industrial Poverty Alleviation Model” award. After the outbreak of the COVID-19 in 2020, we worked hand in hand with our overseas and domestic partners to donate medical and living materials and fruits to more than ten cities and a dozen of groups, including hospitals, communities, and medical teams. In 2021, we carried out the charitable activity of caring for left-behind children, and cooperated with Zespri to build classrooms for children to help the development of education in impoverished mountainous areas.

We attach great importance to the development and retention of talents to support the sustainable growth of Pagoda in the future. We have a comprehensive talent training system for the Group and our franchisees, with Good Fruit School (好果子大學堂) as the core, to develop all-round talents in key aspects of management and operation. Campus recruitment is an important way for us to acquire talents, and we have three major talent training programs: Eagle (雛鷹), Nucleus (果核) and Spark (星火), focusing on developing talents in various fields of general management, upstream planting and market operation. Through all-round talent training, we build a high-quality talent pool that resonates with our core values.

Our Business Strategies

Continue our layout in upstream industry chain, strengthen the core competitive advantages of our products, expand the categories of fruit business, and cement our leading industry position

We will continue to increase our layout at fruit planting, empowering plantation bases through agricultural technology, IT and capital resources to cultivate high-quality fruits, secure high-quality fruit sources, develop fruit product brands, and strengthen the core competitive advantages of our products. We will increase our R&D investment in various technical fields such as ecological improvement, variety improvement, planting and plant protection and post-harvest processing, and partner with domestic and foreign fruit industry experts, universities and institutions, and by bringing in advanced planting concepts and technologies from Taiwan, Japan and Europe and through our continuous exploration at the planting side, continue to provide our upstream plantation base partners with advanced technologies and practical experiences that are more suitable for the development of fruit industry in China.

We will continue to strengthen our ability to incubate fruit product brands and develop more of our own high-quality product brands to enhance consumer stickiness and our profitability. By continuously improving our fruit quality classification system for fruit products, and enhancing our upstream capability to cultivate high-quality fruits as well as our

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distribution and brand marketing capabilities, we will accelerate the launch of new fruit product brands such as honeydew melon, honey pomelo, lychee and small tomatoes to comprehensively cover major popular fruit categories, so as to further satisfy the diversified demand of consumers in China for quality fruits.

With fruits as the core, we will accelerate the promotion of fresh-cut fruit business to expand into more diversified consumption scenarios such as afternoon tea, late night snack and party catering. To further optimize our product mix and take full advantage of our supply chain capability of high quality fruits, we have commenced to, and will continue to, develop, produce and sell various fruit-based products with high profit margin, such as dried fruits, fruit juices and frozen fruits. We have established a deep processing factory in Dongguan, and is currently constructing a second deep processing factory in Shanghai, which is expected to be completed in the near future.

In addition, we will further integrate resources at the production areas, gradually open up our fruit supply chain, expand our fruit business-to-business, or 2B fruit business, into supermarkets, fruit chain stores, restaurants and others to enhance our scale advantages, reduce procurement costs and expand our market share. For different channels, we will establish clear fruit selection principles and fruit standards, along with corresponding marketing strategies, to meet the differentiated needs of different channels.

Further enhance our supply chain layout and optimize our warehousing, logistic and quality control system

We will continue to expand and upgrade our network of preliminary processing and distribution centers to improve core metrics such as unit storage area, number of stores covered and average daily delivery volume to support the expansion of our franchised store network and the rapid growth of our 2B fruit business and quality fresh grocery business. We will also upgrade the warehouse and transportation management system, further implement automated management and explore automated warehousing system to improve warehousing and logistics efficiency and reduce costs. Furthermore, we intend to establish specialized processing factories near places of origin for selected core products. We will also provide advanced post-harvest processing technologies, fruit quality classification system, automated packaging capabilities for various sales channels which are tailored to such individual core products. We believe the penetration in upstream supply chain will allow us to involve in the process of stabilizing product quality and incubating self-branded products at an early stage.

We will continue to improve our quality control system, and through our own research and development, investment or cooperation with global leading companies and institutions, increase our investment in technological research and development and equipment for harvesting, post-harvest processing and warehousing and logistics, so as to improve our quality inspection and management technology in purchasing and quality control, especially the preservation technology, strengthen and expand our technological advantages in fruit preservation in warehousing and distribution and at the stores, and further establish our technological advantages in preservation of other fresh groceries. We will also improve the

cold chain technical requirements for suppliers and third-party logistics companies, and establish preservation and digital standards of fresh groceries such as fruits and vegetables according to different sales channels, so as to strengthen our control of the freshness and quality of products and further reduce the loss rate.

With the increase of our product categories, we will continue to optimize store layout and implement store-as-warehouse features. We will use stores as our frontline warehouses for online orders to achieve fast delivery of products from store to home, thereby enhancing our quick response capability.

Continue to expand our distribution network and channel brands

We will continue to expand the breadth and depth of our distribution network through continued penetration into low-tier cities, further expansion of stores in existing cities, and nationwide geographic expansion to achieve more effective and in-depth consumer reach. Low-tier cities in China have relatively high markup due to the smaller purchasing scale, more layers of distribution and higher loss rates of local stores. Consumer demand for high-quality fruits with good value-for-money is increasing along with the improvement of consumption power, creating significant market opportunities for us. In 2021, nearly 43% of the new franchised stores supervised by us were opened in third-tier cities and below, and the proportion of new stores in lower-tier cities will be further increased in the future. In order to adapt to the markets in lower-tier cities, we have launched a store format with simpler decoration style to reduce the initial investment cost of franchisees and also adjusted the product mix through certain local procurement in light of the local market conditions, to reduce logistics costs and improve store profitability. As of the Latest Practicable Date, there were 3,036 franchised stores supervised by us located in first- and second-tier cities. The number of franchised stores supervised by us in first- and second-tier cities increased at a CAGR of approximately 3.6% from 2019 to 2021 with large room for future expansion. We plan to further penetrate our existing markets, especially in high-traffic areas such as communities, major commercial districts and shopping centers, and launch various types of stores such as experience stores, high-end stores and general community stores to cover diversified consumption scenarios according to local conditions. In addition, we also plan to replicate our successful operation model and system in existing markets to new regions with growth potential to achieve nationwide development of our distribution network.

We plan to develop regional fruit retail channel brands and implement our multi-brand strategy through strategic partnerships supplemented by minority investments. We believe that by differentiating our positioning through different channel brands in regional markets to cater to more consumer groups, we will be able to increase our market share and coverage of consumer base. We are currently developing four regional channel brands in China. In the future, we will help regional channel brands to expand rapidly in the local market through the supply chain, information system empowerment and franchise model of Pagoda and provide local consumers with high-quality products and services according to the Pagoda standard.

Leverage our supply chain and channel advantages to accelerate the expansion of fresh grocery business

China's fresh grocery market is enormous in size, but faces a few challenges such as unstable quality, lack of standard, excessive layers of distribution, high markup, low efficiency and high loss rate. According to Frost & Sullivan, the market size of China's fresh grocery retail industry reached RMB5.6 trillion in 2021 and is expected to reach RMB8.5 trillion in 2026. Considering the similarity between vegetables and fruits, and the similarity and overlap in supply chain management and operations, we will replicate our successful experience in fruits and continue to expand our product categories in the fresh grocery business by leveraging our technological advantage and extensive experience in upstream planting. We will continue to improve and integrate the supply chain system of fruits and vegetables, establish the production, sales and quality control standards for each fresh grocery product category, increase the sales contribution of our own Panda.F brand and accelerate the penetration of our fresh grocery business in the national market through our comprehensive warehousing and logistics network and OMO sales network. We strive to make Panda.F a leading brand in the fresh grocery category.

We adhere to the business model of “offering specialty offline and variety online”, and will continue to focus on fruits and fruit-based products business offline and provide more fresh grocery products including fruits online to extend our service boundaries. As fresh grocery consumption is generally planned, we will use Pagoda's supply chain and logistics system through our next-day delivery pre-order model to improve delivery efficiency and reduce fulfillment costs. Our store network is close to the community, providing convenience to consumers to pick up in-store, while using stores as warehouses to achieve fast delivery from store to home. Currently, for our fresh grocery business, “in-store pickup” orders account for approximately 70% of total orders, which is beneficial to drive fruit retail business in stores. In addition, the fruit sales under “next-day delivery” model, mainly in whole and small packages, effectively complement the fruit sales in stores, which can meet more diversified consumer needs while maintaining the interests of franchisees to a certain extent. Since its launch, the fresh grocery business has been well received by consumers. In addition to the fresh grocery category, we will also increase our research and development and sales of prepared food, children's food and healthy processed food in the future.

Continue to expand and optimize our OMO operation model

We believe that a high degree of integration between our online sales platform and offline store network is the key to the success of our retail system. We will provide our consumers with an integrated and highly convenient consumption experience by enhancing our capabilities such as online and offline operations, customer acquisition and maintenance, as well as retail innovation.

We will continue to broaden our online traffic and coverage of consumer groups through online channels and cooperation with third-party e-commerce and social commerce channels, and expand our membership base. Offline we will make full use of the customer acquisition capabilities of our community stores, continue to optimize community marketing operations, and combined with online channels to strengthen personalized products and promotions to achieve efficient sales conversion and member maintenance. In addition, we will continue to optimize the product portfolio of online and offline platforms and promote omni-channel consumption through differentiated high-quality products and services.

We will continue to invest in the innovation of retail models and explore new sales methods of fresh grocery products to improve consumption experience, such as unmanned sales through vending machines, launch of periodic order model, and offer unique product mix according to different sales models to expand online and offline consumption scenarios. At the same time, we will continue to upgrade our existing stores, such as creating recreational areas in stores and adding adjacent products and services to further enhance consumers' in-store experience.

Accelerate the digitalization of our whole operation and industry chain through IT investments and empowerment

We plan to continue to invest in IT research and development and upgrade, and through the technological empowerment of all links of the industry chain, to promote the digitalization of our business and improve the operational efficiency and synergy of the entire industry chain.

Specifically, we will focus on the development of the following business process application system:

- **Planting:** We will continue to optimize the digital management system in upstream planting and strengthen the smart application of agricultural data to achieve accurate forecast and precision management of the yield and quality of fruits and other fresh groceries at the plantation base, and improve the efficiency of technicians;
- **Procurement and supplier management:** We will continue to improve the supplier trading platform, combined with the information forecast model to achieve real-time synchronization of inventory and sales data, and accurately monitor product quality and loss rate in procurement, warehousing and logistics;
- **Stores:** We will continue to enhance the digital capabilities of store operations, strengthen the district-based delicacy operation of stores, and further promote the digital operation management system of store operations, including smart ordering, smart pricing, smart dynamic sales management, key operation indicator prompts, etc., to improve store operational efficiency;

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- **Member marketing:** We will continue to promote the digital operation of our members and integrate online and offline information resources to achieve real-time analysis and application of members' full life cycle consumption data, and strengthen our online and offline service capabilities to enhance the lifetime value of members;
- **Procurement and sales:** We have fully updated Pagoda ERP system to the second-generation self-developed system and will continue to carry out system upgrade and optimization, to further improve smart ordering and dynamic sales management and strengthen end-to-end fast connect and data analysis capabilities.

In addition, we fully recognize that IT investment and industrial information platform construction are crucial to the efficiency improvement of the entire industry chain. For our fruit and fresh grocery ecosystem, we plan to build a middle-office system that connects with our partners in the industry chain to promote the informatization of our partners' business operations through system development and resource sharing, and gradually bring in all participants from planting to sales end to achieve interconnectedness of business operations and data sharing among all parties, so as to realize the informatization and synergy across the entire industry chain and improve its overall efficiency.

Pursue appropriate strategic investment and acquisition opportunities to strengthen our industry chain layout

We firmly believe that strong management over the industry chain is key to build the competitive barriers for fresh grocery brands. Establishment of standards and management in planting and the control of post-harvest processing and logistics standard in warehousing and distribution is the core element to develop high-quality fresh grocery products. Therefore, it is our long-term strategy to build a platform-oriented enterprise. We will build an ecosystem with Pagoda as its core through investment and self-development. On one hand, we will acquire leading technologies in breeding, planting, plant protection and post-harvest through investment and acquisition of suitable targets to strengthen our ability to cultivate high-quality fresh grocery products and to incubate product brands; on the other hand, we will implement multi-brand strategy through integration of channel brands to enhance consumer reach:

- in respect of fresh grocery supply chain and brand incubation, we completed direct investment in 13 fruit-focused suppliers during the Track Record Period up to the Latest Practicable Date to expand our layout in fruits such as apple, kiwifruit and strawberry. We also invested in fruit brand management companies to enhance our incubation capabilities in high-quality fruits;
- in respect of planting and post-harvest processing technologies, we directly invested in five enterprises during the Track Record Period up to the Latest Practicable Date to explore the application of smart agriculture and the improvement and transformation of planting technologies.

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In the future, we will continue to look for suitable acquisition and investment opportunities based on factors such as potential targets' contribution to our industry chain, brand awareness, development potential, and complementarities with our existing products and channels. As of the Latest Practicable Date, we did not identify any specific acquisition target.

OUR PRODUCTS AND BRANDS

Fruits

We distribute a variety of fresh goods with a primary focus on fresh fruits. We currently offer over 60 types of fruits during the year. Our offerings range from common fruits to rare seasonal fruits, covering various types including melons, citrus, berries, drupes and so on. Fruits are available in the forms of pre-packaged whole fruits and fresh-cut fruit bowls. In addition, we also offer dried fruit snacks and fruit juice products.

Other Fresh Groceries

Given the fact that certain other fresh groceries and fresh fruits share a lot of natural characteristics and the patterns of their supply chain management and retail operations are relatively identical, we have duplicated our successful experience in fruit retail industry to other fresh groceries.

We currently distribute a variety of other fresh groceries including non-standard items, such as vegetables, fresh meat and seafood products, and pre-packaged standard items such as grains and oils, dairy products and others, such as frozen food, covering over 100 types of other fresh groceries during the year.

We deploy a business model by offering specialty offline and variety online, continuing to focus on fruit and fruit products business offline, and providing more fresh grocery products online to extend our service boundaries. Since purchasing of such other fresh groceries is more likely to be a decision of planned buying, we adopt the online pre-order model. Consumers place orders with our online channels, mainly our Pagoda mobile APPs and Pagoda WeChat mini-program, to purchase hand-picked fresh groceries, which are fulfilled by next-day delivery, and consumers may opt to pick up at a designated retail store or request for home delivery. This approach offers convenience to consumers and allows us to assess demands and make procurement and logistic arrangements subject to the orders received.

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The table below sets forth a breakdown of the revenue contribution derived from sales of products by our major product types during the Track Record Period.

	Year Ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(unaudited)</i>									
Fresh fruits	8,448,076	96.5	8,329,487	96.4	9,485,163	95.0	5,164,156	96.2	5,449,333	95.1
Dried fruits	268,860	3.1	230,603	2.7	303,163	3.0	113,525	2.1	127,110	2.2
Other fresh groceries	32,890	0.4	76,724	0.9	203,432	2.0	89,469	1.7	154,250	2.7
Revenue derived from sales of products	<u>8,749,826</u>	<u>100</u>	<u>8,636,814</u>	<u>100</u>	<u>9,991,758</u>	<u>100</u>	<u>5,367,150</u>	<u>100.0</u>	<u>5,730,693</u>	<u>100.0</u>

Proprietary 4-Grade Fruit Quality Classification System

We are committed to cultivating, sourcing and selling high-quality fruits at affordable prices. We have developed a proprietary flavor-oriented 4-grade quality classification system for fruit products which is implemented in all stores under Pagoda brand, namely Excellent (招牌), Grade A, B and C. We rate and classify our fruits under these four categories based on various parameters, including sweetness and sourness, freshness, crispness, softness, flavor, safety, as well as other metrics such as size, color, and absence of defects. To be specific:

- **Excellent:** These are typically fruits that are exclusively provided by us with highest quality standards and are highly differentiated with other fruits available in the market in terms of all or part of the above mentioned parameters.
- **Grade A:** These are fruits with certain differentiation with other fruits available in the market and are of higher quality. Although these fruits do not meet our standards for Excellent grade, the sweetness and sourness, freshness, crispness, softness, flavor, safety of such fruits are better than the average products in the market.
- **Grade B:** These are fruits that are generally similar to those available in the market.
- **Grade C:** These are edible fruits and are in poorer quality than those in the market.

On top of the 4-grade quality classification, we may from time to time identify and assign “Rare” grade to fruits which we consider are extremely rare in availability or in very special specifications and usually are only available in a limited amount. To better exert our influence across the industry chain and to manage the quality of our suppliers, we strive to involve ourselves in the upstream supply chain by providing various empowerments, in particular, to those suppliers of fruits under our categories of Excellent and Grade A, please refer to “—Responsible Supply Chain Management Empowering Sustainable Development” below for further details. Aggregate sales of fruits under Excellent and Grade A categories accounted for approximately 70% of the total store retail sales of Pagoda stores in 2021.

We have established a comprehensive set of quality standards. We review and modify such quality standards on a yearly basis in response to various factors and forecasts, including the changing climate and market conditions. We will also from time to time update the standards when we intend to sell new fruit products. Fruit quality standards are fundamental for our quality classification and the execution of standardized quality control, which ensures our product quality, and in turn, our reputation. For more details about our quality control, see “— Food Safety and Quality Control — Quality Control.”

A lack of commonly accepted quality standards has long been a handicap for domestic fruit growers and distributors to achieve scalability in business. The establishment and implementation of our quality classification system for fruit products has laid a solid foundation for us to develop our franchise business model, which not only enables us to effectively evaluate the fruit quality throughout the cycle from procurement to sales, but also allows us to market and price the products, either towards the suppliers or the franchisees and consumers, in a consistent manner. It also ensures us to deliver a consistent shopping and tasting experience to our consumers. More importantly, we have pioneered in China in establishing a comprehensive and systematic written flavor-oriented 4-grade fruit quality classification system for fruit products, which forms a barrier to entry by educating the consumers to understand and appreciate the premium value of high-quality fruit products based on objective quality standards instead of relying on subjective personal experience. The standardized classification system for fruit products provides a direct and visualized guide to consumers as to the fruit quality, which further reinforces the competitiveness of those high-quality fruits.

We currently distribute a number of fresh groceries other than fruits. We believe the establishment and implementation of our proprietary 4-grade fruit quality classification system for fruit products has been critical to our quality control over fruit distribution. As such, we are in the process of developing similar quality classification systems for other fresh groceries by drawing on the successful experience accumulated in fruit retail industry. For example, with the technical support of our Younongdao, we have developed various standardized dimensions and parameters to determine the level of delicacy of vegetables, and we intend to build the “Three Zeros with Fresh Flavor (standing for zero chemical pesticides, zero chemical fertilizers and zero added chemical hormones with authentic flavor)” quality standards for vegetables.

Responsible Supply Chain Management Empowering Sustainable Development

High-quality and sustainable fruit product supply originates from high-quality and sustainable agriculture. We believe establishing an ecosystem with responsible supply chain management capability is fundamental and essential for our sustainable growth. To this end, we strive to optimize our supply chain management by accumulating and improving cultivation technologies that could empower our industry value chain, especially those upstream suppliers, in a manner that integrates traditional and scientific knowledge with best fruit growing practices and technologies, increases fruit yields and reduces costs, and lastly, contributes to a healthier environment.

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Leveraging our standardized fruit quality classification system for fruit products and our extensive agricultural technologies and experience in cultivation and post-harvest processing which we have accumulated over the past years, we from time to time provide a variety of training and consulting services to plantation bases on comprehensive topics including industry intelligence, plantation and post-harvest technologies, quality standards, branding and marketing solutions. Meanwhile, benefiting from our vertically integrated industry value chain, we are able to generate customized solutions, assisting in matching resources from supply chain, research and development, logistics and marketing, and helping all participants in our ecosystem to exploit their advantages and maximize economic returns. We charge service fees based on the type, scope and the level of complexity of the technical training and services we provide. Unless we evaluate and identify any fruit product that possesses unique competitiveness in the market during the process of cooperation, we usually do not require the relevant suppliers to exclusively sell their products to us. Instead, we typically enjoy, at our discretion, the priority to purchase products that meet our quality standards. We believe such arrangements provide us with more flexibility in selecting products with comparable quality and prices. In addition, with respect to relevant technologies to be used and applied during the process of providing training and consulting services, we typically do not transfer the ownership of the relevant technology to the counter party. We specify the party which is allowed to use the relevant technology exclusively and the usage of such technology is restricted to the manner as agreed in the agreement. The counterparty is not allowed to disclose, transfer or assign the technology to other third parties without our prior approval. The counter party and/or its employees who may have access to our proprietary technologies or information are also typically subject to the confidentiality clauses in our agreements. Moreover, such services provided by us are typically customized on a project-by-project basis, including the formula or specification of certain manufacturing raw materials used that rely on our technologies. We believe our services, including the subsequent results arising from such services, cannot be easily reproduced or transferred by the counter party to other third parties.

In particular, we, through certain subsidiaries that are specialized in cultivation management or agricultural technological innovations, empower plantation bases, including certain of our suppliers, with advanced agricultural technologies. For example, our consolidated subsidiary, Youguolian, is a cultivation management company specialized in integrated consulting solutions in connection with cultivation techniques, production and commercialization, as well as branding and marketing for fruit products. Youguolian has developed several cultivation technical theories which have gone through verification and accumulation through long-period practice. It is able to produce integrated solutions with respect to high-standard horticulture management, soil modification, cropping system design, nutrition program design and other aspects. In particular, the comprehensive nutrition management system of Youguolian has made progress in both practice and theory in terms of multiple aspects including organic fertilizers, foliar nutrients and biological stimulants, presenting advantages over the theories on any individual aspect. Another subsidiary of us, Younongdao, is a cultivation technology company which obtained the license in connection with a leading organic agricultural system originated from Japan. Based on cumulative data and crop characteristics, it is able to produce precision fertilization plans by leveraging soil analysis and fertilization design, which in turn, are able to increase the quality and yield of fruits and reduce production costs. Younongdao has collaborated with a number of agricultural bases on cooperative plantation experiments in modification of soil and fertilizers.

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Currently, examples of our successful agricultural technology empowerments along our supply chain include:

- **Red Ballerina strawberry:** We strategically focused on exploring strawberry cultivation, post-harvest and cold chain logistics technologies, and we have provided comprehensive technical support for growing excellent grade strawberry to our supplier, including soil improvement, fertilizer research and development and other nutritional solutions, as well as advanced plant protection solutions to control pesticide residues, and leading post-harvest technical specifications to control picking standards and post-harvest freshness, enabling full monitoring of strawberry quality and yield through scientific and standardized operations. This supplier is our major supplier of Red Ballerina strawberries, and such strawberries meet the Red Ballerina standards and are superior in quality in terms of flavor, brix value and appearance, as compared to our Grade B strawberries. We successfully built our Excellent red face strawberries into the Red Ballerina strawberry brand in 2019, which has been well received by consumers. The store retail sales of this product increased from RMB143 million in 2019 to RMB231 million in 2021 during the same period, representing a CAGR of 27.1%. The retail price was generally twice as high as our Grade B strawberry, and the loss rate was much lower than the market average.
- **Liangzhi apple:** Youguolian has developed solutions including soil modification, nutrition management improvement, cultivation and plant protection plans, which were attributable to the development of Liangzhi apple with high organic content and high nutritional value. We first introduced Liangzhi apple to the market in 2017, and as of the Latest Practicable Date, 40 partner plantation bases were using such technical solutions to grow Liangzhi apple. We extended the technologies from Shandong to Shaanxi-Gansu area. The store retail sales of this product increased from RMB12 million in 2019 to RMB37 million in 2021, representing a CAGR of 75.6%. In 2021, the retail price of Liangzhi apple was generally twice as high as our Grade B apple products.
- **Mi Clan Chinese gooseberries:** We established a technical team focusing on gooseberry industry chain, and conducted regional experiments to select varieties with commercial potential. Through Youguolian, we worked with our supplier to apply our customized solutions for kiwi plantation. We provided guidance on quantitative application of custom-formulated organic fertilizers to improve soil and orchard ecology. We also generated scientific and standardized planting plans, plant protection and nutritional management methods. We provide ongoing technical support as we conduct technical training tours five times a year in each production area and give timely and detailed technical guidance at key technical points throughout the planting and picking. Our regional managers conduct regular one-on-one inspections of each gooseberries production area, rigorous assessment of orchard production standards, and our technical supervisors implement technical programs and key technical points. This supplier is our major supplier of Mi Clan

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Chinese gooseberries, and such gooseberries meeting the Mi Clan standards are superior in quality in terms of flavor and brix value, as compared to our Grade B gooseberries. Since the launch of Mi Clan Chinese gooseberries brand in 2017, the store retail sales increased from RMB21 million to RMB36 million during the same period, representing a CAGR of 30.9%. In 2021, the retail price of Mi Clan Chinese gooseberries was generally 130% higher than our Grade B gooseberries.

- **Fangshan spinach plantation experiments:** In 2020, certain plantation bases in Fangshan, Beijing commenced the plantation experiments by adopting the Bio Logical Farming, or BLOF, plantation technique of Younongdao. The experiment results have revealed that the yield, flavor, and the level of disease resistance of the experiment groups of spinach planted by adopting the BLOF technique were significantly improved from control groups, which in turn, proved to have better economic returns.
- **R&D collaborations with fertilizer manufacturers:** Younongdao has established R&D collaborations with a number of domestic fertilizer manufacturers by providing the detailed process requirements and base formula based on its BLOF technique. The R&D collaborations mainly focus on developing and producing high-quality compost fertilizers, amino acid organic fertilizers, as well as mineral fertilizers. Under the relevant collaboration agreements, the fertilizer manufacturers usually manufacture the fertilizer by adopting the technology provided by us and following the technical specifications specified by us. To ensure the quality of the fertilizer product under development, we usually specify the raw materials to be used. We specify the detailed quality standards in the collaboration agreements that the final product shall meet, which we may purchase from the fertilizer manufacturers. We generally have the right to conduct quality inspections during the process of product development and manufacturing. The fertilizer manufacturers are generally responsible for the costs and expenses in connection with the product development and manufacturing, and we shall pay product processing fees to the fertilizer manufacturers when we purchase the relevant products meeting our quality standards. We typically do not transfer the ownership of any core technologies owned by us to the fertilizer manufacturers, and they are also not allowed to disclose such technologies and other trade secrets of us to any third party without our consent. Some of the products have been commercialized and are welcomed by farmers.

We provided various kinds of agricultural technology related services to 68 suppliers across the country, covering different fruits from apple, pear, gooseberry, strawberry, watermelon to others, to increase their product quality, enhance flavor, reduce losses, and improve economic returns. In 2021, purchases from all these suppliers, in dollar amount, accounted for approximately 30.3% of our total purchase of fruits. Among them, 60 were suppliers of fruits under our Excellent and Grade A categories. We charge service fees based on the type, scope and the level of complexity of the technical training and services we provide. For example, soil sample analysis and testing service is generally simple and service fees are

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mainly determined based on the number of testing experiments. Service fees of annual training services vary and are determined on a case-by-case basis, subject to factors such as the complexity of training materials, subjects to be covered and number of participants. On the other hand, under certain consulting service arrangements, we assist the suppliers to study and apply relevant agricultural technology to their plantation bases. We usually charge a fixed annual fee for such services.

Among these 68 suppliers, 3 were our subsidiaries, 8 were our associates, 1 was accounted for as our financial assets at fair value through other comprehensive income (FVOCI), and the remaining were independent third parties. Moreover, among these 68 suppliers, 9 suppliers had entered into factoring arrangements with us during the Track Record Period and up to the Latest Practicable Date. As of December 31, 2019, 2020 and 2021 and June 30, 2022, aggregate factoring amounts due from these suppliers were RMB132.0 million, RMB70.6 million, RMB14.6 million and RMB18.1 million, respectively. Other than the above-mentioned transactions, these suppliers do not have any past or present relationship, including, without limitation, business, employment, family, financing, trust or otherwise, with us or our subsidiaries, shareholders, directors or senior management, or any of their respective associates. In addition, despite the services we provided, the terms and conditions provided to these suppliers under the purchase agreements are generally identical to those provided to other independent third-party suppliers.

Forming a systematically functioning sustainable supply chain takes long time and great efforts. We believe our accumulated technical innovations and know-how are able to benefit our entire ecosystem and generate more visible advancements, including empowering fruit growers to achieve scalable production of high-quality fruits in a more cost-efficient manner.

In addition to various agricultural technologies, we also leverage our accumulated strong IT capabilities and the established industrial information platform to empower our suppliers, which not only streamlines information from our distribution centers and retail stores, but also connects to our suppliers and enables information exchange. Our industrial information platform benefits the participating suppliers by means of providing feedback on the sales volume, quality and market demand of their products, which is valuable for plantation bases and fruit farmers to improve and plan their future operations. As of the Latest Practicable Date, substantially all of our retail business suppliers have been connected to our intelligent supplier management system.

Lastly, we from time to time identify industry players with growth potentials and through capital empowerment, we have established strategic partnerships with dozens of plantation bases and agricultural technology companies in the form of joint ventures and equity investment to exert our influence over quality resources across the industry chain. On one hand, capital investment helps our partners strengthen their business; on the other hand, it enables us to control quality resources through strategic agreements and ensure the stability of quality supplies. At the same time, based on our strict fruit quality classification and pricing system at the procurement side, we are able to give sufficient premiums for quality fruits and attract more quality suppliers to join our system to support our sustainable development.

Strategic Investment and Partnership

Driven by our strategy to exert influence on our industry value chain by capital empowerment, as of the Latest Practicable Date, we had made direct investments in 38 companies, which are suppliers of fruits that we believe are competitive in quality and rareness in the market, or companies specialized in agricultural technology and cultivation management.

Our initial investment agreements typically contain general terms and conditions in connection with the corporate governance and management matters. As of the Latest Practicable Date, by different types of investment, these investments might be further divided into:

- 16 of our currently consolidated subsidiaries, comprising 7 fruit product suppliers, 3 fresh grocery suppliers, 2 fruit product processing factories, and 4 agricultural technology companies which include Younongdao. Seven of these direct investments were made during the Track Record Period and up to the Latest Practicable Date.

Aggregate investment cost paid by us in relation to these investments during the Track Record Period and up to the Latest Practicable Date was approximately RMB355.9 million, among which approximately RMB310.0 million was for the acquisitions of Haiyang Jinchengtai and Youguolian. Currently, ten are wholly-owned subsidiaries and our current equity interest in the remaining six subsidiaries is between 51% up to 100%. With respect to subsidiaries that are not wholly owned by us, we generally intend to acquire control over the business operation of these companies. We are typically entitled to appoint the majority of the board of directors of the investees and actively participate in the management of their business operations. Given our majority ownership, we have generally acquired the majority voting power over material events of these companies. We also usually have the right of first refusal when the counter-party shareholders intend to sell their shares in the relevant companies.

- 12 of our current associates, comprising 10 fruit product suppliers, and 2 agricultural technology companies. Nine of these direct investments were made during the Track Record Period and up to the Latest Practicable Date.

Aggregate investment cost paid by us in relation to these investments during the Track Record Period and up to the Latest Practicable Date was approximately RMB75.9 million. Our current equity interest in these associates is between 7% up to 45%. Subject to the investment agreements, we are typically entitled to appoint at least one director of the associates. In addition, subject to their respective articles of association, any material event, such as merger and acquisition, amendment to

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articles, termination of business, and distribution of profit, shall obtain approval from shareholders representing the majority voting power. We also usually have the right of first refusal when the counter-party shareholders intend to sell their shares in the relevant companies.

- Nine investee companies that are accounted as financial assets at fair value through other comprehensive income (FVOCI), comprising seven fruit product suppliers and two agricultural technology companies. Six of these direct investments were made during the Track Record Period and up to the Latest Practicable Date.

Aggregate investment cost paid by us in relation to these investments during the Track Record Period and up to the Latest Practicable Date was approximately RMB16.2 million. Our current equity interest in these investees is up to 27%. We generally do not actively participate in the daily operation of these companies, but are entitled to the general right as a minority shareholder, such as right of access to information.

- One investment in a dairy company which is specialized in yogurt products that is accounted as financial assets at fair value through profit or loss (FVTPL). This investment was made during the Track Record Period.

Total investment cost was RMB20.0 million, and our current equity interest in this company is 1.18%. We from time to time contemplate cross-promotional and cross-sales collaborations to explore potential opportunities in food industry. We intend to leverage this investment to expand our product offerings that may leverage our competitive advantage in fruit supply.

Given that almost all of the companies we targeted were typically small in operation scale and/or at a start-up stage, the initial capital investment with respect to individual transaction was generally not significant. We take a prudent approach in our capital empowerment process, and typically make minority equity investment at the initial stage. We would evaluate the growth of these companies on a regular basis and decide to increase our investments so as to enhance our influence on their business development.

Product Brands

To exert control over upstream supply chain and to reserve high-quality product brands are our competitive strengths and our long term development strategies as well. As of the Latest Practicable Date, through organic development and close partnership with the relevant suppliers, we had successfully introduced to the market 31 self-owned product brands that are exclusively distributed by us in China under our Excellent and Grade A categories. These 31 product brands cover 20 fruit types, including apple, strawberry, durian, grape, mellow, prune and others. We had registered 211 trademarks as brand names for our fruit products in China as of the Latest Practicable Date, such as “Red Ballerina” brand for strawberry (紅芭蕾), and “Daba” brand for musang king durian (大芭貓山王). We are also currently in the process of registering 45 additional brand names. We only apply such proprietary brand names to our premium quality products, which differentiates us from other competitors in the market and further reinforces our brand identity and awareness.



Yake prune



Daba musang king durian



Red Ballerina strawberry



Mi Clan Chinese gooseberries



Liangzhi apples



Jade grape

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The table below further sets forth certain information of the 31 self-owned product brands under our Excellent and Grade A categories.

Product Brand	Fruit Type	Average Selling Price (RMB/ per kilogram) ⁽¹⁾⁽²⁾
Yake prune / 亞克(西梅)	prune	27
Love of North America plum / 北美之戀(櫻桃李) . . .	plum	94
Xi'ge coconut / 吸個(椰子)	coconut	36
Daba musang king durian / 大芭(貓山王榴蓮)	durian	103
Custard apricot / 奶皇(杏)	prune	43
Little Sunshine kumquat / 小太陽(金桔)	citrus	48
Little Purple passion fruit / 小鮮紫(百香果)	passion fruit	29
Mumeiren grape / 慕美人(葡萄)	grape	43
Late Spring peach / 晚三月(水蜜桃)	peach	18
Wind Chime wax apple / 水風鈴(蓮霧)	wax apple	37
Huohong persimmon / 火虹(柿)	persimmon	13
Shuang Bu Rang	winter	23
winter jujubes / 爽不讓(冬棗)	jujubes	
Newton apple / 牛頓(蘋果)	apple	13
Mi Clan Chinese gooseberries / 彌宗(綠果)	gooseberry	13
Yuqiao orange / 玉俏(紅美人)	citrus	41
Wangping orange / 王品(山地橙)	orange	11
Red Ballerina strawberry / 紅芭蕾(草莓)	strawberry	55
Zhi Hu Jin mellow / 紙虎金(瓜)	watermelon	10
Liangzhi apple / 良枝(蘋果)	apple	14
Mi Huang pear / 蜜凰(冰糖梨)	pear	20
Yu Jin Xiang durian / 遇金香(榴蓮)	durian	56
Golden Flower jack fruit / 金花瓣(菠蘿蜜)	jack fruit	19
Bingchuan mellow / 冰川脆蜜瓜(蜜瓜)	mellow	9
Xiangfeng grape / 香風(翡翠青提)	grape	57
Black cane grape / 黑藤(巨峰)	grape	23
Pinky dragonfruit / 大粉(火龍果)	dragonfruit	11
Bushili / 不失李(李子)	plum	15
Hua Huang golden pineapple / 花凰(金鳳梨)	pear	16
Mild Jade mellow / 軟香玉(蜜瓜)	mellow	13
Xue Sha orange / 雪紗(桔柚)	orange	13
Finest dragonfruit / 一品官(燕窩果)	dragonfruit	95

Notes:

- (1) Base on average selling prices set through major sales channels (excluding online channels) throughout the three years ended December 31, 2021. Given that selling prices of fruit products may be subject to material seasonal fluctuation, selling prices for the six months ended June 30, 2022 were not considered.
- (2) For indicative purpose only. Selling prices of each fruit product fluctuate throughout the year and price difference may be significant in different seasons and due to changes in supply and demand in regional markets.

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Given the broad and diverse range of product offerings, as of the Latest Practicable Date, we had registered one trademark, namely Panda.F (熊猫大鲜), as the brand name for all of our other fresh groceries.



Egg



Fresh vegetable



Fresh meat



Milk



Rice



Steamed pork bun

Pricing

We believe our leading position in our industry in China as well as our brand recognition and product quality have provided us with a strong pricing power.

We generally take into account a number of factors to set the price of our fruits sold to our consumers, including costs relating to procurement and warehousing, market demands and the prices set by major competitors. We generally consider the following factors when we price a specific type of fruits:

- the studies and analysis on the supply and demand relationship in our target markets and on the purchasing power of our target consumers;
- our historical sales;
- procurement costs, including costs relating to logistics and warehousing;
- anticipated profitability; and
- pricing of our competitors and comparable products in the market.

Leveraging our standardized fruit quality classification system, we are able to price differently based on different quality levels of fruits. Such a pricing strategy allows us to maximize the value of each type of fruits, achieve good value-for-money, and cater to the needs of consumers with different purchasing power. In addition, due to the nature of fresh fruits, their prices are generally subject to frequent fluctuations resulting from quality deterioration, seasonal availability and other factors. As such, our operation and procurement departments

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conduct dynamic price review on a weekly basis and adjust our prices towards the franchisees. Currently, we deploy our uniform store procurement platform to release to the franchisees the pricing schedules for each type of fruits. With respect to a specific type of fruits, the selling prices to franchisees may be slightly different, considering the different logistic costs based on the distance from the place of origin to the cities where the stores are located, as well as the competition in each regional market. To be specific, with respect to a particular product of same quality, we typically set a relatively lower suggested retail price in lower-tier cities comparing with the more developed regions, after considering the purchasing power, competitive landscape and operating costs in such regional markets. In addition, suggested retail prices for a particular product of same quality sold through online and offline channels are generally comparable, in order to minimize the competition on price between online and offline sales. However, we adopt the product differentiation strategy and develop different packaging or specifications to attract diversified consumers across online and offline channels.

As to the sales in the retail store, we set a suggested retail price as well as a maximum retail price for each fruit, generally guided by the principle that discernibly better products are priced with a higher premium. Our franchisees may adjust their selling prices based on the suggested price which shall not exceed the maximum retail price. We have launched smart pricing system by leveraging data analytics, so that we are able to learn the best pricing strategy for each product type and better advise the franchised stores on pricing.

Similarly, in light of other fresh groceries that are non-standard items, such as vegetables and fresh meat, we generally price the products based on their quality levels. With respect to other fresh groceries that are standard items, such as prepacked grains and oils, and dairy products, we typically set the retail prices by adopting a cost-plus approach. We will also refer to comparable products with similar quality levels on the market when making the pricing strategy. We currently distribute other fresh groceries in selected regions and we adopt a uniform pricing strategy for such products.

Seasonality

Some fruits are available all year around and some are in season only for several months, even weeks. Generally speaking, sales are relatively stronger in summer seasons. However, the impacts of seasonality on our operations and financial performance is not material. Due to the large variety of fruit types we sell, leveraging the flexible adjustment to product offerings, we do not expect to experience significant fluctuations in sales due to the seasonality of any particular fruit. There is generally no significant seasonal fluctuation in the supply of our other fresh groceries.

FRUIT SPECIALTY RETAIL OPERATOR WITH OMO AND STORE-AS-WAREHOUSE FEATURES**OMO Strategy**

Leveraging our in-depth experience in the fruit retail industry in for over 20 years, we believe that the OMO and store-as-warehouse features best suit the fruit specialty retail model. On one hand, the extensive community-based network of small-scale stores that are close to consumers is able to satisfy the personalized consumption needs of community residents. In-store product displays and face-to-face selling have significant added-value. Meanwhile, the advantages of e-commerce that allows consumers to conveniently place orders online and reaches a massive consumer base further attract consumers to step into offline stores or to purchase online. On the other hand, the store-as-warehouse model is able to enhance logistical efficiency and reduce logistic costs, thus, achieving high turnover and low loss rate. In addition, we are also in the process of upgrading our member operations, consumer services and internal IT infrastructure support to further enhance the OMO and store-as-warehouse features.

We have established multiple self-operated online channels, comprising Pagoda mobile APPs, Pagoda WeChat mini-program, stores on mainstream e-commerce platforms such as Tmall and JD.com, as well as storefronts on popular social commerce platforms, such as Douyin. In addition, we partner with third-party food delivery platforms, such as Meituan, Koubei and Ele.me.

The well-established offline store network and multiple online channels enabled us to deploy our business model by offering specialty offline and variety online. Offline stores focus on fruit and fruit related products while we display and promote other fresh groceries online. Consumers purchasing fresh fruits online via our mobile APPs and WeChat mini-program are offered flexible delivery options, including the just-in-time delivery or the next-day delivery. Under either option, they may further opt to pick up at a designated store or request for home delivery. Online purchases of fresh fruits through third-party platforms will be fulfilled by the fleets of such platforms, most of which are instant delivery. On the other hand, since purchasing of such other fresh groceries is more likely to be a decision of planned buying, we adopt the online pre-order model which is fulfilled by next-day delivery, and consumers may opt to pick up at a designated retail store or request for home delivery. This approach offers convenience to consumers and allows us to assess demands and make procurement and logistic arrangements subject to the orders received. The online pre-order model fulfilled by next-day delivery also minimizes the in-store inventory for other fresh groceries. On the other hand, the in-store pickup option may further drive traffic into the offline stores and contribute to total sales by increasing sales of fruits in stores.

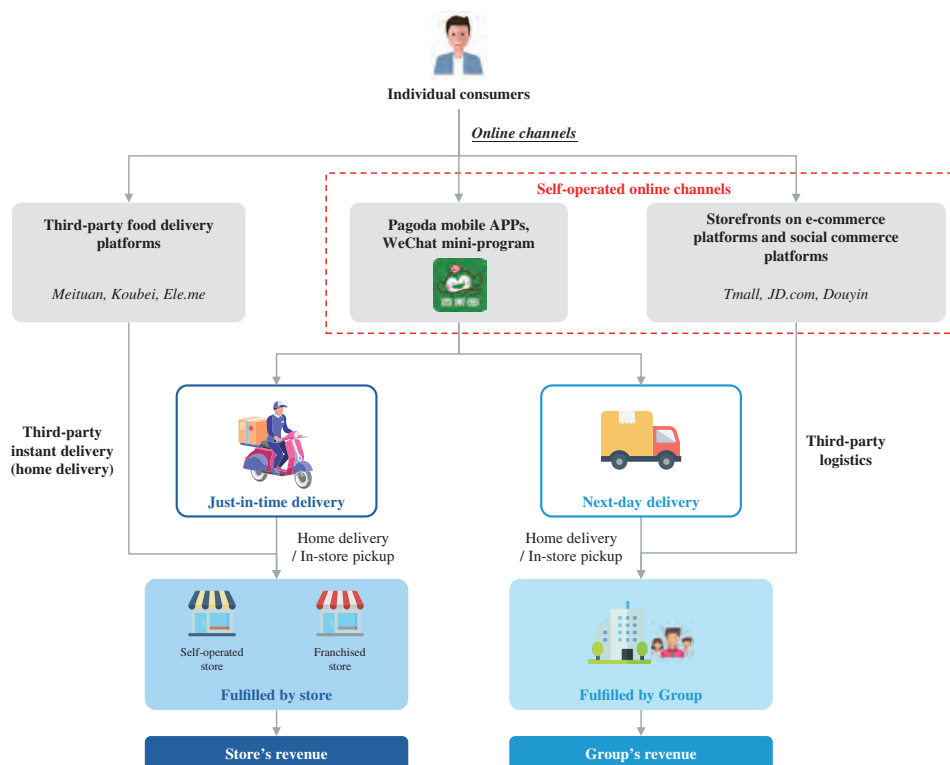
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Sales derived from online orders via our mobile APPs and WeChat mini-program fulfilled by next-day delivery, and sales derived from online orders through third-party e-commerce and social commerce platforms are counted as our revenue since such orders are processed and performed by us. Sales derived from online orders via our mobile APPs and WeChat mini-program fulfilled by just-in-time delivery, and sales derived from online orders through third-party food delivery platforms are sales revenue of the relevant store which processes and performs the order.

For example, if a customer places an online order:

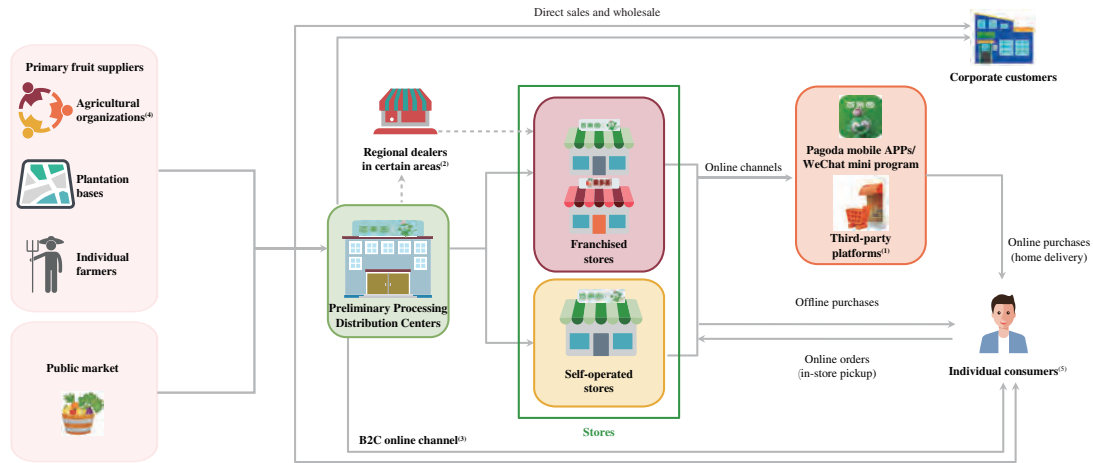
- through third-party food delivery platforms, such order is fulfilled by a relevant retail store and sales derived from this online order is counted as revenue of this store;
- through our mobile APPs and WeChat mini-program and requests just-in-time delivery, such order is fulfilled by a relevant retail store and sales derived from this online order is counted as revenue of this store;
- through our mobile APPs and WeChat mini-program and requests next-day delivery, such order is fulfilled by us and sales derived from this online order is counted as our revenue; and
- through our self-operated online channels other than our mobile APPs and WeChat mini-program, such order is fulfilled by us and sales derived from this online order is counted as our revenue.

The diagram below illustrates major components of our current online channels.



Our Distribution Channels

The diagram below illustrates our major distribution channels.



Notes:

- (1) Include third-party food delivery platforms we partner with (such as Meituan, Koubei and Ele.me).
- (2) Regional dealers are currently located in Hefei, Qingdao, Taiyuan, Xuzhou, Nanning, Shantou, Xi'an, Fuzhou, Jinan, Yichang, Shijiazhuang, Kunming and Changsha.
- (3) Includes our storefronts on mainstream e-commerce platforms (such as Tmall, JD.com) and social commerce platforms (such as Duoyin).
- (4) Cooperative agricultural commodity unions which are organized by, serve and represent individual farmers or plantation bases producing a specific commodity who are members to such organizations.
- (5) As our direct customer if the individual purchases from our self-operated stores or places orders from online channels which are fulfilled by us.

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Distribution Network Summary

We have established the fruit specialty franchise model with OMO and store-as-warehouse features. We primarily sell fruits to consumers through our offline store network comprising franchised stores supervised by us, franchised stores supervised by our regional dealers and self-operated retail stores. We also distribute through our online channels comprising Pagoda mobile APPs, Pagoda WeChat mini-program, stores on mainstream e-commerce platforms and social commerce platforms or through the third-party food delivery platforms we partner with. We also engage in direct sales to certain major customers, such as enterprises, restaurants and high-speed railway companies that have catering needs. In addition, on a limited scale, we engage in fruit wholesale business.

The table below sets forth our direct revenue sources from various distribution channels and the revenue streams contributed by each revenue source.

	Regional dealers		Franchised stores supervised by us	Direct sales	Self-operated stores	Online channels	Others
Direct revenue sources	regional dealers	franchised stores supervised by regional dealers	franchised stores supervised by us	corporate and wholesale customers	end customers	end customers	end customers (paying members)
Revenue streams							
Sales of fruits and other food products	√	-(1)	√	√	√	√	-
Royalty income	√	√	√	-	-	-	-
Franchising income . .	√	√	√	-	-	-	-
Membership income and others	-	-	-	-	-	-	√

Note:

- (1) Insignificant dollar amount during the Track Record Period. We generally do not engage in sales of fruits and other products to franchised stores supervised by our regional dealers.

Please see the section entitled “Financial Information” for a detailed description of our revenue breakdown during the Track Record Period.

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The table below sets forth the revenue contribution derived from sales of products by our distribution channels.

	Year Ended December 31,						Six Months Ended June 30,					
	2019		2020		2021		2021		2022			
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%		
	<i>(unaudited)</i>											
Franchised stores												
Franchised stores supervised by us	7,686,867	87.9	7,302,861	84.5	8,125,229	81.3	4,356,213	81.2	4,601,710	80.3		
Others ⁽¹⁾	13,307	0.1	6,238	0.1	1,832	0.0	509	0.0	1,068	0.0		
Sub-total	<u>7,700,174</u>	<u>88.0</u>	<u>7,309,099</u>	<u>84.6</u>	<u>8,127,061</u>	<u>81.3</u>	<u>4,356,722</u>	<u>81.2</u>	<u>4,602,778</u>	<u>80.3</u>		
Self-operated stores.	36,587	0.4	39,210	0.5	48,296	0.4	23,783	0.4	31,693	0.6		
Others												
Regional dealers ⁽²⁾	455,887	5.2	493,562	5.7	968,022	9.7	496,341	9.2	563,694	9.8		
Direct sales	524,289	6.0	515,526	6.0	522,750	5.3	336,678	6.3	406,982	7.1		
Online channels	32,889	0.4	279,417	3.2	325,629	3.3	153,626	2.9	125,546	2.2		
Sub-total	<u>1,013,065</u>	<u>11.6</u>	<u>1,288,505</u>	<u>14.9</u>	<u>1,816,401</u>	<u>18.2</u>	<u>986,645</u>	<u>18.4</u>	<u>1,096,222</u>	<u>19.1</u>		
Total.	<u><u>8,749,826</u></u>	<u><u>100.0</u></u>	<u><u>8,636,814</u></u>	<u><u>100.0</u></u>	<u><u>9,991,758</u></u>	<u><u>100.0</u></u>	<u><u>5,367,150</u></u>	<u><u>100.0</u></u>	<u><u>5,730,693</u></u>	<u><u>100.0</u></u>		

Notes:

- (1) Represented revenue derived from franchised stores supervised by regional dealers by selling certain goods to those franchised stores supervised by regional dealers. We generally do not engage in sales of fruits and other products to franchised stores supervised by our regional dealers.
- (2) Represented revenue derived from sales of products to regional dealers.

Channel Brands

We adopt a multi-brand strategy to attract consumers of different demographics and to quickly acquire market shares. Multi-brands also allow us to effectively penetrate local markets by occupying broader price ranges. All the franchised stores under individual channel brand are operated under our uniform franchise management system.

Currently, the retail stores nationwide are mainly operated under two channel brands, namely “Pagoda (百果園)” and “Guoduomei (果多美).” Pagoda is a proprietary channel brand developed by us, mainly targeting middle- to high-end markets and offering high-quality fruits to consumers with certain purchasing power. As of the Latest Practicable Date, there were a total of 5,521 franchised stores and 10 self-operated stores under Pagoda brand nationwide. Guoduomei is a trademark we acquired through a trademark transfer transaction in late 2017, and we have developed it as a regional channel brand. Guoduomei targets the mass consumer market and offers fruits at more competitive prices. As of the Latest Practicable Date, there were a total of 105 franchised stores and 2 self-operated stores under Guoduomei brand, the

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majority of which are located in Beijing. Subject to their different positioning as to products and target consumer groups, stores under Pagoda brand are typically community stores and relatively small in size of approximately 50 sq.m., while Guoduomei stores typically are located in areas with high consumer traffic such as transport hubs and commercial districts, and the store size is generally larger at approximately 150 sq.m.

As of the Latest Practicable Date, there were also 7 self-operated stores under our other channel brands. We have reserved and will continue to identify additional regional channel brands with growth potentials and will foster strategic partnership with or investment in such target brands from time to time.

The following table sets forth our total number of stores under each of our channel brands as of the dates indicated.

	As of December 31,						As of June 30,			
	2019		2020		2021		2021		2022	
	<i># of stores</i>	%	<i># of stores</i>	%	<i># of stores</i>	%	<i># of stores</i>	%	<i># of stores</i>	%
Pagoda franchised										
stores	4,210	97.8	4,646	97.7	5,134	97.8	4,830	97.8	5,334	97.9
Pagoda self-operated										
stores	3	0.1	4	0.1	6	0.1	6	0.1	7	0.1
Guoduomei franchised										
stores	92	2.1	102	2.1	100	1.9	95	1.9	101	1.9
Guoduomei self-										
operated stores	2	0.0	2	0.0	2	0.1	2	0.1	2	0.0
Self-operated stores										
under other channel										
brands	-	-	3	0.1	7	0.1	4	0.1	7	0.1
Total	<u>4,307</u>	<u>100.0</u>	<u>4,757</u>	<u>100.0</u>	<u>5,249</u>	<u>100.0</u>	<u>4,937</u>	<u>100.0</u>	<u>5,451</u>	<u>100.0</u>

Offline Retail Store Network

We have established an extensive nationwide offline retail store network, comprising our self-operated stores, franchised stores operated by franchisees and supervised by us (“franchised stores supervised by us”) and franchised stores operated by franchisees and supervised by regional dealers in designated regions (“franchised stores supervised by regional dealers”). Within designated regions where we engage regional dealers, there were no franchised stores supervised by us nor our self-operated stores.

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As of the Latest Practicable Date, our offline store network had a total of 5,645 stores located in over 140 cities covering 22 provinces and municipalities across China. Among these, 5,626 were franchised stores with the remaining 19 self-operated stores. Among all franchised stores, 4,576 were franchised stores supervised by us while 1,050 were franchised stores supervised by regional dealers.

The following table sets forth the total number of franchised stores and self-operated stores as of the dates indicated.

	As of December 31,						As of June 30,			
	2019		2020		2021		2021		2022	
	# of stores	%	# of stores	%	# of stores	%	# of stores	%	# of stores	%
Franchised stores										
Franchised stores supervised										
by us	3,700	85.9	3,892	81.8	4,254	81.0	4,018	81.4	4,454	81.7
Others	602	14.0	856	18.0	980	18.7	907	18.4	981	18.0
Sub-total	4,302	99.9	4,748	99.8	5,234	99.7	4,925	99.8	5,435	99.7
Self-operated stores	5	0.1	9	0.2	15	0.3	12	0.2	16	0.3
Total	<u>4,307</u>	<u>100.0</u>	<u>4,757</u>	<u>100.0</u>	<u>5,249</u>	<u>100.0</u>	<u>4,937</u>	<u>100.0</u>	<u>5,451</u>	<u>100.0</u>

The table below sets forth the revenue contribution derived from sales of products by franchised stores and self-operated stores for the periods indicated.

	As of December 31,						As of June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<i>(unaudited)</i>										
Franchised stores										
Franchised stores supervised										
by us	7,686,867	99.4	7,302,861	99.4	8,125,229	99.4	4,356,213	99.4	4,601,710	99.3
Others ⁽¹⁾	13,307	0.1	6,238	0.1	1,832	0.0	509	0.0	1,068	0.0
Sub-total	7,700,174	99.5	7,309,099	99.5	8,127,061	99.4	4,356,722	99.4	4,602,778	99.3
Self-operated stores	36,587	0.5	39,210	0.5	48,296	0.6	23,783	0.6	31,693	0.7
Total	<u>7,736,761</u>	<u>100.0</u>	<u>7,348,309</u>	<u>100.0</u>	<u>8,175,357</u>	<u>100.0</u>	<u>4,380,505</u>	<u>100.0</u>	<u>4,634,471</u>	<u>100.0</u>

Note:

- (1) Represented revenue derived from franchised stores supervised by regional dealers by selling certain goods to those franchised stores supervised by regional dealers. We generally do not engage in sales of fruits and other products to franchised stores supervised by our regional dealers.

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The map below illustrates our retail store network and preliminary processing and distribution centers in China as of the Latest Practicable Date.



We have established an extensive nationwide retail network which is under our robust and uniform management. We implement detailed and comprehensive franchise operation protocols that all of the stores are required to comply with. Our efficient franchise management system allows us to attract and retain franchisees and grow rapidly, while enabling us to actively supervise and guide on critical aspects of the franchised stores' daily operations to ensure that they strictly adhere to our retail policies and operational procedures. This business model has provided strong support to our rapid and steady retail network growth.

The offline store network's geographic coverage and degree of penetration have affected, and will continue to affect, our operational and financial performance. For example, stores located in more developed cities typically record higher average daily sales, mainly as a result of greater purchasing power of local residents, more advanced delivery services and stronger brand recognition in those areas. We intend to continue to penetrate in first- and second-tier cities and to explore market opportunities in more lower-tier cities at the same time.

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To embrace the advanced international retailing and franchising experience and expertise, in 2018, we engaged a renowned Japanese consulting firm to conduct an observational research for us and assist us in developing solutions to improve the systemization and efficiency of our franchise management and to enhance the standardization of our store operations.

Store Network Planning and Management

We have a dedicated team to plan and manage our retail store network. At the end of each calendar year, our management and the franchise development department establish a new store opening schedule based on our annual operational target in the upcoming year, which is subject to review during the normal course of operation execution.

We follow a disciplined approach in selecting cities for store network expansion. In determining the regions we expect to tap into, we evaluate a number of factors, including the target city's local economy, level of urbanization and population, purchasing power, the coverage of our facilities and logistics capabilities, as well as the availability and potential growth of qualified franchisees. Our nationwide store network has covered over 140 cities across China. Our stores are strategically located within the service radiance of our preliminary processing and distribution centers in the country and continue to penetrate in surrounding lower-tiered cities.

In each city, we aim to locate the stores at desirable sites near residential areas or business districts with affluent consumer traffic, which helps increase the convenience of consumers to make purchases and enhance the visibility of the stores and products. We conduct thorough surveys and analysis, including on-site visits and consumer traffic count, in connection with the target location. We also conduct feasibility studies in connection with the target location, which cover consumer traffic, spending pattern, competition level, as well as expected revenue and profit level. Final decision as to the location for a new store, either provided by the franchisees themselves or identified under our assistance, shall be submitted and reviewed by us on a case-by-case basis. We may only approve the store opening after the store location evaluation is approved. We have leveraged upgraded data analytics to assist our decision making process by collecting and analyzing information in connection with store performance, geographic conditions and other business intelligence.

We generally require all of the stores, either franchised or self-operated, to adopt a uniform set of design features, including storefront, interior decorations and product display. We believe that our uniform store design strengthens our brand recognition, improves the efficiency of expansion of stores and lower the risks of a counterfeit store. Our store spaces are specifically designed with decor details to imitate the "orchard" feeling to enhance the perception of the delicacy of our fruits. Moreover, to deepen the implementation of our OMO strategy, we have continuously upgraded the stores by improving interior designs, adding additional cold storage facilities, and fruit processing equipment.

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In addition to actively exploring new markets, we also place considerable emphasis on further penetrating existing markets so as to increase our market share. We believe as a result of our penetration strategy, the recognition of our Pagoda brand has been quickly enhanced, which in turn, is able to effectively contribute to the sales increase of those new stores at their initial stage in the relevant region. During the Track Record Period, the aggregate store sales in any particular city generally increased, indicating a growth potential in such areas. Our management will continue to monitor and evaluate the store performance and the market saturation in each region and prudently control the penetration rate of the retail stores.

We determine the distance between the stores based on our market analysis as well as commercial considerations to minimize competition among stores. In principle, the distance of two stores within the same commercial area is generally no less than 500 meters, subject to further detailed evaluation and judgment as to the consumer traffic, market demands and other factors when determining the store location. To cater to the high demand of our products in certain areas, additional stores may be set up in close proximity to the existing stores.

Franchised Stores

We have grown our business mainly through engaging franchisees, either by our recruitment or by referral from regional dealers, to operate franchised stores. We believe that fruits are non-standardized fast moving consumer goods, sales of which require timely adjustment to sales plans subject to changes in supply and market demands. Franchisees under the franchise model are the owners and decision makers of the respective franchised stores. Therefore, such model is more efficient at decision making and execution. Moreover, franchise business model provides an asset-lite and cost-effective means of quickly expanding our geographical coverage in a short timeframe, which has in turn contributed significantly to the increase of our revenue, market share and brand recognition. Compared with a business model developed through employees who only receive salaries as incentive, the gross profit based incentive mechanism under franchise model provides greater incentives to franchisees and better aligns their interests with ours. Franchise model is a common market practice in retail industry in China. None of our franchisees is our principal or agent. Furthermore, we had commenced to engage regional dealers since 2018, one of the major contractual obligations of which is to identify and refer to us qualified franchisee candidate in designated regions. We may enter into franchise arrangements with such candidates subject to our review and approval. For more details about our arrangements with regional dealers, see “— Regional Dealers” below.

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The table below sets forth the changes in the number of the franchised stores during the Track Record Period.

	Year Ended December 31,			Six Months Ended June 30,
	2019	2020	2021	2022
	Beginning of the year	3,540	4,302	4,748
Additions	928	695	865	431
Closures	(166)	(249)	(379)	(230)
Net increase	762	446	486	201
End of the year	4,302	4,748	5,234	5,435

Net increase in the number of franchised stores generally declined throughout the Track Record Period primarily as a result of the COVID-19 pandemic which adversely affected the operation of existing franchised stores nationwide. On the other hand, regional travel restrictions and other anti-pandemic policies in general limited existing and potential franchisees' business development activities for new store opening. In 2019, 2020 and 2021 and the six months ended June 30, 2022, the number of franchised stores closed was 166, 249, 379, and 230 respectively, primarily as a result of renovation and rezoning of local commercial areas resulting from urban construction and anti-pandemic restrictive measures, other personal reasons for which the landlords terminated or disagreed to renew the lease agreements for reasons including (i) the relevant landlord had other personal plans for such property, or (ii) the relevant landlord required a rental increase which was not agreed on. In addition, a small number of stores were closed because relevant franchisees considered the performance of the stores not satisfactory. To the best of our knowledge and based on our communication with the relevant franchisees, approximately 48% franchised stores closed during the Track Record Period was due to the termination of leases by the landlords for different reasons and approximately 14% was because of poor performance of the stores perceived by the franchisees. The remaining 38% was mainly due to the renovation and rezoning of local commercial areas and other various personal reasons causing the franchisees to decide to quit the operations, such as a change in personal business pursuits and so on.

As of the Latest Practicable Date, our offline store network had a total of 5,645 stores, located in over 140 cities in 22 provinces and municipalities across China, among which 5,626 were franchised stores. Our franchisees are responsible for entering into the lease agreements for their respective franchised stores. We approve the store opening after the store location evaluation is accepted. We review applicable licenses and requisite documents, including the lease agreements, provided by the franchisees to acknowledge that the newly opened stores would operate in a sustainable and compliance manner.

We believe the impact on our business due to the termination of the lease agreements of franchised stores is immaterial and remote. As of the Latest Practicable Date, the 5,626 franchised stores were located in over 140 cities across the country and the relevant lease agreements were entered into with different landlords. The risk for a large scale eviction or

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termination from current locations by these landlords at the same time is very unlikely. In addition, even in case of an early termination of lease agreements, due to the generally small size of the franchised stores, we believe it is easy for our franchisees to identify a replacement premise and relocate without incurring significant relocation cost. In daily operations, our regional supervisory managers keep active and close communication with the franchisees and will provide timely assistance under such circumstance. Lastly, pursuant to our franchise agreements, the franchisee shall typically give us a four-month prior notice if it intends to terminate the franchise agreements prior to the expiry, which also provides us certain flexibility in identifying potential replacement.

Selection and evaluation criteria for franchisees

Engaging capable franchisees is critical to our business growth. We have developed a systematic process with respect to the expansion planning and execution for franchisees and franchised stores. We select our franchisees based on a number of criteria, including, among others, their local relationships and experience, store locations, operational and marketing capabilities, financial condition, risk management capabilities, legal compliance status, reputation, as well as their understanding of our company, brand, culture and business model. We also consider their risk tolerance level, and entrepreneurial spirit as a reference.

In principle, we currently require our franchisees to personally participate in the daily operations of their stores. To ensure that our franchisees are qualified to manage and operate the franchised stores pursuant to our requirements, we organize training programs for franchisee candidates who shall pass our examinations before they are qualified as a franchised store manager. If the candidate fails the examinations within three months after the training, we are entitled to terminate the franchise agreement.

Subject to their application and our evaluation, we may allow existing franchisees with excellent track record to open additional franchised stores. In such case, the franchisee shall appoint a store manager assistant who shall participate in our trainings to be qualified as a store manager for the second franchised store.

During the early stage when we were exploring the franchise business model, we selected and trained franchisees from a limited number of candidates, mainly our business partners such as our then existing franchisees, franchise store manager and staff, and a small number of our former employees. As we gradually accumulated our experience and confidence in our franchise business model, we commenced to attract franchisees other than our existing business partners to develop our business, so as to quickly acquire market share. Prior to 2019, our franchisees were typically individual self-employed merchants (個體工商戶) who were familiar with fruit retailing and were able to quickly expand our franchise store network in regional markets. But these franchisees were generally in lack of financial resources. According to Frost & Sullivan, it is not uncommon to engage self-employed merchants as franchisees in our industry in China. It is primarily because fruit retail industry has a tradition of relying on individual retailers, prior to the emergence of modern retail models. Since 2019, when we had significantly grown our franchise network, we placed more emphasis on the

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quality of the franchisees and the sustainability of the franchised stores, instead of a rapid expansion of store network. As such, we started to identify franchisees who were willing to devote time and capability in operating their franchised stores in person. Since 2019, we contracted with more individual self-employed merchants with necessary financial capacity to support their franchised stores at the startup stage who actively participated in daily operation of their franchised stores. With our significant market size and franchise network in place, we engaged a renowned Japanese consulting firm with international retailing and franchising experience and expertise in 2018 to improve our franchise management capacity, and modified and optimized various aspects of our franchise model in 2019, which we believe was in the best interests of the continued development of our franchise model. For example, we revised the financial support arrangements from offering interest-free loans to franchisees to interest-bearing loans with respect to new applications since 2019. The loans are required to be applied exclusively for the daily operation of the relevant franchised stores, and we set a cap amount that each franchised store may borrow from us under the interest-bearing loan arrangements. These policies illustrated our intention of discouraging imprudent expansion, but supporting franchisees who advocated a franchise network with long-term and sustainable growth. With respect to stores opened after January 1, 2019, we ceased to grant the discretionary credit term. For more details about the history and development of our franchise business model, see “Our History and Development — Milestones,” “— Financial Support Provided to Franchisees,” and “— Settlement and Cash Management — Settlement with Franchisees.” Our policies have achieved the anticipated goal in terms of avoiding unreasonable store expansion. Each of the franchisees contracting with us prior to January 1, 2019 on average operated 3.9 stores and as of December 31, 2021, the number of stores operated by a single franchisee ranged from 1 to 123. In contrast, with respect to franchisees contracting with us after January 1, 2019, each of them on average operated 1.4 stores and as of December 31, 2021, the number of stores operated by such single franchisee ranged from 1 to 49.

As of the Latest Practicable Date, we had contracted 2,402 franchisees. Our franchisees include natural persons and private companies registered by natural persons. To the best of our knowledge and save as disclosed in the section entitled “Continuing Connected Transactions” and the subsection of “— Service and support for franchisees” below, as of the Latest Practicable Date, all other franchisees were third parties independent from us. The table below sets forth the changes in the number of our franchisees during the Track Record Period.

	Year Ended December 31,			Six Months Ended June 30,
	2019	2020	2021	2022
Beginning of the year/period . .	1,018	1,451	1,772	2,119
Additions	466	372	445	297
Terminations	(33)	(51)	(98)	(144)
Net increase	433	321	347	153
End of the year/period	1,451	1,772	2,119	2,272

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To the best of our knowledge, during the Track Record Period, our franchisees terminated the relationship with us primarily due to their personal reasons that they were not willing to continue to or not able to operate their stores due to the previously mentioned reasons. As such, as well as due to the prolonged COVID-19 pandemic, net increase in the number of franchisees generally declined throughout the Track Record Period. In addition, regional travel restrictions and other anti-pandemic policies also generally limited our and our regional dealers' business development activities for recruiting new franchisees. Subject to negotiation with the relevant franchisees and under certain circumstances, such as continuous unsatisfactory performance for a prolonged period or a material breach of contracts, we may from time to time decide to terminate the franchise arrangements with our franchisees and close the relevant franchised stores.

Management over retail stores

Over the past years, we have accumulated comprehensive experience in standardizing store management knowledge. Uniform and standardized store management and operation is critical to maintain consumer experience, and in turn, our reputation. In addition, standardized store operation requirements enable newly opened stores to efficiently obtain a detailed checklist of best practice.

As such, we have established an extensive and standardized set of store operational policies and procedures that all franchisees are required to comply with. For example, we specify in-store decoration and product display rules that are specially designed to enhance the attractiveness of fresh fruits. We also provide branding and marketing solutions. Based on standard marketing materials we distribute to stores, we encourage our stores to modify by supplementing the customized elements based on their respective target consumer groups. Given the highly perishable nature of our products, we provide the optimal storage and shelf life guidance for each type of fruits. We encourage our franchisees to conduct market researches so as to make better price adjustment decisions based on our suggested retail prices. We urge our franchisees to manage their inventory at an appropriate level so as to maintain sufficient fresh fruits on the shelf on one hand, and minimize the loss rate on the other.

Since early 2020, we have implemented a store performance evaluation system, which is a scoring system focusing on five major items, namely store environment, food safety and quality, product freshness management and display, services, and employee satisfaction, each of which is further subject to a list of detailed evaluation sub-items and criteria. In addition, we also maintain a point system where demerit points will be recorded in case of a major consumer complaint or a food safety issue. The store evaluation results are correlated to the discount rates offered to the relevant store, as well as to the annual performance bonus and promotional opportunities offered to the relevant regional supervisors and regional managers. As such, we believe these parties are highly motivated to constantly maintain the store management by strictly complying with the criteria set forth in the store evaluation scoring and point systems.

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We closely review the operation of each of the offline stores on an ongoing basis. With respect to the five major aspects under our store performance evaluation system, except for employee satisfaction which is reviewed by the store's employees, all the remaining four items are reviewed by consumers via mobile APPs, mystery customers engaged by us and our regional supervisors on a monthly basis. We conduct both scheduled and unannounced inspections of the franchised stores by regional store supervisors or mystery customers, and promptly advise the relevant franchisees of their deficiencies and required work that need to be undertaken.

We have digitalized our store management and operation standards as well as the store evaluation process, which provides us with an efficient delicacy management.

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any franchisee committing any material breach of their franchise agreements or being in violation of our retail policies. In addition, to our best knowledge, there was no material dispute or litigation between us and our past or present franchisees during the Track Record Period and up to the Latest Practicable Date. Furthermore, we were not aware that any of the franchised stores supervised by us was subject to any material non-compliant incidents, claims, litigation or legal proceedings, actual or threatened, during the Track Record Period and up to the Latest Practicable Date.

Service and support for franchisees

We deem the franchisees our valuable business partners who share the same long-term visions and help to serve the consumers in stores under our channel brands. Therefore, we provide various trainings for franchisees and their staff with respect to our business philosophy, development strategies, industry insights, store operational knowledge, and marketing skills. We have a designated store operation and supervisor team currently comprising over 500 people who are assigned to support and monitor daily operations of the franchised stores and promptly respond to the suggestions or enquiries of the franchisees and the staff under their responsibility. In addition, we value store managers' opinions and first-hand feedback with respect to store operations, which enable us to constantly modify and improve our store management system. Meanwhile, we facilitate the communications among store managers and from time to time introduce and demonstrate those top-performing store managers' experience and expertise to other store managers. Furthermore, we provide financial support to franchisees who are in the need of capital, see “— Financial Support Provided to Franchisees” below.

Moreover, our strong IT infrastructure has enabled us to provide digitalized service and support to all retail stores nationwide, which also allows us to monitor store performance on a real-time basis. In addition to the smart location identification system mentioned above, we are also able to effectively track and monitor the daily sales, procurement and inventory level of every store. We have upgraded our smart ordering system, and have also optimized relevant data capacity and algorithms. Our upgraded smart ordering system is able to structure and label massive data generated from the retail stores to train and deploy various data models, which not only accurately record historical performance of each retail store, but also provide a

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reliable estimate of market demand, projected sales, and recommended order quantity in the upcoming weeks for each store. The order recommendations vary from store to store based on various factors such as different locations, target regional consumers, popular product mix and price ranges that best match local purchasing power. By generating the order recommendations, the smart ordering system allows the retail stores to better manage inventory level, plan ordering based on product offering with optimal price ranges, thus, maximizing store sales. Such recommendation of order quantity is for the franchisee's consideration but is not mandatory. We expect to continue to optimize our smart ordering system by improving its pricing models, which we believe will eventually contribute to our revenue growth. Moreover, through our POS system, we are able to monitor the sales activities of each store on a real-time basis, which offers a base for us to better estimate inventory control and procurement adjustment. On the other hand, these effective store management tools allow our franchisees to better monitor and improve their store operations, which in turn, further enhance their trust in our franchise system.

Former Employee-Franchisees

Certain of our franchisees were our former or then employees (“**Former Employee-Franchisees**”) who were motivated to develop their personal career by partnering with us through the franchise arrangements. During the early stage when we were exploring the franchise business model, the number of suitable franchisee candidates who could understand the fruit specialty franchise model was very limited. We selected and trained franchisees from then business partners with whom we had established trust, including our former employees and then existing employees. Former Employee-Franchisees were able to effectively promote and develop our business model and acquire market opportunities. On the other hand, we encouraged our then employees to pursue entrepreneurial adventures which created a win-win situation. We applied the same selection criteria and procedures when considering these Former Employee-Franchisees. The franchise arrangements, including the financial support arrangements, that we entered into with these Former Employee-Franchisees contained the same terms and conditions that we offered to other third parties. We believe this was not uncommon for franchise business model. As we gradually accumulated our experience and confidence in our franchise business model, we commenced to attract franchisees other than our existing business partners to develop our business, so as to quickly acquire market share. The revenue contribution from our Former Employee-Franchisees were immaterial.

In 2019, 2020 and 2021 and the six months ended June 30, 2022, we had 11, 34, 67 and 61 Former Employee-Franchisees, respectively, who were our former employees when they opened and operated their franchised stores. These Former Employee-Franchisees operated 19, 49, 115 and 99 franchised stores, respectively, over the same periods. Their revenue contribution amounted to RMB19.8 million, RMB60.4 million, RMB109.8 million and RMB53.8 million, respectively, in 2019, 2020 and 2021 and the six months ended June 30, 2022, representing approximately 0.2%, 0.7%, 1.1% and 0.9%, respectively, of our total revenue over the same periods.

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In addition, there were 6, 8, 12 and 12 Former Employee-Franchisees in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively, who remained as our employees when they opened and operated their stores. The reason for such situation was mainly because those employees had not fully completed the resignation procedures with us when they entered into the franchise arrangements. In 2019, 2020 and 2021 and the six months ended June 30, 2022, these Former Employee-Franchisees operated 12, 15, 22 and 32 franchised stores, respectively. Their revenue contribution amounted to RMB18.1 million, RMB19.2 million, RMB23.8 million and RMB22.2 million, respectively, in 2019, 2020 and 2021 and the six months ended June 30, 2022, representing approximately 0.2%, 0.2%, 0.2% and 0.4%, respectively, of our total revenue over the same periods. These Former Employee-Franchisees subsequently decided to resign from us. As of the Latest Practicable Date, all of such Former Employee-Franchisees had completed the relevant procedures and we do not have any franchisees who remain to be our employees.

Connected Franchisees

During the Track Record Period and up to the Latest Practicable Date, four of our connected persons were also our franchisees (collectively “**Connected Franchisees**”), namely, Mr. Yu Jie and Mr. Yu Hang, two nephews of Mr. Yu, Ms. Deng Lirong, sister-in-law of Mr. Tao Jun, and Mr. Deng Lisong, brother-in-law of Mr. Tao Jun.

The franchise arrangements that we entered into with these Connected Franchisees contained the same terms and conditions that we offered to other third party franchisees. Other than the franchise arrangements and with respect to one Connected Franchisee, the interest-bearing loan arrangement as disclosed below, there were no other business relationships, including those financial support arrangements, entered into by the Connected Franchisees with us, our Directors, senior management and their respective associates.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, these Connected Franchisees operated a total of six, nine, ten and ten franchised stores, respectively, and aggregate revenue derived from such Connected Franchisees amounted to RMB8.5 million, RMB10.3 million, RMB14.4 million and RMB8.7 million, respectively, over the same periods. Moreover, among these Connected Franchisees, one Connected Franchisee, namely Mr. Yu Hang, received interest-bearing loans from us. Mr. Yu operated two, two, two and two franchised stores as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. As of December 31, 2021, one of his franchised stores received interest-bearing loans in the amount of RMB92.5 thousand. By the end of April 2022, outstanding amount had been fully settled and no additional loan had been granted to these Connected Franchisees up to the Latest Practicable Date.

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These Connected Franchisees intend to continue to act as our franchisees and operate their respective retail stores after this Global Offering. For more details about these Connected Franchisees and certain information in connection with their franchise arrangements with us, please refer to “Continuing Connected Transactions — Fully Exempt Continuing Connected Transactions — Franchise Framework Agreements with Mr. Yu Jie, Mr. Yu Hang, Mr. Deng Lisong and Ms. Deng Lirong.”

To the best of our knowledge, other than the Former Employee-Franchisees and the Connected Franchisees as disclosed above, there is no past or present relationship among our franchisees and our Company or the subsidiaries, their shareholders, directors, supervisors or senior management, or any of their respective associates during the Track Record Period.

During the Track Record Period, the proportion of franchised stores located in lower-tier cities out of franchised stores operated by Former Employee-Franchisees and Connected Franchisees was generally higher than the proportion of franchised stores located in lower-tier cities out of all franchised stores. The table below sets forth a breakdown of the number of stores operated by Former Employees and Connected Franchisees by city tiers for the periods indicated:

	Year Ended December 31,						Six Months Ended June 30,	
	2019		2020		2021		2022	
	#	%	#	%	#	%	#	%
Stores operated by Former Employees								
First-tier cities	4	25.0	13	37.1	27	32.9	32	29.9
Second-tier cities . .	2	12.5	7	20.0	18	22.0	24	22.4
Third- and lower-tier cities	10	62.5	15	42.9	37	45.1	51	47.7
Total.	16	100.0	35	100.0	82	100.0	107	100.0
Stores operated by Connected Franchisees								
First-tier cities	3	50.0	3	33.3	4	40.0	4	40.0
Second-tier cities . .	–	–	–	–	–	–	–	–
Third- and lower-tier cities	3	50.0	5	66.7	6	60.0	6	60.0
Total.	6	100.0	8	100.0	10	100.0	10	100.0

Gross profit based incentive mechanism with franchisees

We incentivize our franchisees through the gross profit based incentive mechanism under our franchise arrangements. Subject to the franchise arrangements, the sales proceeds of the franchised stores, after deducting the monthly royalty fee, repayment of loans under our financial support arrangements, if applicable, the purchase amounts of fruits and other products from us and certain other items as agreed, shall belong to the franchisees. As such, the store performance is highly related to the economic returns of the franchisees. For more details about our settlement with franchised stores, see “— Settlement and Cash Management” below.

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Subject to our current franchise arrangements, as an initial commitment to the long-term effort to promote our brands and products, our franchisees are required to pay a one-off fixed sum franchise fee ranging from RMB20,000 to RMB30,000 for each franchised store within three calendar days after the execution of the franchise agreement, which is mainly used for our services to support the initial store opening and is non-refundable. The one-off initial franchise fee is recognized on a straight-line basis over the expected franchise period, identical with the franchisee's access to the franchise rights. On a case-by-case basis, we may approve a reduced upfront franchise fee for existing franchisees upon their renewal of franchise agreements or under certain circumstances, such as stores located in lower-tier cities where regional economy is less developed, or franchisees that have continuously operated multiple retail stores. In addition, during the COVID-19 pandemic in 2020 and the first half of 2022, a relatively higher proportion of franchised stores were charged with the franchise fee on the low end, and we also offered special reduction of franchise fee to encourage our franchisees. During the Track Record Period, out of 928, 695 and 865 newly opened franchised stores in 2019, 2020 and 2021, respectively, 231, 237 and 125 franchised stores enjoyed a reduction of franchise fee. Out of 431 newly opened franchised stores in the six months ended June 30, 2022, 77 franchised stores enjoyed a reduction of franchise fee. In 2019, 2020, 2021 and the six months ended June 30, 2022, aggregate one-off franchise fee collected by us amounted to RMB20.1 million, RMB12.4 million, RMB18.1 million and RMB7.3 million, respectively. Average one-off franchise fee per store amounted to RMB22,000, RMB18,000, RMB21,000 and RMB17,000, respectively, in 2019, 2020, 2021 and the six months ended June 30, 2022.

In addition, each franchisee shall also maintain cash deposits as performance bond ranging from RMB10,000 to RMB20,000 and operation bond of up to RMB60,000 for each franchised store during the term of the franchise arrangements, which shall be paid within three calendar days after the execution of the franchise agreement and may be returned upon termination of the franchise agreement after settling the deductible payables by the franchisees as agreed.

Furthermore, the franchised store is required to pay a monthly royalty fee during the term of the franchise agreement which equals to a certain percentage of its gross profit of that month subject to a detailed schedule as agreed under the franchise agreement. To further encourage and support people who have entrepreneurial spirit and knowledge of local market but in short of capital to become our franchisees, we also offer an alternative modified franchise model, pursuant to which, we cover certain costs and expenses relating to the store opening, including the store decoration and purchases of equipment, as well as the subsequent expenses relating to the equipment upgrades and additions, which are assumed by the franchisees under the regular model. Comparing with the regular model, we charge the royalty fee at a higher rate schedule with respect to the franchised stores adopting the modified arrangements. Currently, our regular royalty fee rate schedule is calculated at progressive rates of 3%, 15% and 25%, while the modified progressive rates are 8%, 20% and 30%, each based on the franchised store's different gross profit levels.

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Given the varying purchasing power and operating expenses in different regions, we also consider a rental-to-gross sales ratio when determining the relevant store's monthly royalty fee. For example, if the monthly rental-to-gross sales ratio of an individual store is larger than a pre-set percentage (meaning, typically such store faces greater pressure from rental expenses) and its monthly gross profit does not exceed a pre-set amount, the relevant franchised store, which is initially applicable for the rate of 15% under the regular rate schedule, would enjoy a lower-tier rate of 3%. We believe this arrangement is a fair approach to balance the interests of stores located in different cities across the nation. Accounting-wise, the upfront franchise fee and monthly royalty fee are collectively recognized as our revenue from royalty and franchising income.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, 119, 209, 498 and 651 franchisees adopted the modified franchise model, respectively, and average costs we undertook per franchisee amounted to approximately RMB195.3 thousand, RMB174.3 thousand, RMB204.0 thousand and RMB172.6 thousand, respectively, in 2019, 2020 and 2021 and the six months ended June 30, 2022. As of December 31, 2019, 2020 and 2021 and June 30, 2022, 134, 264, 719 and 930 franchised stores adopted the modified franchise model, respectively, and average costs we undertook per store amounted to approximately RMB173.4 thousand, RMB138.0 thousand, RMB141.3 thousand and RMB120.8 thousand per store.

As of the Latest Practicable Date, there were 1,065 franchised stores adopted the modified arrangements, accounting for approximately 32.9% of total franchised stores newly opened in the period from January 1, 2019 to the Latest Practicable Date.

Procurement, sales return and ownership

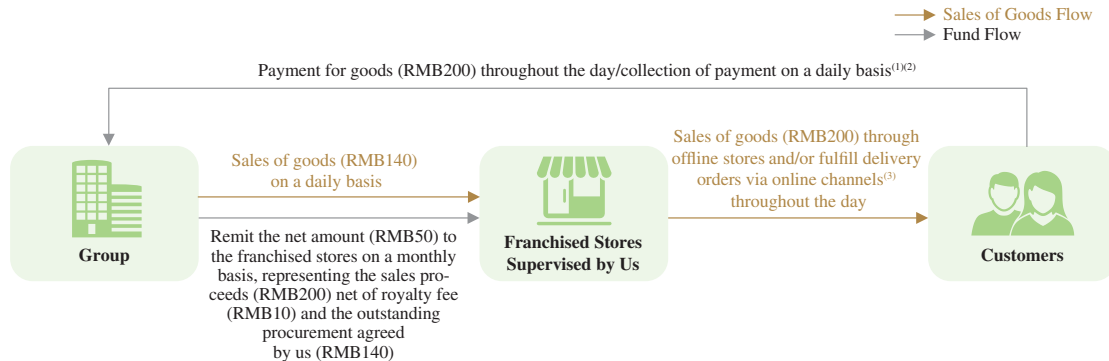
Franchised stores supervised by us

We sell products to our franchisees. Without our prior consent, the franchisees are not allowed to sell products sourced from other third parties. Subject to our current franchise arrangements, our franchisees place orders online through our procurement system which specifies product quantity and designates store location. Our Pagoda ERP system has pre-set suggested unit prices of each type of product for the franchisees. We settle the procurement payments with the franchisees based on the unit prices on the system and the product quantity actually delivered. For more details about our settlement with franchisees, see “— Franchise Arrangements” below.

Except for the defective or misdelivered products that are identified, products sold from us generally cannot be returned. Our sales to the franchisees are without recourse. There is no obsolete stock or repurchase arrangement between our franchisees and us. In practice, the defective or misdelivered products are rare occurrences. Also considering the nature of fruits that is difficult for re-sell, in practice, we agree with the franchisees to deduct the equivalent dollar amount when calculating the next-day purchase amount, instead of actual product return.

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The diagram below illustrates major transaction flows between us and franchised stores supervised by us:



Notes:

* Dollar amounts on the chart are for illustrative purpose only; assuming total sales proceeds from end customers are RMB200 with RMB50 in cash and RMB150 paid by credit card, respectively.

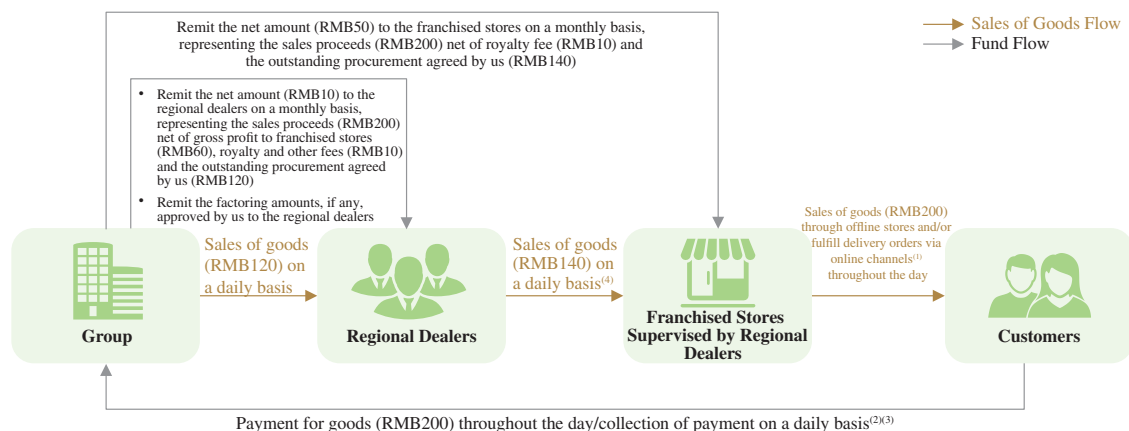
1. Credit card and digital payments (RMB150) shall only be directly paid to our designated accounts.
2. As for cash sales (RMB50), we require each franchised store to record the cash receipts and deposits to POS system and deposit cash to our designated bank accounts on a daily basis.
3. Online channels include third-party food delivery platforms and self-operated online channels via our mobile APPs and WeChat mini-program.

Franchised stores supervised by regional dealers

Regional dealers purchase from us by placing orders online through our procurement system, and re-sell the products at the selling prices they set to the franchised stores within their respective designated regions. The regional dealers enter into separate product sales and purchase agreements with respective franchised stores supervised by them. We deliver the products subject to the quantities specified in the purchase orders and the legal titles and risks of such products are typically transferred when the products are accepted by the regional dealers, most of which happen at our distribution centers. Our regional dealers are generally responsible for the logistics costs. We settle the procurement payments with regional dealers on a monthly basis. We and our regional dealers typically agree upon a certain rate for defective products. If the amount of defective products provided by us is below the pre-agreed rate, we shall not be liable for such loss. If the amount of defective products exceeds the pre-agreed rate, we will compensate our regional dealers for such portion exceeding the pre-agreed rate if such defects are not caused by the regional dealers. We will examine the reason for the defects and will claim compensation from the relevant suppliers if such defects are caused by the suppliers.

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The diagram below illustrates major transaction flows among us, our regional dealers and franchised stores supervised by the regional dealers:



Notes:

* Dollar amounts on the chart are for illustrative purpose only; assuming total sales proceeds from end customers are RMB200 with RMB50 in cash and RMB150 paid by credit card, respectively.

1. Online channels include third-party food delivery platforms and self-operated online channels via our mobile APPs and WeChat mini-program.
2. Credit card and digital payments (RMB150) shall only be directly paid to our designated accounts.
3. As for cash sales (RMB50), we require each franchised store to record the cash receipts and deposits to POS system and deposit cash to our designated bank accounts on a daily basis.
4. Such sales proceeds (RMB140) are not directly transferred through regional dealers to the Group but are subject to the monthly settlement with deduction as indicated. There is no direct fund flow between the regional dealers and the franchised stores supervised by them.

While we leverage regional dealers to facilitate in expanding and penetrating in new regional markets, our supply chain and logistic capabilities in such new regions may be limited. Under certain circumstances, such as a temporary shortage in supply of a certain type of fruit in a particular regional market, an unexpected interruption to logistic services to serve a particular region, or limited availability of seasonable fruits in a particular region for only a short period of time, we allow our regional dealers to purchase from our designated suppliers in compliance with our product quality standards and re-sell to the franchised stores under their management. Such arrangement is subject to separate settlement between the regional dealers and the relevant franchised stores. Furthermore, similar to our practice of purchasing from public market to replenish stock from time to time, we believe this allows our regional dealers to maintain flexibility and efficiency in procurement in unforeseen events affecting demand and supply.

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We have adopted a number of measures to ensure that the regional dealers only procure fruit products from third parties that could meet our quality standards and comply with the applicable laws and regulations.

- Firstly, we specify in the agreements with the regional dealers that they may only procure from third-party suppliers that have been approved by us. In practice, all suppliers, including the third-party suppliers approached and sourced by the regional dealers, shall be approved by us and admitted to our supplier management system, after passing our quality inspection.
- Secondly, since all transactions, either procurements or sales, of the regional dealers and the franchised stores supervised by them shall be conducted through our ERP system, we are able to track and monitor the products in transit. Products provided by unapproved suppliers are not able to obtain the bar codes and could not be transacted in stores through our POS system. To be specific:
 - Regional dealers can only place orders through our ERP system from us or the suppliers approved and admitted by our system. Our ERP system provides a list of approved suppliers and each stock-in of the regional dealers, other than procurements from us, shall match a single supplier selected from the list.
 - Franchised stores supervised by the regional dealers can only place orders through our ERP system from the procurements stocked in by the regional dealers.
 - Moreover, various digitalized store management and customer service functions, such as membership and instant return, further systematically prevent transactions that are not approved by us.
- In addition, our regional store supervisors would always examine and confirm the source of products sold in stores during regular store performance evaluations and inspections. Mystery customers would also conduct unannounced in-store inspections from time to time. According to the agreements, if the store supervisor identifies any unauthorized procurement from third parties, the relevant regional dealers may be subject to penalties, including termination of the agreements.

To the best of our knowledge, during the Track Record Period, we did not identify any unauthorized purchase and sales that would materially and adversely affect our business or financial performance.

During the Track Record Period, there were 602, 856, 980 and 981 franchised stores supervised by regional dealers as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. According to the records of our ERP systems, the aggregate procurement of products by regional dealers amounted to RMB650.3 million, RMB929.0 million, RMB1,262.8 million and RMB699.7 million in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. Among these, approximately 70.1%, 53.1%, 76.7% and 80.6% in 2019,

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2020 and 2021 and the six months ended June 30, 2022, respectively, was purchased from us, with the remaining from third-party suppliers approved by us. As such, the potential additional revenue contributed to us, if those procurements were made with us, would be approximately RMB194.4 million, RMB434.5 million, RMB294.8 million and RMB136.0 million in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. During the Track Record Period, other than purchases from us, our regional dealers purchased from a total of 417, 460, 167 and 76 other suppliers approved by us in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. Almost all of the such suppliers are national or regional fruit distributors. Among these, approximately 83.9%, 82.0%, 67.1% and 48.7% of the designated suppliers in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively, were also suppliers to us in the relevant period. The relatively higher proportion of purchases from third parties in 2020 was mainly because the regional dealers adopted a more flexible procurement strategy by securing more products from local suppliers in response to the uncertain market conditions arising from the COVID-19 pandemic. Other than in 2020, the continuous decreases in the number of such suppliers throughout the Track Record Period were mainly due to the growing maturity of our regional dealers who became better in managing their operations and required fewer small orders occurred in the relevant periods.

Under the circumstances allowed by us as described above, our regional dealers may purchase directly from our suppliers, usually on small orders, and from local suppliers that we do not transact with (collectively, the “designated suppliers”). With respect to those suppliers that only transact with the regional dealers, we will conduct quality check and include the approved ones into our supplier database. We do not participate in the direct transaction between the regional dealers and the designated suppliers, nor do we enter into any other types of revenue or profit sharing arrangements with such designated suppliers. The regional dealers negotiate the pricing and other transaction terms with the designated suppliers directly. Due to our strong quality control, supply chain and logistic capacities as well as other potential advantages benefiting from our large scale such as assured quantity and delivery time, the regional dealers chose to purchase from us over other suppliers to ensure the stable quality and timely supply most of the time. Based on the records of our ERP system, with respect to the same product, the selling price offered by the suppliers to us is generally identical to that to the regional dealers, but we may be subject to higher sales rebate mainly due to our established brand recognition and large scale. To the best of our knowledge, among all the designated suppliers of the regional dealers, 14 had received the financial support from us who were also our suppliers. In addition, there were 2, 3 and 6 companies who were our related parties, subsidiaries and investee companies, respectively. Save for the above and being the designated suppliers, there are no other past or present relationships, including, without limitation, business, family, trust, employment, shareholding, financing or otherwise, between us and the designated suppliers, their directors, shareholders or senior management, or any of their respective associates.

Due to our consistent and strong quality control throughout our operations, sales returns, either from the franchisees or from the regional dealers, were immaterial to our operational and financial performance during the Track Record Period and up to the Latest Practicable Date. According to Frost & Sullivan, our sales return policies are generally in line with industry norm.

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Franchise arrangements

We enter into a set of franchise arrangements with each franchisee that mainly includes franchise agreements which typically have a term of five years, purchase agreements for fruits and other products, confidentiality agreements, and financial support arrangements, if applicable. The key terms of our franchise agreements include:

- **Store location and avoidance of cannibalization among franchisees:** After agreeing with us, each of our franchisees is required to operate the franchised store in the designated premise as specified under the relevant franchise agreement. Any store relocation shall be approved by us in advance and the franchisees are generally responsible for the costs and expenses associated with the relocation. We determine the distance between the stores based on our market analysis as well as commercial considerations to minimize unhealthy competition among stores.
- **Suggested retail prices and discount:** We set a suggested retail price as well as the maximum retail price for each of fruit products. Our franchisees may adjust the actual selling prices in store based on the suggested price which shall not exceed the maximum retail price. Each franchised store shall participate in the promotional activities initiated by us and accept the coupons, prepaid gift cards, membership redemptions or other promotions issued by us.
- **Exclusivity:** Without our prior written consent, our franchisees are prohibited from selling any products that are not sourced from us or providing any services that are not authorized by us. Our franchisees are also not allowed to engage in any other franchise business operated by our competitors.
- **Information access:** We are entitled to access operational and financial data from the franchised stores.
- **Sales target:** We generally do not set any sales target for our franchisees under the franchise agreement.
- **Purchase orders:** Purchases by our franchisees are made on a purchase order basis. By virtue of the nature of our fruits, our franchisees typically place daily purchase orders through our Pagoda ERP system with detailed product types, quality and quantity. Our franchise arrangements generally contain no minimum purchase requirements. The purchase prices and amounts for settlement are subject to the final records of our Pagoda ERP system.
- **Product return:** see “— Procurement, sales return and ownership” above;
- **Franchise fee and royalty fee:** see “— Gross profit based incentive mechanism with franchisees” above;

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- **Logistics:** We engage third party logistics service providers to deliver our products to our franchisees generally at our expense. The logistic costs associated with the product delivery from franchised stores to consumers are generally borne by the relevant franchised stores.
- **Use of brands:** Our franchisees, who are authorized to use our brands, trademarks and other intellectually property rights within the designated premises, are required to protect our creditability and reputation and keep our corporate information, business know-how and trade secrets in strict confidentiality during their ordinary course of business and marketing and promotion activities. The franchised stores are generally required to adopt our uniform store decorations, product display and other promotional designs. The franchisees are not allowed to authorize other third parties to use our brands, trademarks and other intellectually property rights without our prior written consent.
- **Termination:** The franchise agreement may be terminated under certain circumstances. The non-defaulting party may terminate the franchise agreement if there is any material breach of agreement. For other instances, a franchisee may terminate the agreement if the store is required to vacate by its landlord and a new store premise is not contracted in a timely manner. Subject to mutual agreement, we may terminate the agreement if the performance of the franchised store remains unsatisfactory for a certain period of time. The agreement may be terminated in the event of *force majeure*.
- **Event of default:** We may terminate the franchise agreements due to the defaults of the franchisees, including but not limited to a change of store premise or business scope without our consent, assigning the rights and obligations under our franchise arrangements to other third parties without our consent, failing to obtain or maintain the business license or other requisite permits for the operation of the store, rejecting our in-store physical inventory check and failing to accept our supervision, preventing us from accessing the store's operational and financial information or providing false information, and other unlawful acts of the franchisees that cause the interruption of business operation of the franchised store.
- **Confidentiality:** We enter into confidentiality agreements with our franchisees, pursuant to which the franchisees are not allowed to disclose or to authorize other parties to use our proprietary technologies and trade secrets, which generally include information that is material to our operations but not publicly disclosed, such as proprietary fruit storage and packaging techniques, source of fruit procurement, pricing strategies and methodology, and franchise store management strategies, without our prior consent.

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Self-operated Stores

We maintain a limited number of self-operated retail stores mainly to comply with the relevant legal requirements for franchise business under the PRC laws. In 2019, 2020 and 2021 and the six months ended June 30, 2022, we had 5, 9, 15 and 16 self-operated stores, respectively. We adopt the same standards and procedures to manage our self-operated stores as those for the franchised stores and our self-operated stores are connected to the same integrated IT system.

As of the Latest Practicable Date, our 19 self-operated stores were located in 6 cities, including Beijing, Hangzhou and Shenzhen. Our self-operated stores are strategically located in areas with high consumer traffic, such as airport and large scale enterprise campuses. We intend to leverage these self-operated stores for the trial and exploration of new business formats and retail opportunities, such as cashierless retail store.

We leased premises for all our self-operated stores and the lease agreements generally have a term ranging from three to six years. We have also obtained all requisite licenses for our self-operated stores.

The following table sets forth a maturity profile of the operating leases of our self-operated stores as of the Latest Practicable Date.

	<u>Number of stores</u>	<u>%</u>
Due within one year or at will.	11	57.9
Due after one year.	8	42.1
Total	19	100.0

During the Track Record Period, revenue contributed by our self-operated stores amounted to RMB36.6 million, RMB39.2 million and RMB48.3 million, respectively, for the years ended December 31, 2019, 2020 and 2021. In the six months ended June 30, 2021 and 2022, revenue contributed by our self-operated stores amounted to RMB23.8 million and RMB31.7 million, respectively.

Regional Dealers

As the network of franchised stores under our supervision became relatively mature by 2017, we contemplated to further accelerate the store network expansion by entering into new regional markets to acquire more market share nationwide. However, we may have limited local resources in certain regions. As such, to accommodate the continued rapid network expansion, since mid-2018, we have commenced to engage regional dealers to facilitate us in exploring regional markets, identifying and referring new franchisees, and managing franchised stores within a designated region. We typically select people who have strong local knowledge and resources, including but not limited to better understanding of local culture and business practice, capacity and experience in local franchise business development and

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administrative procedures, and insights into local customer preference, and prior retailing experience as our regional dealers. Such regional dealers are able to facilitate us to penetrate local markets and acquire market shares. During the Track Record Period and up to the Latest Practicable Date, our regional dealers were primarily private companies having experience in retail industry and local resources, capable of quickly establishing distribution centers meeting our requirements. According to Frost & Sullivan, it is not uncommon to engage regional dealers in our industry in China and our business model is generally in line with industry practice.

We believe that engaging regional dealers in selected regions provides us with a number of benefits in rapidly establishing local presence through (i) minimizing our direct time and capital investments in head-hunting, training and serving franchisees qualified to operate franchised stores, (ii) optimizing storage, logistic and other related cost and expense structure by leveraging the distribution centers operated by the regional dealers themselves, (iii) generating a relatively stable revenue and profit stream to our Group, comprising (a) a stable gross profit margin at 0.9%, 0.9%, 1.0% and 1.0% in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively, derived from sales of products to such regional dealers, (b) royalty income generally starting from 0.5% of the relevant regional dealer's sales of products to franchised stores supervised by it, the rate of which is subject to an annual increase with a cap of 2.5% pursuant to our agreements with regional dealers, and (c) a potential reasonable increase in the above-mentioned economic contributions due to our strong bargaining power against suppliers resulting from increasing economies of scale. In addition, we still receive the royalty fees from the franchised stores supervised by the regional dealers. As such, although we did not experience any difficulty in approaching and procuring franchisees on our own during the Track Record Period, we intend to continue to maintain the regional dealers in selected regions. However, we engage regional dealers as a supplementary sales channel to franchised stores supervised by us. In regions where we have the capacity to manage self-operated stores and/or we can supervise franchised stores at reasonable costs and expenses, we prefer to adopt franchise business model. During the Track Record Period, the number of our regional dealers remained generally stable, although the total number of franchised stores supervised by regional dealers continued to increase.

One of the major duties of the regional dealers is to identify and refer franchisee candidates to us. Potential franchisee candidates identified and referred by these regional dealers are subject to the same selection criteria as those applied to franchisees recruited by us. Franchisee candidates referred by regional dealers, upon our approval, will enter into the franchise arrangements with us directly. To avoid unhealthy competition, we specify the designated regional markets for each regional dealer which shall not overlap. Currently, with respect to each regional dealer, the designated region is typically a prefecture-level city and/or with certain surrounding areas as specified under the relevant agreements. The right authorized to the regional dealers to identify and refer to us new franchisees is exclusive within such designated region. We shall not enter into franchised arrangements with any candidate identified by ourselves or referred to us by other third parties. Instead, in the case where there is a potential candidate we consider fit to act as our franchisee which is located in the designated region where we engage regional dealers, we may advise the relevant regional

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dealer to approach such party and if a franchise agreement is eventually entered into, this party will be counted as a franchisee referred to us by the regional dealer. All franchised stores located in a designated region where we engage regional dealers are considered as franchised stores supervised by regional dealers and shall generally purchase from them. We believe this approach is able to motivate our regional dealers and mitigate unhealthy competition between us and regional dealers and among regional dealers themselves. Our arrangements with the regional dealers set out a detailed retail store expansion schedule during the term of the arrangement. The number of new franchised stores to be opened and the accumulative number of stores in operation under the referral and facilitation of the regional dealers are subject to a respective yearly minimum target. Pursuant to the arrangements, if a regional dealer fails to meet the minimum store opening target for a consecutive period, we are entitled to recruit new franchisees in the relevant region on our own, claim a default penalty, or terminate the arrangements with the regional dealer.

Moreover, pursuant to our agreements with regional dealers, we delegate to the regional dealers certain managerial responsibilities over the franchised stores in their designated regions. They are required to follow the management standards we have implemented for franchised stores to support, supervise and monitor the daily operations of the stores under their responsibility. Based on the store performance of the franchised stores managed by each regional dealer, we grant incentives to the regional dealers equivalent to a predetermined percentage of the royalty fee received from the franchised stores under their supervision, which is generally settled on a semi-annual basis. In addition, the regional dealers shall pay the procurement royalty fee on a monthly basis, see “— Procurement and Logistics” below.

Moreover, the regional dealers are required to pay us a fixed sum of brand franchise fee within three calendar days after entering into the cooperative arrangements, which is not refundable. The brand franchise fee paid by our current regional dealers ranged from RMB0.5 million to RMB1.0 million, which is recognized on a straight-line basis over the expected contract term. The cooperative arrangements may be renewed subject to mutual agreement of both parties upon expiry and we may exempt the brand franchise fee for the renewed arrangements. Once a franchisee candidate referred to us by the regional dealer has entered into the franchise arrangements with us and successfully opened its franchised store, we will pay a predetermined fixed amount of one off business development fee to the relevant regional dealer based on the number of new stores opened.

During the term of the cooperative arrangements, the regional dealers shall pay us the procurement royalty fee based on the lower of (i) the predetermined percentage (typically accelerating from 0.5% to 2.5% in the term of the arrangements) of the regional dealers’ total procurement amounts from us for the franchised stores managed by the respective regional dealers, or (ii) an agreed yearly minimum procurement royalty fee. We do not set a minimum procurement target for our regional dealers nor the franchised stores under their management.

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any regional dealers committing any material breach of their agreements with us. In addition, subject to our agreements with regional dealers, upon termination or expiry of the

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relevant agreement, the regional dealer shall cease to use the brand names, business secrets and other resources provided by us immediately, including but not limited to approaching new potential franchisees, and engaging promotional and marketing activities. We are also entitled to acquire its assets and business owned and operated as a regional dealer of us, such as operations relating to supply chain management or regional distribution center. Since we directly enter into contracts with the relevant entities, we believe our regional dealers have very limited resources as to upstream suppliers and downstream franchisees. In addition, relevant franchised stores are operated under our channel brands. As such, if a regional dealer, after the expiry of its agreement with us, decides to continue to engage in fruit retailing or similar business operations, we believe the risk of potential competition arising from this is immaterial.

Our current arrangements with regional dealers have a term of ten years, subject to renewal upon mutual agreement. As of December 31, 2019, 2020 and 2021 and June 30, 2022, we had engaged 12, 14, 13 and 13 regional dealers, respectively. As of the Latest Practicable Date, the number of regional dealers remained at 13. The table below sets forth the changes in the number of our regional dealers during the Track Record Period.

	Year Ended December 31,			Six Months Ended
	2019	2020	2021	June 30, 2022
Beginning of the year/period . . .	7	12	14	13
Additions	5	2	0	0
Terminations	0	0	(1)	0
Net increase	5	2	(1)	0
End of the year/period	12	14	13	13

As of December 31, 2019, 2020 and 2021 and June 30, 2022, we contracted with 135, 263, 337 and 358 franchisees referred by regional dealers, respectively, who in aggregate operated 602, 856, 980 and 981 franchised stores supervised by regional dealers, respectively. All of our regional dealers during Track Record Period and up to the Latest Practicable Date were independent third parties from us. There were no other past or present relationships, including, without limitation, business, family, trust, employment, shareholding, financing or otherwise, between us and the regional dealers, their directors, shareholders or senior management, or any of their respective associates, save for regional dealership arrangement.

Procurement and Logistics

Franchised stores supervised by the regional dealers also use our store-level POS system to process their store sales and use our procurement system to place orders. Pursuant to our arrangements with the regional dealers, they purchase from us or from other local suppliers subject to our quality standards, then re-sell to the franchised stores in their designated areas based on the quantities specified in the purchase orders. During the Track Record Period, revenue derived from sales of products to regional dealers represented the revenue in connection with sales to regional dealers, which did not necessarily reflect the actual sales

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generated from those franchised stores managed by the regional dealers. In this Prospectus and for illustrative purposes, reference to revenue derived from sales of products to franchised stores managed by the regional dealers is represented by the revenue derived from sales of products to the regional dealers, while reference to aggregate revenue contribution of total franchised stores includes revenue derived from sales of products to franchised stores supervised by us plus revenue derived from sales of products to the regional dealers.

Our regional dealers are our customers, not our agents. Fruits sold from us to our regional dealers belong to them upon acceptance and cannot be returned. Our sales to the regional dealers are without recourse. There is no obsolete stock or repurchase arrangements between our regional dealers and us. We adopt the cost-plus method to price the products sold to regional dealers. They may set the selling prices at their discretion and re-sell the products to the franchised stores within their respective designated regions. Nevertheless, the selling prices at these franchised stores are subject to our limits of suggested retail prices and maximum selling prices.

To ensure the high quality of the products provided to the franchised stores managed by the regional dealers, they are required to establish the regional preliminary processing and distribution center in compliance with our quality requirements, and are responsible for the logistics within its designated region. The regional dealers shall comply with our fruit quality standards throughout their management over the logistics and warehousing processes.

During the term of the cooperative arrangements and without our prior consent, the regional dealers are not allowed to provide logistics, warehousing and sales services to other third parties. In the event of default, we are entitled to claim the default penalty and may terminate the arrangements in the case of continuing breach.

Our nationwide warehousing network currently has 29 preliminary processing and distribution centers, 16 of which are operated by us, including two leased from third-party warehousing service providers. The remaining 13 are leased and managed by our regional dealers following our quality requirements.

Other Distribution Channels

Online Channels

We have established multiple self-operated online channels, comprising Pagoda mobile APPs, Pagoda WeChat mini-program, storefronts on mainstream e-commerce platforms such as Tmall and JD.com, as well as on popular social commerce platforms, such as Douyin. In addition, we partner with third-party food delivery platforms, such as Meituan, Koubei and Ele.me, which provide instant delivery fleets to fulfill the online orders.

We launched our mobile APPs on iOS and Android application system in 2016 which offers a flexible and easy way for consumers to browse our products and place orders. Services on our mobile APPs are location-based. Therefore, when placing an order, consumers may

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choose to pick up in person at a designated store nearby or to request home delivery. In most regions, we are now able to provide instant delivery in as short as 29 minutes. Our APPs will also automatically recommend the nearest store location for the consumer based on its device location information. By the end of August 2022, our mobile APPs had been downloaded and installed over 19.2 million times.

In addition, we started our WeChat mini-program to market and sell products in the first half of 2018. As of the Latest Practicable Date, the number of WeChat users that accessed our WeChat mini-program exceeded 54 million. We are able to leverage this most popular and engaging social commerce platform in China to access a huge potential consumer base and to use its integrated payment system to facilitate the transactions. Under our supervision, our retail store managers operated approximately 22,400 store-based WeChat groups to engage in real-time communication and transact with over 8.7 million WeChat community followers. WeChat groups and official WeChat account are able to effectively reach a large number of followers and constantly convey information with respect to our products or promotional events, attracting our consumers to place online orders or visit offline retail stores. Similar to delivery services available on our mobile APPs, consumers placing orders through our WeChat mini-program may also choose from the just-in-time delivery or the next-day delivery. Under either option, they may further opt to pick up at a designated store or request home delivery at a time slot they prefer.

In 2019, we established a strategic partnership with Tmall and opened our flagship store on Tmall. We have also commenced our storefronts on other mainstream e-commerce platforms in China, including JD.com. Riding on the booming trend of social commerce in China, we have established our presence on popular social commerce platforms, such as Douyin. Furthermore, having witnessed the online food delivery revolution in China in these past years, we have built cooperation with major domestic food delivery platforms, including Meituan, Koubei and Ele.me.

During the Track Record Period, the proportion of the online orders out of our total orders increased from approximately 19% in 2019 to 22% in 2020, and further to 23% in 2021. In the six months ended June 30, 2022, the proportion of the online orders out of total orders exceeded 25%. Sales derived from online orders via our mobile APPs and WeChat mini-program fulfilled by next-day delivery, and sales derived from online orders through third-party e-commerce and social commerce platforms are counted as our revenue since such orders are processed and performed by us. Sales derived from online orders via our mobile APPs and WeChat mini-program fulfilled by just-in-time delivery, and sales derived from online orders through third-party food delivery platforms are sales revenue of the relevant store which processes and performs the order.

During the Track Record Period, total number of online transactions, revenue of which was recognized as our revenue, amounted to approximately 0.4 million, 6.5 million, 6.8 million and 2.3 million in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. Among these, approximately 46.4%, 17.4%, 23.6% and 25.5% was contributed by our paying members. The significant increase in the number of online transactions from 2019 to 2020 was

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primarily a result of our enhanced online marketing efforts, our operation of new online channels, such as Tmall, and the full launch of Panda.F during 2020. Moreover, the prolonged COVID-19 pandemic also significantly contributed to the increasing online purchasing in China. In 2022, we strategically reduced our reliance on third-party e-commerce and social commerce platforms and shifted to our own Pagoda mobile APPs and Pagoda WeChat mini-program for Panda.F business by offering high-quality fresh groceries. As a result, sales per order of Panda.F business increased by 128.6% from RMB22.5 for the six months ended June 30, 2021 to RMB51.5 for the corresponding period in 2022, while total number of online transactions decreased from 3.9 million for the six months ended June 30, 2021 to 2.3 million for the corresponding period in 2022.

During the Track Record Period, we recorded negative gross profit margin on online channels in 2020 and 2021. For more details about the gross profit margin on our online channels, please refer to “Financial Information — Consolidated Statements of Profit or Loss and Other Comprehensive Income — Gross Profit and Gross Profit Margin.” We believe the thin gross profit margin on online channels was due to the relatively higher costs and expenses we incurred since our acceleration of online operations since 2019. We expect the gross profit margin on online channels will improve from increasing economies of scale of our online business, as we continue to optimize online product offerings, especially the products under our Panda.F brand, and to foster a broader and more engaging consumer base.

Settlement with Third-party Platforms

We entered into cooperative agreements with third-party platforms, including e-commerce platforms, social commerce platforms and food delivery platforms, to promote and sell our products on such platforms. Pursuant to those agreements, we set up our storefronts on those third-party platforms and pay processing fees to these platforms, typically at a rate of 1% up to 12.5% of total transaction value, subject to different types of services provided by different platforms. Since these platforms typically adopt their respective standard agreements, the processing fees rates we are charged are in line with the then prevailing market rates. The settlement cycle is typically within one to three days. These platforms deploy the online payment systems certified by them and collect payments from online users. Sales proceeds entitled to us, generally after deducting the relevant fees payable to the third-party platforms, are settled with us at the end of each settlement cycle and the relevant amounts are transferred to our designated accounts after both parties reconcile and confirm the transaction records. By doing so, it simplifies the administrative procedures and reduces the costs for our franchisees to access those platforms. Furthermore, the third-party platforms generally adopt their standard form agreements, which provide, other than the above-mentioned payment arrangements, terms and conditions that the platforms shall be responsible for the stable operation of such platform and shall provide the services facilitating the online transactions, such as product display, order management, delivery allocation and online payment. In addition, we are more likely than individual franchised stores to obtain favorable commercial terms from those platforms, such as the lower processing fee rate and the higher discount rate. As a food supplier, we undertake that we have obtained the requisite qualification for our operations and make product quality control in the cooperative agreements. During the Track Record Period and up to the Latest Practicable Date, we did not receive any material claims against our product quality and safety.

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During the Track Record Period, we incurred processing fees in connection with online orders which were recorded as our revenue on third-party platforms, i.e. Tmall and JD.com. Aggregate transaction value of such online orders on these two platforms amounted to approximately RMB27.8 million, RMB187.4 million, RMB190.9 million and RMB49.9 million in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. The actual processing fee rate as a percentage of transaction value of the aforementioned online orders was approximately 7.2%, 9.8%, 10.5% and 8.5% in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. Aggregate processing fees we incurred during the Track Record Period in connection with the aforementioned online orders which were recorded as our revenue were approximately RMB2.0 million, RMB18.4 million, RMB20.1 million and RMB4.2 million, respectively, in 2019, 2020 and 2021 and the six months ended June 30, 2022. The gradual increases in fee rates from 2019 to 2021 were mainly because we subscribed more value-added online promotional and marketing services with the relevant third-party platforms as we continued to develop our online business. Since 2022, we reduced the purchases of such value-added online promotional and marketing services from the third-party platforms and strategically focused on our Panda.F operation through our own Pagoda mobile APPs and Pagoda WeChat mini-program, online orders through which were not subject to the above-mentioned processing fees. Such third-party platform processing fees are accounted for as our marketing and promotion expenses under selling expenses. Processing fees in connection with online orders that are recognized revenue of the relevant stores that process and perform the orders are borne by the relevant stores.

Others

In addition to online channels and offline store network, we also engage in direct sales to certain major customers, such as enterprises, restaurants and high-speed railway companies that have catering needs. We have a dedicated key customer service department to develop and maintain the relationship with such corporate customers. Since 2022, we have accelerated our development of direct sales business by establishing favourable pricing strategy in order to expand our corporate customer base. Leveraging our experience in establishing channel brands, we have been in the process of developing reputable channel brands for direct sales business. In addition, we have commenced to further promote our direct sales business by enhancing our marketing presence for our online flagship stores and on live-streaming platforms. We host livestream sessions and broadcast vivid content to attract and interact with online customers and promote our brand recognition. Leveraging the large user base of popular social commerce platforms, we promote community group buying initiatives to offer products at favorable prices to collective buyers within communities nearby.

In addition, although our business mainly focuses on the retailing of fruits and other fresh groceries, on a limited scale, we also engage in fruit wholesale business through our subsidiaries, Haiyang Jinchengtai and Hainan Wangpin. Our wholesale customers are mainly large supermarkets and fruit distributors.

SETTLEMENT AND CASH MANAGEMENT**Payment at Stores**

The retail stores accept various payment options, such as cash, credit cards as well as various mobile payment tools like Alipay and WeChat Pay. The large majority of the consumers nowadays use mobile payment. In addition, our consumers may also use the prepaid gift cards or reloadable prepaid virtual wallets to consume in store. Our current settlement arrangements with franchisees enable us to manage such prepaid amounts. We have completed the requisite filing procedure with respect to the issuance of single use commercial prepaid cards with the relevant government authorities. On the other hand, online transactions on third-party platforms are processed by the online payment systems as certified by the platforms. Alipay, WeChat Pay and the online payment systems deployed by the third-party platforms are all popular and well-established digital payment methods in China nowadays, all of which are independent from us.

To ensure the authenticity and accuracy of record keeping of the sales activities in the retail stores, we implement an integrated store-level POS system which is linked to and monitored by our Pagoda ERP system on a real-time basis. We have in place stringent and detailed settlement and cash management policies with respect to POS system front-end operations and the logistics with respect to collection, safekeeping and depositing of cash that the franchised stores are required to comply with.

Credit card and digital payments shall only be directly paid to our designated accounts. As for cash sales, we require each franchised store to record the cash receipts and deposits to POS system and deposit cash to our designated bank accounts on a daily basis. We refer to the cash sales recorded by our POS system as the basis for cash count and reconciliation. To avoid misappropriation and illegal uses of cash, on the second day, our back-end financial personnel conduct reconciliations among cash deposits as reported by the stores, relevant bank statements and in-store sale records saved by the POS system, and prepare a cash long-and-short daily report to follow up with the relevant store in case of any discrepancies during the reconciliation.

Settlement with Franchisees

Considering the nature of fruits and other fresh groceries (such as quality defects), the generally stringent qualification and food safety requirements imposed by third-party platforms (such as Meituan, Koubei and Ele.me), as well as our overall development strategies including the risk control measures in connection with our financial support provided to franchisees, our instant refund service, and the application of prepaid gift cards and reloadable prepaid virtual wallets, we have developed and formed our current settlement arrangement with the franchised stores that we collect all sales proceeds of the franchised stores, including the franchised stores supervised by us and the franchised stores supervised by the regional dealers, on their behalf which are subject to monthly settlement from end consumers by early next calendar month.

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We leverage our integrated POS system to monitor the sales activities in all of the franchised stores. In practice, we receive the gross store sales proceeds of franchised stores, including the franchised stores supervised by us and the franchised stores supervised by the regional dealers, and on a monthly basis, remit such amount after deducting, in such following order, the monthly royalty fee, the repayment of interest-free borrowings under our financial support arrangements (if applicable, which had been fully settled by 2019), and the outstanding procurement agreed by us (representing the difference between the procurement amounts of fruits and other products due to us and regional dealers and the reserved working capital which is approved by us (if applicable, only with respect to franchised stores opened prior to January 1, 2019)), then remit the remaining amount, if any, back to the bank account provided by the relevant franchisee. Generally, the interests and the principal on the interest-bearing loans under our financial support arrangements, if applicable, may be repaid from franchisees' own pockets which is separate from the above-mentioned settlement arrangement. For more details about our monthly royalty fee, see “— Franchised Stores — Gross profit based incentive mechanism with franchisees.” With respect to settlement with franchised stores supervised by our regional dealers, we firstly settle directly with franchised stores as aforementioned and then with regional dealers, details of which are discussed below.

In the early stage of our operation and up to 2019, we granted to franchised stores opened prior to January 1, 2019 a discretionary credit term of up to three months to our franchisees to ease their potential cash flow constraints. Considering the growing maturity of our franchise business model as well as the operational capability of our new franchisees as a whole, we modified our franchise model in 2019 and ceased to offer the credit term to newly opened franchised stores, mainly to mitigate the liquidity risk exposure. However, as franchisees with stores opened prior to January 1, 2019 generally had a long-term relationship with us, were familiar with our business and had a good creditworthiness in payment and, importantly, we did not wish to disrupt the existing cash conversion and settlement cycle of such stores, we decided to continue the discretionary credit term policy for franchised stores opened prior to January 1, 2019. As of December 31, 2021, approximately 56.1% of total franchised stores had an operation history over three years. By 2021, franchisees contracted with us prior to January 1, 2019 on average had a business relationship of approximately 6.95 years with us. In contrast, with respect to franchisees contracted with us after 2019, they on average had a business relations of 1.5 years with us by December 31, 2021. We believe granting a credit term with a reasonable length is not uncommon in retail industry with a franchise or distribution business model.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, among all franchisees, 418, 418, 415 and 408 were granted a credit term up to 90 days. These franchisees operated a total of 2,391, 2,382, 2,269 and 2,244 stores, respectively, as of December 31, 2019, 2020 and 2021 and June 30, 2022, and the revenue from sales of fruits and other products contributed by such franchisees amounted to approximately RMB5,534.6 million, RMB4,694.8 million, RMB4,605.7 million and RMB2,314.1 million, respectively, in 2019, 2020 and 2021 and the six months ended June 30, 2022. Trade receivables from the franchisees, which were in

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connection with the purchases they made from us, amounted to RMB1,362.6 million, RMB1,191.0 million, RMB1,052.9 million and RMB968.5 million, respectively, as of December 31, 2019, 2020 and 2021 and June 30, 2022.

In general, our franchisees are able to fully repay the procurement amounts within their respective credit terms. In current practice, if a franchisee fails to repay the procurement amounts in time due to the poor performance of its stores, we will more closely monitor the store operations and actively provide advisory support to enhance the store performance. As of December 31, 2019, 2020 and 2021 and June 30, 2022, provision made against outstanding procurement amounts due from franchisees accounted for approximately 0.0%, 0.3%, 0.3% and 0.3% of total outstanding procurement amounts due from franchisees, gross, as of the same dates. During the Track Record Period and up to the Latest Practicable Date, no write-off was made in connection with outstanding amounts from our franchisees. Similar to the management procedures in connection with our financial supports, we continuously monitor the performance of each franchised store. We will accelerate the receivable collection procedures if we are aware of any material adverse change to the store performance. We may also re-assess and timely adjust the credit term granted to the franchised stores on a case-by-case basis.

With respect to the settlement with regional dealers which occurs on a monthly basis after the settlement with the franchised stores supervised by them, we receive sales proceeds of the franchised stores supervised by regional dealers and remit such remaining amount, if any, together with the factoring amounts approved by us, if applicable, to the bank accounts designated by the regional dealers after deducting the regional dealers' procurement amounts of fruits and other products due to us, royalty and other fees due to us by the regional dealers.

Leveraging our integrated POS system, we are able to understand the performance of each franchised store and each regional dealer, thus, allowing us to control the risk against the collectability of the trade receivables.

CUSTOMERS AND CONSUMERS

Customers

While we consider almost everyone as our end consumers, accounting-wise our customers are primarily our franchisees and regional dealers who purchase from us. Individuals are considered as our direct customers if they purchase from our self-operated stores or place orders via e-commerce and social commerce platforms or our Pagoda mobile APPs and Pagoda WeChat mini-program for next day delivery, which are fulfilled by us. Individuals are not considered as our direct customers if they purchase from franchised stores or place orders via third-party food delivery platforms or our Pagoda mobile APPs and Pagoda WeChat mini-program for just-in-time delivery, which are fulfilled by the relevant franchised stores. In addition, we engage in direct sales to certain major customers, such as enterprises, restaurants and high-speed railway companies that have catering needs. On a limited scale, we also engage

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in fruit wholesale business. Our wholesale customers are mainly large supermarkets and fruit distributors, among which, there are a small number of overseas customers. Franchisees and regional dealers are not agents of us.

During the Track Record Period, our top five customers were our franchisees. Due to the nature of our retailing business and the amount of our franchisees, revenue contribution from any single franchisee was immaterial. Revenue derived from our top five customers accounted for 14.2%, 11.7% and 9.8% of our total revenue for the years ended December 31, 2019, 2020 and 2021, respectively. Over the same periods, revenue derived from our largest customer over the same periods accounted for 3.4%, 2.8% and 2.2% of our total revenue, respectively. In the six months ended June 30, 2022, revenue derived from our top five customers accounted for 8.6% of our total revenue, and revenue derived from our largest customer over the same period accounted for 1.9% of our total revenue, respectively. We have maintained long-term and stable relationships with our customers. As of the Latest Practicable Date, we had an average of approximately 11 years of business relationship with our top five customers.

None of our Directors, their respective associates or any of our shareholders holding more than 5% of our issued share capital after the Global Offering, to the knowledge of our Directors, held any interests in any of our five largest customers during the Track Record Period.

The following tables set forth certain information of our five largest customers during the Track Record Period.

For the year ended December 31, 2019

Customer	Background	Sales amount	% of total sales	Length of business relationship
		<i>(RMB'000)</i>		
Customer A	individual franchisee with a number of franchised stores	305,187	3%	since 2011
Customer B	individual franchisee with a number of franchised stores	291,555	3%	since 2014
Customer C	individual franchisee with a number of franchised stores	229,385	3%	since 2009
Customer D	individual franchisee with a number of franchised stores	228,442	3%	since 2009
Customer E	individual franchisee with a number of franchised stores	220,606	2%	since 2013
		1,275,175	14%	

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For the year ended December 31, 2020

Customer	Background	Sales amount	% of total sales	Length of business relationship
		<i>(RMB'000)</i>		
Customer A	individual franchisee with a number of franchised stores	250,586	3%	since 2011
Customer B	individual franchisee with a number of franchised stores	216,291	2%	since 2014
Customer E	individual franchisee with a number of franchised stores	196,101	2%	since 2013
Customer C	individual franchisee with a number of franchised stores	188,519	2%	since 2009
Customer D	individual franchisee with a number of franchised stores	183,722	2%	since 2009
		1,035,219	12%	

For the year ended December 31, 2021

Customer	Background	Sales amount	% of total sales	Length of business relationship
		<i>(RMB'000)</i>		
Customer A	individual franchisee with a number of franchised stores	250,586	3%	since 2011
Customer B	individual franchisee with a number of franchised stores	216,291	2%	since 2014
Customer E	individual franchisee with a number of franchised stores	196,101	2%	since 2013
Customer C	individual franchisee with a number of franchised stores	188,519	2%	since 2009
Customer D	individual franchisee with a number of franchised stores	183,722	2%	since 2009
		1,035,219	12%	

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For the six months ended June 30, 2022

Customer	Background	Sales amount	% of total sales	Length of business relationship
		<i>(RMB'000)</i>		
Customer B	individual franchisee with a number of franchised stores	111,227	2%	since 2014
Customer E	individual franchisee with a number of franchised stores	107,343	2%	since 2013
Customer A	individual franchisee with a number of franchised stores	107,085	2%	since 2011
Customer C	individual franchisee with a number of franchised stores	92,051	2%	since 2009
Customer D	individual franchisee with a number of franchised stores	88,686	1%	since 2009
		506,393	9%	

Consumer Services

We provide consumer services and proactively interact with our consumers mainly through our mobile APPs and various social media platforms, such as Weibo and WeChat. We operate a consumer service hotline to respond to consumer inquiries and complaints and to collect their feedback. We typically require our consumer service staff to respond and report internally to the relevant departments within 24 hours. Our consumer service staff also proactively conduct on-site visits and telephone surveys on selected members to better understand our consumers' feedback.

As of the Latest Practicable Date, we had not experienced any material consumer complaints with respect to our product quality, nor had we encountered any refund claims that would cause a material impact on our operation or financial performance.

Instant Refund Service

Out of the strong confidence in the quality of our products and the trust in good faith of our consumers, we have launched the instant product return and refund service policy. Currently, fruits and most of other fresh groceries are eligible for our instant refund service. If a consumer believes the products do not meet his/her expectations, he/she may claim a refund up to 100% of the selling prices without presenting the product and invoice or providing a good reason. Both paying and non-paying members are able to complete the instant refund claim via our Pagoda mobile APPs and/or WeChat mini-program. Instant refund service not

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only enhances consumer satisfaction, but also provides us with first-hand information for big-data analysis, which allows us to understand the product quality and consumer preference in a timely manner, sets a direction for us to adjust our procurement strategy and further offers valuable market intelligence that we may share with our supply chain business partners. To encourage our franchisees to implement our instant refund service policy, and subject to how the purchase order is fulfilled, under circumstances where a franchised store would incur a loss, representing the difference between the refund amount claimed and the store's gross profit of a single purchase order (the "Store Net Loss") if an instant refund claim were processed, we currently agree to share up to 60% of the Store Net Loss, the equivalent of which will be deducted from the procurement amount in the settlement next month. Under circumstances where a franchised store would still generate net income from the purchase order after processing an instant refund claim, we will not share any cost with the relevant store with respect to the instant refund. If the franchisee believes that the consumer was not acting in good faith, the franchisee should still proceed with the refund and then initiate an internal complaint procedure with us to claim compensation. We have a tracking system in place to avoid abuse on the instant refund service. For example, our systems identify irregular refund claims which are subject to further manual review, such as abnormally high refund amounts or high frequency of refund claims within a certain period of time. Members on the watchlist are restricted from applying for additional instant refund from the Group's mobile APPs and/or its WeChat mini-program.

During the Track Record Period, the amounts we incurred in connection with our instant refund service were immaterial and accounted for approximately 0.07%, 0.18%, 0.15% and 0.20% of our total revenue for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively.

Membership Programs

To enhance our consumer loyalty, we have established the membership programs. As of the Latest Practicable Date, the number of our members accumulated through various distribution channels had reached over 73 million.

Our Pagoda membership program has established a four-level membership plans and the members may upgrade their membership levels based on different spending tiers by accumulating purchases, which in turn, will unlock various privileges such as discount rates, shopping assistant with priority, birthday special offer, member-only promotional events, exclusive promotional coupons and gift redemptions. In addition to the four-level membership plans, in early 2018, we initiated the Xinxiang ("心享") paid membership plan. Existing members, despite their original membership level, may subscribe to the paid membership for a 12-month period at a membership fee of RMB99 for a basic package or RMB199 for an upgraded package, respectively, and enjoy certain additional privileges on top of the member benefits described above, such as monthly vouchers, exclusive rewards and discounts for paying members, free product tasting opportunities and invitations to new product trial events. We commit that the paying members will save an amount no less than the membership fee they paid during their 12-month membership period. Otherwise, we will refund and make up for the

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shortfall. Since the launch of the paid membership plan, we had accumulated over 946 thousand paying members as of the Latest Practicable Date. The expanding paying membership base does not only contribute to our revenue but also indicates the strong stickiness and confidence in us of our members. We expect to continue to introduce additional exclusive membership benefits to attract more paying members. According to our records, the higher level members generally present a higher purchase frequency and higher average order value. In 2021, the monthly purchase frequency and monthly purchase amounts of our paying members were approximately 140% and 160%, respectively, higher than those of non-paying members.

Individuals are considered as our direct customers if they purchase from our self-operated stores or place orders via e-commerce and social commerce platforms or our Pagoda mobile APPs and Pagoda WeChat mini-program for next day delivery, which are fulfilled by us. Individuals are not considered as our direct customers if they purchase from franchised stores or place orders via third-party food delivery platforms or our Pagoda mobile APPs and Pagoda WeChat mini-program for just-in-time delivery, which are fulfilled by the relevant franchised stores. All consumers could join the membership plan for free at offline retail stores or from our Pagoda mobile APPs and Pagoda WeChat mini-program. All existing members may also pay the subscription fee via our Pagoda mobile APPs, Pagoda WeChat mini-program to join the paid membership plan. Member benefits of free and paid membership plans can be redeemed or used at offline retail stores or from our Pagoda mobile APPs and Pagoda WeChat mini-program.

We have established a consolidated membership database for all online and offline consumers. We consider the protection of the data privacy of our consumers to be of paramount importance and we have in place the policies, procedures, software and technology infrastructure to properly collect, use, store, retain and transmit our user data in compliance with applicable data protection laws and regulations. Please refer to “— Data Privacy and Protection” for further details.

We currently are dedicated to implementing our OMO strategy, aiming at diverting offline traffic to online shopping with us, and *vice versa*, attracting more online shoppers to step into the offline retail stores to drive additional purchases.

SUPPLIERS

Unlike other food products, the quality of fresh fruits is largely determined by the quality of original cultivation. As such, identifying and retaining high-quality suppliers is of significant importance to our business. We have reserved ourselves strong resources from the supply chain end through our robust supply chain strategy in the past years, and have established multi-tier supply channels, ensuring sufficient quantity and consistent quality in supply. Currently, the substantially majority of our products are purchased from third parties, with small amount of fruits from the plantation bases operated by us.

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We selectively form in-depth collaborations with local suppliers and empower them with technologies offered by us or our associates and joint ventures. We provide a variety of support in connection with technologies and equipment for seed selection and breeding, planting, plant protection and post-harvest processing. Our technical empowerments primarily aim to enhance the quality and production yield of the suppliers, and to preserve the fruit quality when delivered to the consumers. We identify the suppliers with the best quality through such collaborations and purchase fruits from them. Such in-depth collaborations facilitate the launch of our products that are of the best quality standards and significantly differentiate from other products in the market and help us develop distinguished product brands.

We also purchase from places of origin. Our procurement teams work closely with local agents to conduct market researches to develop and select local suppliers and arrange for purchases subject to our detailed procurement requirements.

In addition, due to the seasonality and uncertainties inherent in the cultivation and sales of fruits, we may from time to time need to purchase from public market to replenish our stock under certain circumstances. During the Track Record Period, in terms of dollar amount, purchases of fruit products from the public market for stock replenishment purposes accounted for approximately 29%, 22% and 19% of total purchases of fruit products in the years ended December 31, 2019, 2020 and 2021, respectively. Purchase price of a certain product from the public market may be slightly higher than the price we purchase from the suppliers we have established business relationship with. However, given the continuously decreasing portion of it in our total purchases, we believe the impacts of purchasing from the public market on our business and financial performance are insignificant, especially on our costs and gross profit. Moreover, due to the nature of fresh fruit market which is typically subject to uncertainty and volatility, we are required to always maintain certain flexibility and capacity in procurement in anticipation of unforeseen events affecting demand and supply. We will continue the practice of purchasing from the public market to replenish our stock.

We maintained cooperative relationships with approximately 1,640, 1,770, 2,200 and 1,590 suppliers in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. Due to the seasonality of fruit products, the number of suppliers in the first half of the year is typically less than the aggregate number of suppliers in the full year since certain fruits are only available in autumn and winter seasons. Our suppliers are primarily fruit plantation bases, including those bases with fruit packing houses that could carry out preliminary processing work. In addition, a significant portion of the fruits we purchase originate from overseas, such as Australia, New Zealand and Chile. This includes fruits we procure directly and import from overseas suppliers, procure from the major agents or distributors in China of such overseas suppliers, or procure from customs brokers who assist us to import from our designated overseas suppliers. Given the fact that the quality of vegetables also highly depends on the quality of original cultivation, we adopt a similar procurement strategy as fruits and typically source from places of origin. To ensure the consistently high quality of the vegetables to be delivered to us, we or the technical consultants we designated will set up cultivation standards for the suppliers to follow. During the Track Record Period, in terms of dollar amount, approximately 0.1% of fruit products was sourced from our plantation bases each year. In terms

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of dollar amount, fruits sourced from China accounted for approximately 53.2%, 54.9% and 59.5% of total purchases of fruit products in 2019, 2020 and 2021, respectively, with the remaining approximately 46.7%, 45.0% and 40.4% purchases being imported fruits. With respect to other fresh groceries, we conduct comprehensive market researches and generally purchase from high-quality suppliers directly and may engage the suppliers to complete the necessary initial preliminary processing for us.

We evaluate and select our fruit suppliers based on a number of factors, including their reputation, cultivation techniques, experience in cultivation and post-harvest processing, consistent quality of the fruits, stable year-round supply volumes, food safety controls and guarantees, as well as price stability. In light of suppliers of other fresh groceries, we primarily consider the qualification and certification they have obtained, consistent quality, food safety control and their willingness to partner with us.

We generally approach and identify suppliers through our market researches or word-of-mouth referrals. We have also implemented an intelligent supplier management system, an online procurement transaction platform through which any interested party may submit an online application to become our supplier. After passing our sample inspection, such party will be admitted to our supplier database. In addition, our procurements are transacted through our intelligent supplier management system which supports information exchange between us and our suppliers. Our integrated information technology systems also enable us to timely adjust procurement amounts based on the ongoing actual sales and inventory level.

We typically enter into purchase agreements or purchase orders with our suppliers. Purchase agreements generally have a term of one year, subject to automatic renewal upon mutual agreement. During the Track Record Period, certain suppliers were our related parties. The procurement agreements we entered into with related parties were on normal commercial terms substantially identical to those with other independent third-party suppliers. All transactions, including those with related suppliers, shall be conducted through our intelligent supplier management system. During the Track Record Period, the renewal rate of the purchase agreements with our suppliers, calculated as the number of suppliers who renewed their contracts with us in the following year divided by the total number of suppliers in the previous year, was 67%, 69% and 68%, respectively, in 2019, 2020 and 2021. Prior to the procurement, we generally require the suppliers to provide us with product sample for us to determine its quality standards. We place orders subject to the terms of the purchase agreements or purchase orders, which specify the fruit type, quantity, price, quality standards for acceptance, packaging style and standards, designated delivery location and so on. We negotiate and confirm the purchase prices with each supplier through our intelligent supplier management system. In any given period and with respect to same products, the unit price we agreed with related suppliers and third-party suppliers are generally identical. For example, during the Track Record Period, the unit price range of Red Ballerina strawberries, one of our popular fruit products, was between approximately RMB45.5 per kg to RMB58.9 per kg purchased from related suppliers, while the unit price range of the strawberries of similar quality purchased from third-party suppliers was between approximately RMB49.7 per kg to RMB58.5 per kg. Our suppliers are further required to present us with the results of pesticide residual

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tests or other requisite testing reports in compliance with the applicable laws and regulations. Our suppliers are responsible for the product quality. In the event that the proportion of defective fruits exceeds the rate as pre-agreed under the purchase agreements as a result of the supplier's inappropriate warehousing or logistics arrangements, or that the fruits are damaged in our warehouses or in stores as a result of the suppliers' inappropriate post-harvest processing procedures, the relevant suppliers shall be liable for our losses. The suppliers shall also be responsible for any consumer claims or administrative penalties imposed by relevant government authorities due to their product quality defects. In addition, if any supplier delays the product delivery, we are entitled to reject such products and the supplier shall be liable for the breach of contract and the relevant losses. We generally settle the payments with our suppliers, including those related suppliers, on a monthly basis. Moreover, we conduct on-site quality inspections on our suppliers of fruits and other fresh groceries on a regular basis. We are typically not subject to minimum purchase amounts or commitments pursuant to the purchase agreements with our major suppliers.

During the Track Record Period, all of our major suppliers are fruit suppliers. Aggregate purchases from our top five suppliers in terms of dollar amount in aggregate accounted for approximately 21.4%, 20.4% and 20.6%, respectively, of our total purchase cost for the years ended December 31, 2019, 2020 and 2021. Purchase from our largest supplier in terms of dollar amount accounted for approximately 7.4%, 7.7% and 8.1%, respectively, of our total purchase cost in such periods. In the six months ended June 30, 2022, aggregate purchases from top five suppliers in terms of dollar amount in aggregate accounted for approximately 22.8% of our total purchase cost for the six months ended June 30, 2022, and purchase from our largest supplier in terms of dollar amount accounted for approximately 9.1% of our total purchase cost in the same period, respectively. As of the Latest Practicable Date, we had an average of approximately 3 years of business relationship with our top five suppliers. None of our Directors, their respective associates or any of our shareholders holding more than 5% of our issued share capital after the Global Offering, to the knowledge of our Directors, held any interests in any of our five largest suppliers during the Track Record Period. During the Track Record Period, none of major suppliers were at the same time our major customers.

During the Track Record Period and up to the Latest Practicable Date, we had not encountered any material delay or shortage in the supply of any fruit products that interrupts our business operations.

Preliminary Processing

Unlike other industrial goods, fruit suppliers sometimes need to conduct certain preliminary processing procedures, such as cleaning, sorting and separating, after fruits are harvested. Some suppliers from whom we directly purchase may also prepare preliminary packaging subject to our request. Certain fruits require ripening before they can be sold, which process is typically completed in our own ripening rooms, see “— Logistic and Warehousing Intelligence — Warehousing Intelligence — Preliminary Processing” below.

Procurement Arrangements and Policies

All of our suppliers are required to comply with the relevant laws and regulations as well as the quality standards provided by us under the purchase agreements. We typically retain multiple suppliers for each of our product.

With respect to fresh fruits, we produce our annual master procurement schedules at each year end based on our sales forecast, store network expansion plans, as well as our market researches on fluctuations in fruit demand and supply and prices in the upcoming year. A detailed purchase plan for each type of fruits will be further developed before the seasonal purchase commenced. The master procurement schedules are subject to periodical adjustment pursuant to our updated market researches and estimates, actual sales we achieve, and other unpredictable events that may affect our sales. Our heads of regional procurement department shall collect and submit the estimated procurement demands from each region to our headquarters on a monthly basis.

With respect to other fresh groceries we also produce annual master procurement schedules at each year end based on our sales forecast and business development plans. For items that are delivered daily, such as vegetables and fresh meats, we produce detailed procurement schedules on a weekly basis based on online orders we have received and the anticipated demands we determine based on our accumulated experience. With respect to other fresh groceries that are not subject to daily delivery, we assess the procurement schedules based on a number of factors, including the minimum purchase amounts, lead time required from production to delivery, inventory balance, as well as the anticipated demands we determine based on our accumulated experience.

Owned Plantation Bases

We currently operate two plantation bases in Yunnan Province and Jiangxi Province, respectively. Harvested fruits that meet our quality standards will be provided to us and the rest will be sold to third parties in the market.

The plantation base in Yunnan Province has a total area under cultivation of approximately 310,274 sq.m. for fruit trees, which produce various types of grapes with an annual yield of approximately 765 tons and green dates with an annual yield of approximately 396 tons. The plantation base in Jiangxi Province currently has a total area under cultivation of approximately 3,485,011 sq.m., mainly for various types of oranges, with a total yield of approximately 728 tons. In addition, we have also built a national class virus-free citrus propagation nursery foundation mainly for our self-use.

FINANCIAL SUPPORT ARRANGEMENTS

During the Track Record Period, we adopted a franchise business model and provided financial supports to our franchisees, regional dealers and suppliers. Our various financial support arrangements mainly include (i) prior to 2019, interest-free loans to franchised stores, (ii) since 2019, interest-bearing loans to franchised stores, (iii) factoring arrangements with regional dealers, and (iv) factoring arrangements with suppliers. In addition, during the Track Record Period, we also provided interest-bearing loans to support certain associates and selected third parties that were in temporary capital needs. These third parties were fruit retail industry participants, mainly fruit suppliers, which we considered strategically cooperating with. As of the Latest Practicable Date, except for the financial supports to our franchisees, regional dealers and suppliers, we had ceased to provide interest-bearing loans to associates and third parties, and all outstanding loans due from the associates and third parties had been fully repaid. Among the suppliers receiving our factoring amounts during the Track Record Period, there were suppliers who were also our associates. The outstanding factoring amounts due from these associated suppliers will not be fully repaid prior to the Listing but will be settled pursuant to the relevant factoring agreements, given that these associates continue to act as our suppliers on an ongoing basis.

As advised by our PRC Legal Advisor, the financial support arrangements extended to our franchised stores, suppliers, certain associates and selected third parties, is in compliance with the relevant laws and regulations in all material aspects. According to Frost & Sullivan, our franchise business model, with the feature of provision of financial support to various parties and relevant accounting treatments, is not uncommon in the industries that adopting the franchise business model.

Financial Support Provided to Franchisees***Pre-2019***

In the early years of our development and prior to 2019, we primarily focused on selecting franchisees with the know-how and operating experience in fruit retail business and those selected franchisees were typically individual self-employed merchants (個體工商戶). We believe such approach minimized our operational risks, helped to quickly establish our recognition in the market, and facilitated our expansion of our franchised store network. To facilitate those franchisees who were in temporary need of capital for the initial startup stage of their stores, and more importantly, to sustain high-quality stores and maintain an efficient and stable long-term development of our franchised store network by attracting qualified franchisees and enhancing their willingness to participate in our franchise business, in addition to the management and service support mentioned above, we also from time to time entered into financial support arrangements under the franchise arrangements and extended loans to franchisees pursuant to such arrangements.

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Historically, we provided interest-free loans to franchisees to support their initial store opening and ongoing store operation and expansion. Such interest-free loans were accounted as a part of our other receivables in our balance sheet during the Track Record Period. Pursuant to the interest-free loan arrangements, the franchisees made the repayments by means of deduction from the store sales proceeds collected by us from the second month after they received the loans. Such deduction was subject to the total amount of the sales proceeds collected by us. For more details about our settlement with franchisees, see “— Settlement and Cash Management” below.

As of December 31, 2018, we extended interest-free loans to 502 franchised stores operated by 320 franchisees and total outstanding balance was RMB70.6 million as of December 31, 2018. We ceased to offer interest-free loans to franchisees in 2019, and all the outstanding amount of such interest-free loans were fully settled. As of December 31, 2019, 2020 and 2021 and June 30, 2022, the outstanding balance of the interest-free loans accounted under other receivables amounted to RMB14.0 million, nil, nil and nil, respectively, extended to 64, nil, nil and nil franchisees for their 236, nil, nil and nil franchised stores, respectively, as of the same dates. None of our Former Employee-Franchisees received the interest-free loans to support their franchised stores in 2019.

Since 2019

As we continue to improve our franchise business model, since 2019, we have renewed the financial support arrangements under the franchise arrangements, under which we start to offer interest-bearing loans to franchisee applicants in connection with new franchised stores. We also have enhanced our internal measures to ensure the repayment collection. The loans are required to be applied exclusively for the daily operation of the relevant franchised stores, mainly including expenses and costs in connection with store staff’s salaries, store rental fees, store decoration and purchases of equipment. To minimize our risks, we currently set a cap amount that each franchised store may borrow from us, which is further subject to adjustment on a case-by-case basis. These policies illustrate our intention of discouraging imprudent expansion and supporting franchisees who advocate a franchise network with long-term and sustainable growth.

We review the relevant franchisee’s reputation and credibility, as well as the relevant store’s track record of performance before approving any loan under our financial support arrangements. We also conduct background check on the franchisees through various legitimate public information platforms, such as judgement execution search released by the people’s courts and personal credit search released by commercial banks or financial institutions, which consist of the franchisee’s personal credit report (including but not limited to credit loans, credit card histories through bank or financial institutions) in order to cross check and be assured that the franchisee is in good credit position. We may approve multiple loan applications from one franchisee.

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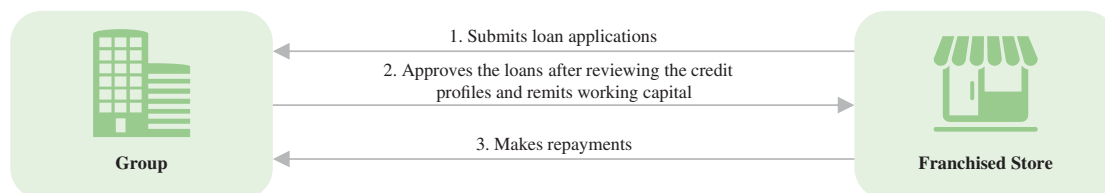
Upon approval of each loan, we constantly monitor the outstanding balance and repayments. We also assess the performance of each relevant franchised store on an ongoing basis to minimize our risk exposure. We maintain an internal credit rating system for our risk management in terms of loan approval and monitoring process. To be specific, we calculate a monthly estimated operation indicator for each store, which represents the difference of the store's monthly sales proceeds minus procurement amounts and rental expenses, and compare such monthly estimated operation indicator multiplied by 12, 24 and 36 months, respectively, with the month-end outstanding loan balance, if applicable. We consider a store is in the alert position if the store's monthly estimated operation indicator multiplied by 36 monthly falls below its month-end outstanding loan balance. With respect to a franchised store in operation for less than 12 months which lacks sufficient information to establish its own creditability history, we use our pre-set credit alert amount. If the alert situation lasts for over three consecutive months, we will suspend any new loan application from this store and will initiate proactive communication with the relevant franchisee in terms of loan repayments. We may re-evaluate the store's creditability and approve new loans until its estimated operation indicator improves.

With respect to loans that are over-due (i.e. upon the termination or expiry of the relevant franchise agreements), the franchisee is liable to repay in full upon termination or expiry of the relevant franchise agreement according to the loan agreement. In case any interest repayment is overdue, we will suspend any new loan application from this store and will initiate proactive communication with the relevant franchisee in terms of loan repayments. We may accelerate the repayment collection procedure if we are aware of any material adverse change to the operations of the franchised store. We may constantly review and modify our franchisee management and financial support arrangements to better fit our evolving and expanding business operations.

The loans currently have an interest rate at approximately 4.75% per annum. Such interest-bearing loans are accounted as part of our other receivables during the Track Record Period. In addition, given our enhanced brand recognition and improved franchise system, except for special circumstances, we no longer accept loan applications for store opening at the initial stage of business and our loans shall only be extended to franchisees, including both franchisees directly recruited by us and franchisees referred to us by regional dealers, whose stores have commenced commercial operation. Under the interest-bearing loan arrangements, both parties agree that the principal amount of the loans shall be fully repaid prior to the expiry of the relevant franchise arrangements which typically have a term of five years, and the interests are paid on a monthly basis and may be paid by means of deduction from the store sales proceeds collected by us. In practice, our franchisees are entitled to repay part or all of the outstanding amounts at any time prior to the expiry of the loans, by means of their free cash or a deduction from their store sales proceeds subject to mutual agreements. During the term of the loans, when the relevant franchisee is making profit and subject to mutual agreement on early repayments, the franchisee may allow us to deduct the repayments from the store sales proceeds collected by us. Risk assessment standards and loan agreement terms are identical for both franchisees directly recruited by us and franchisees referred to us by regional dealers.

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The diagram below illustrates major components of the interest-bearing loans provided by us to franchisees under our financial support arrangements:



The table below sets forth the changes in the balance of interest-bearing loans to our franchisees, including both franchisees directly recruited by us and franchisees referred to us by regional dealers, during the Track Record Period.

	For the Year Ended/As of December 31,			For the Six Months Ended June 30,
	2019	2020	2021	2022
	<i>RMB'000</i>			
Beginning of the year/period . . .	–	50,226	131,617	178,990
Aggregate new loans	56,002	119,418	84,175	44,846
Aggregate repayment	(5,776)	(38,027)	(36,802)	(33,069)
End of the year/period	50,226	131,617	178,990	190,767

As of December 31, 2019, 2020 and 2021 and June 30, 2022, the outstanding balance of the interest-bearing loans accounted under other receivables amounted to RMB50.2 million, RMB131.6 million, RMB179.0 million and RMB190.8 million, respectively, extended to 196, 200, 309 and 421 franchisees for their 512, 621, 815 and 971 franchised stores, respectively, as of the same dates. Among these, there were 2, 4, 15 and 16 Former Employee-Franchisees who received the interest-bearing loans to support their 2, 4, 26 and 32 franchised stores as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively, and as of the same dates, the outstanding balance of such loans provided to Former Employee-Franchisees accounted under other receivables amounted to RMB0.1 million, RMB0.3 million, RMB1.9 million and RMB4.2 million, respectively. Aggregate revenue contributed by the franchised stores that obtained the interest-bearing loans from us amounted to RMB187.3 million, RMB265.2 million, RMB334.5 million and RMB273.4 million, respectively, in 2019, 2020 and 2021 and the six months ended June 30, 2022. Among these, revenue contributed by Former Employee-Franchisees who obtained the interest-bearing loans from us amounted to RMB0.9 million, RMB4.9 million, RMB16.4 million and RMB9.8 million, respectively, in 2019, 2020 and 2021 and the six months ended June 30, 2022. In addition, one of our Connected Franchisees received interest-bearing loans from us in 2021, see “— Franchised Stores — Connected Franchisees” above for more details. The conditions and terms provided to Former Employee-Franchisees and the Connected Franchisee, including the interest rate, were generally identical to those provided to other third-party franchisees.

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The significant increase in interest-bearing loans extended to franchisees in 2020 was primarily due to the increase in the number of newly opened stores as a result of our store network expansion. It was also attributable to the uncertain business environment arising from the COVID-19 pandemic in 2020.

During the Track Record Period, aggregate additions of interest-bearing loans were RMB304.4 million, which consisted of RMB269.6 million extended to stores remaining in-operation and RMB34.8 million to stores that had closed as of June 30, 2022. During the Track Record Period, total repayments amounted to RMB113.6 million, which consisted of RMB90.0 million from stores in operation and RMB23.6 million from stores that had closed as of June 30, 2022. As such, as of June 30, 2022, the respective outstanding balances of interest-bearing loans to franchisees for stores in-operation and closed were RMB179.6 million and RMB11.2 million, respectively. In addition, approximately RMB4.5 million of the outstanding balance due from franchisees for stores closed was subsequently collected as of October 31, 2022. Among the remaining outstanding balance of approximately RMB6.7 million, RMB3.2 million is due within 365 days and RMB3.5 million over 365 days. We made total loss allowance of RMB3.7 million as of June 30, 2022 based on assumptions and evaluation on the risk of default and expected loss rates.

The ageing analysis of our interest-bearing loans by due date (i.e. the termination or expiry of the relevant franchise agreements) is as follows:

	As of December 31,						As of June 30,	
	2019		2020		2021		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Not yet due	49,530	98.6	126,823	96.4	166,692	93.1	179,571	94.1
Overdue by								
1-180 days	696	1.4	2,843	2.2	3,985	2.2	5,373	2.8
Overdue by								
180-360 days	-	-	1,669	1.3	4,504	2.5	1,756	0.9
Overdue by								
over 1 year	-	-	282	0.2	3,809	2.1	4,067	2.1
Total outstanding								
balance	50,226	100.0	131,617	100.0	178,990	100.0	190,767	100.0
Loss provision	(1,005)	(2.0)	(2,488)	(1.9)	(3,483)	(1.9)	(3,700)	(1.9)

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Subsequent settlement as of November 30, 2022 since the end of relevant year/period end

	Settlement Amount	Percentage of Outstanding Amount as of the Relevant Date	Settlement Amount	Percentage of Outstanding Amount as of the Relevant Date	Settlement Amount	Percentage of Outstanding Amount as of the Relevant Date	Settlement Amount	Percentage of Outstanding Amount as of the Relevant Date
Not yet due	(31,349)	(63.3)	(42,469)	(33.5)	(30,909)	(18.5)	(12,066)	(6.7)
Overdue by								
1-180 days	(646)	(92.8)	(2,031)	(71.4)	(3,283)	(82.4)	(3,050)	(56.8)
Overdue by								
180-360 days	-	-	(833)	(49.9)	(2,445)	(54.3)	(884)	(50.3)
Overdue by								
over 1 year	-	-	(232)	(82.3)	(2,111)	(55.4)	(552)	(13.6)
Total settlement	(31,995)	(63.7)	(45,565)	(34.6)	(38,748)	(21.6)	(16,552)	(8.7)

Each franchisee undertakes personal guarantee under the loan agreements and shall be personally liable for the outstanding amounts. Pursuant to the agreements, we have the right to claim repayments from the relevant franchisee even after the store is closed. With respect to the outstanding balance of RMB11.2 million extended to franchisees whose stores had closed as of June 30, 2022, we had subsequently collected RMB4.5 million up to October 31, 2022, reducing the uncollected interest-bearing loan balance to stores closed prior to June 30, 2022 to RMB6.7 million, with total loss allowance of RMB4.0 million as of October 31, 2022.

Considering the historical loan repayments of our franchisees, the overall performance of the franchised stores currently, our settlement arrangements with franchisees by collecting store sales proceeds on their behalf, as well as our monitoring and management measures implemented with regard to loans extended to the franchises, our Directors believe that the financial supports provided to franchisees do not have a material risk of uncollectible loans. In 2019, 2020 and 2021 and the six months ended June 30, 2022, we were able to collect RMB5.8 million, RMB38.0 million, RMB36.8 million and RMB33.1 million for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, accounting for approximately 11.5%, 28.9%, 20.6% and 17.3% of outstanding balance of the interest-bearing loans accounted under other receivables as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. As of December 31, 2019, 2020 and 2021 and June 30, 2022, provision made against interest-free loans and interest-bearing loans due from franchisees accounted for approximately 2.0%, 1.9%, 1.9% and 1.9% of total outstanding interest-free loans and interest-bearing loans due from franchisees as of the same dates.

Furthermore, pursuant to the arrangements between the franchisees and us, we are entitled to terminate the financial support arrangement and request for an immediate full repayment of outstanding principal and interests under certain circumstances, including but not limited to continuously deteriorating performance of the franchised store, termination of franchise

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business relationship, failure of the franchisee to repay principal and interests on time, extending loans or providing guarantees to other third parties by the franchisee without our prior consent, failure to maintain the requisite business license of the franchised store, or partly or fully losing civil capacity of the franchisee.

We make provision for interest-free loans to franchisees and interest-bearing loans to franchisees by considering credit rating of the counter-parties and historical loss rates, existing market conditions and forward-looking macroeconomic data. During the Track Record Period, there was no termination of franchise arrangements due to the failure of franchisees to repay their loans. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any franchisees that had experienced material financial difficulties and/ or was in material breach of the loan agreements with us.

Regional dealers are prohibited from providing any form of financial support to franchisees. To our best knowledge, we are not aware of any material breach of such term by our regional dealers with respect to unapproved financial support.

Our PRC Legal Adviser is of the view that our financial support arrangements with franchisees are valid and legally binding.

Compliance

Loans to franchised stores that are individual self-employed merchants (個體工商戶)

As of December 31, 2019, 2020 and 2021 and June 30, 2022, there were 593, 589, 746 and 961, respectively, franchised stores receiving loans from us that are individual self-employed merchants.

As advised by our PRC Legal Advisor, (i) in accordance with the Civil Code of the PRC, a contract for loan of money is a contract whereby the borrower borrows a sum of money from the lender, and repays the borrowed money with interest thereon when it becomes due. A contract established according to law is protected by law; and (ii) in accordance with the Private Lending Provisions issued by the Supreme People's Court of the PRC on August 6, 2015 and amended on December 29, 2020, private lending refers to the acts of financing among natural persons, legal persons and unincorporated organizations. The validity of the loan contract for private lending shall be judged by the PRC Courts. In addition, the People's Court shall support the claim that the loan contract for private lending is valid except for the circumstances stipulated in Article 146, Article 153, Article 154 of the Civil Code and Article 13 of the Private Lending Provisions.

Based on the above laws and regulations and the confirmations by the Directors of our Company that (i) our loan arrangements with individual self-employed merchants do not involve the regulatory exceptional circumstances stipulated in Article 146, Article 153, Article 154 of Civil Code which may cause the loan contracts for private lending null and void, or under the circumstances stipulated in Article 13 of the Private Lending Provisions to cause the

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court to determine the invalidity of a private lending contract, and (ii) the financial support arrangements were entered into with individual self-employed merchants in the course of business, our PRC Legal Advisor concurs with the view of our Directors that (i) the People's Court shall support the claim that the loan contract for private lending is valid except for the relevant circumstances; (ii) based on our Directors' confirmations above, the loan arrangements with individual self-employed merchants fall outside the purview of the aforesaid circumstances stipulated in the articles of the Civil Code and the Private Lending Provisions; and (iii) the financial support arrangements between us and our franchised stores that are individual self-employed merchants in the course of business is not regulated by the General Lending Provisions.

Save for the above, there is no other specific rule or regulation prohibiting, or restricting or otherwise regulating the financing activities between us and our franchised stores that are individual self-employed merchants in the course of business. As such, provided that the loan arrangements between us and our franchised stores that are individual self-employed merchants are validly formed, the relevant financing activities are in compliance with the relevant laws and regulations in all material aspects. In addition, during the Track Record Period, we were not subject to any administrative penalty with respect to the financing activities between us and our franchised stores that are individual self-employed merchants. Moreover, the People's Court shall support the request of the lender that the borrower pays interest at the contracted rate, except when the interest rate agreed between the parties exceeds four times the quoted market rate for a one-year loan at the time of the contract formation. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, the interest rates of our loans to franchised stores that are individual self-employed merchants did not exceed four times the quoted market rate for a one-year loan at the time of the contract formation.

Loans to franchised stores that are private companies

As of December 31, 2019, 2020 and 2021 and June 30, 2022, there were 2, 4, 8 and 10, respectively, franchised stores receiving loans from us that are private companies.

As advised by our PRC Legal Advisor, (i) in accordance with the Civil Code, a loan contract is a contract under which a borrower borrows a loan from a lender and repays the loan with interests when the loan becomes due; a contract established according to law is protected by law; (ii) in accordance with the General Lending Provisions promulgated by the PBOC on June 28, 1996 which became into effect on August 1, 1996, enterprises shall not, among themselves, engage in lending services or disguised lending services in violation of relevant laws and regulations. Enterprises, which engaged in lending services or disguised lending services without authorization or approval, are subject to a fine imposed by the PBOC from one to five times the amount of its income (being the interests charged) derived from such unauthorized lending services; the PBOC and its local branches are the competent regulatory authorities in connection with the execution of the General Lending Provisions; and (iii) in accordance with the Private Lending Provisions, a loan contract among legal persons, among non-legal persons, or among legal persons and non-legal persons are valid if it is extended for the purpose of financing production or business operations, except for the circumstances

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stipulated in Article 146, Article 153, Article 154 of the Civil Code and Article 13 of the Private Lending Provisions; the Private Lending Provisions are legal interpretation issued by the Supreme People's Court, which are judicial rules regarding the application of laws by a court to confirm the validity the contract and other relevant legal matters in a case trial where a dispute in terms of private lending rises; the People's Court shall support the claim that the loan contract for private lending is valid except for the relevant circumstances.

Based on the above laws and regulations and the confirmations by the Directors of our Company that our loan arrangements with franchisees' stores that are private companies do not involve the regulatory exceptional circumstances stipulated in Article 146, Article 153, Article 154 of Civil Code which may cause the loan contracts for private lending null and void, or under the circumstances stipulated in Article 13 of the Private Lending Provisions to cause the court to determine the invalidity of a private lending contract, our PRC Legal Advisor concurs with the view of our Directors that (i) the People's Court shall support the claim that the loan contract for private lending is valid except for the relevant circumstances; (ii) based on our Directors' confirmations above, the loan arrangements with franchisees' stores that are private companies fall outside the purview of the aforesaid circumstances stipulated in the articles of the Civil Code and the Private Lending Provisions.

Regarding the financial support arrangements between us and our franchisees' stores that are private companies, considering that the PBOC is the regulatory authority under the General Lending Provisions, and based on the above and given that the General Lending Provisions were issued prior to the release of the Private Lending Provisions which have acknowledged the validity of loan contracts of private lending among enterprises for the purpose of financing production and business operations, our PRC Legal Advisor conducted an interview with a competent officer of the Monetary Credit Division from the Shenzhen Central Branch of the PBOC on June 16, 2022. We were confirmed that, (i) although the General Lending Provisions have not been abolished, part of the provisions therein are not fully applicable to current situations; (ii) in practice, the PBOC will not impose penalties on or require rectification of providing any loans by one enterprise to another enterprise in accordance with the General Lending Provisions for the latter's production or operation needs, as long as the rates of such loans do not exceed the maximum loan rate under the Private Lending Provisions; and (iii) the legal effectiveness of any lending between enterprises shall be subject to the opinions of the court, which shall determine whether such lending is in compliance with applicable laws and regulations. Therefore, we are able to provide and, upon the completion of this Listing, continue to provide, loans to our franchisees and business partners as long as the rates of such loans do not exceed the maximum loan rate under the Private Lending Provisions.

As further advised by our PRC Legal Advisor, there is no other specific rule or regulation prohibiting, or restricting or otherwise regulating the financing activities between us and our franchised stores that are private companies in the course of business. As such, provided that the loan arrangements between us and our franchised stores that are private companies are validly formed, the relevant financial support is in compliance with applicable laws and regulations in all material aspects, and the risk of us being penalized based on the General Lending Provisions is remote. In addition, our Directors confirm that during the Track Record

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Period and up to the Latest Practicable Date, the interest rates of our loans to franchised stores that are private companies did not exceed four times the quoted market rate for a one-year loan at the time of the contract formation.

We had received confirmations of compliance from the Shenzhen Central Branch of the PBOC on May 9, 2020, February 1, 2021, January 17 and September 6, 2022, confirming that during the Track Record Period, there was no record of administrative penalty imposed on us by the PBOC with respect to loans provided to franchised stores due to any violation of relevant rules, laws and regulations.

To conclude, our PRC Legal Advisor is of the opinion that, our financial support arrangements with the franchisees do not constitute any material violation of the applicable laws and regulations in all material aspects. The loan agreements with our franchised stores are valid and legally binding.

Financial Support Provided to Regional Dealers

To facilitate a steady growth of our regional dealers, in particular, at the initial stage of their business relationship with us, who may need financial resources to procure, penetrate into local market, engage local franchisees, and expand regional logistic capability, we provide financial support to regional dealers by means of factoring arrangements through our wholly-owned subsidiaries.

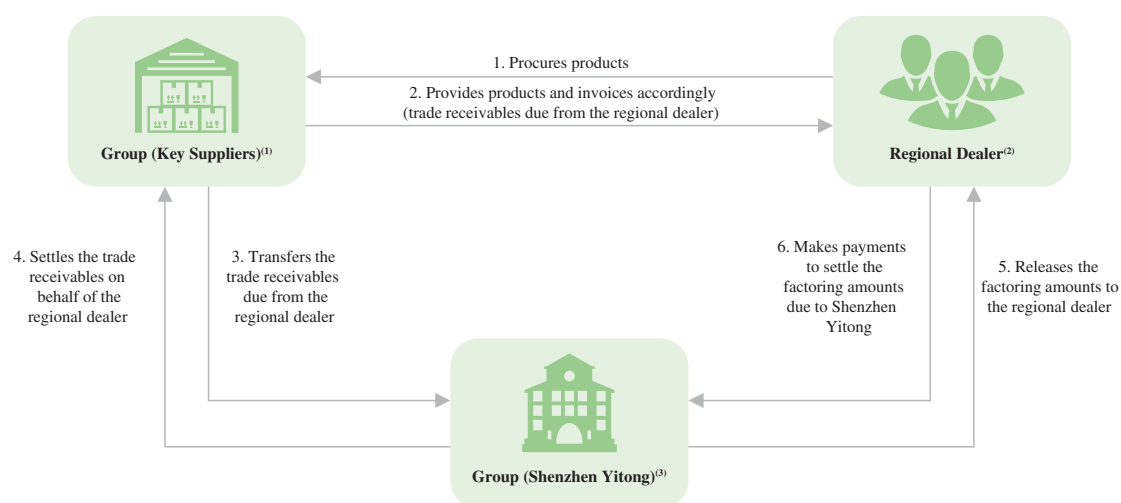
Our wholly-owned subsidiaries, namely, Pagoda Preliminary Processing, Pagoda Supply Chain and Shanghai Pagoda, are the key suppliers of products to regional dealers (collectively, the “**Regional Dealers’ Key Suppliers**”). There are outstanding purchase amounts due to us from regional dealers before settlement with regional dealers each month. For more details about settlement with regional dealers, see “— Settlement and Cash Management — Settlement with Regional Dealers.” Our wholly-owned subsidiary, Shenzhen Yitong, is a qualified factoring company in China and the factoring arrangements service provider.

Pursuant to the factoring arrangements among regional dealers, Regional Dealer’s Key Suppliers and Shenzhen Yitong, regional dealers can apply for factoring amount from Shenzhen Yitong and such factoring amount is limited to their monthly outstanding purchase amounts due to Regional Dealers’ Key Suppliers. Shenzhen Yitong shall approve the factoring amount applications on a case-by-case basis, by reviewing factors including outstanding purchase amounts, maximum factoring amount granted that is guaranteed by the shareholders of the regional dealers, their credibility, performance of franchised stores supervised by regional dealers. After the factoring amount application is approved by Shenzhen Yitong, the Key Suppliers of the regional dealers would transfer the corresponding trade receivables due from such regional dealers to Shenzhen Yitong without recourse. Shenzhen Yitong would then settle such trade receivables on behalf of the regional dealers and release the factoring amounts to regional dealers as a result. We review and assess the risk exposure of the factoring arrangements only based on the transactions between the regional dealers and us and our factoring arrangements with them are backed only by their transactions with us. In practice, by

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virtue of our POS system, we receive the gross store sales proceeds of franchised stores supervised by the regional dealers, and on a monthly basis, remit such amount to the bank accounts designated by the regional dealers after deducting, if applicable, the royalty fee and the outstanding purchase amounts. Interests arising from the factoring amounts are borne by the regional dealers. Interest and the principal on the interest-bearing factoring amounts under our financial support arrangements, if applicable, may be repaid from regional dealers' own pockets. Since all factoring arrangements with our regional dealers are on non-recourse terms, the relevant regional dealer remains as the only debtor responsible for any outstanding amounts after the trade receivables are transferred and Shenzhen Yitong is entitled to collect outstanding amounts from the relevant regional dealer rather than from the Key Suppliers.

The diagram below illustrates major components of the factoring arrangements with regional dealers under our financial support arrangements:



- (1) As the creditor before the execution of the factoring arrangement.
- (2) As the debtor before and after the execution of the factoring arrangement.
- (3) As the creditor after the execution of the factoring arrangement.

We apply a uniform interest rate for all regional dealers under our factoring arrangements, but review and adjust such rate from time to time based on changing market conditions. The interest rate of our factoring arrangements with regional dealers were subject to several downward adjustments during the Track Record Period. We reduced the interest rate from 12.0% to 9.6% in January 2020, indicating our support to regional dealers during the COVID-19 outbreak. Due to the unexpected resurgences of outbreak in multiple cities in China, we further reduced the interest rate to 4.75% effective from September 2020 onwards. Interests are payable by the regional dealers and shall be repaid on a monthly basis. During the Track Record Period, the term of individual factoring financing arrangements was typically six months.

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We make provision for factoring amounts to regional dealers by considering credit rating of the counter-parties and historical loss rates, existing market conditions and forward-looking macroeconomic data. Due to the sound financial performance and credit status of our regional dealers, during the Track Record Period and up to the Latest Practicable Date, we did not encounter any default of our regional dealers under our factoring arrangements.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, the aggregate outstanding factoring amounts under these arrangements were RMB148.0 million, RMB179.8 million, RMB221.5 million and RMB169.5 million, respectively, involving 10, 12, 13 and 13 regional dealers, respectively. Revenue derived from regional dealers with outstanding factoring amounts at relevant period end accounted for approximately 5.1%, 5.5%, 9.0% and 9.5% of our total revenue from sales of fruits and other food products in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. In addition, as of December 31, 2019, 2020 and 2021 and June 30, 2022, these factoring amounts accounted for approximately 47.9%, 43.1%, 44.0% and 27.0%, respectively, of the relevant accountant receivables arising from regional dealers' purchase amounts from us which were subject to and within the six-month factoring term as of the relevant period end. The aggregate revenue contribution of such regional dealers was approximately RMB455.9 million, RMB493.6 million, RMB968.0 million and RMB563.7 million, respectively, in 2019, 2020 and 2021 and the six months ended June 30, 2022. In 2019, 2020 and 2021 and the six months ended June 30, 2022, the aggregate max factoring amounts extended to the regional dealers accounted for approximately 22.8%, 23.7%, 20.8% and 28.4% of the aggregate procurements they made, including procurements from us and the designated suppliers, in the relevant periods. For more details, please see "Financial Information — Current Assets/Liabilities, Net — Deposits, prepayments and other receivables."

The table below sets forth subsequent settlement of the balance receivable under the factoring arrangements with regional dealers outstanding as of the dates indicated.

	Period-end outstanding balance	Repayment within 1 year	% of total outstanding balance
	<i>RMB'000</i>		
As of December 31, 2019	148,035	148,035	100%
As of December 31, 2020	179,835	179,835	100%
As of December 31, 2021	221,478	221,478	100%
As of June 30, 2022	169,537	169,537	100% ⁽¹⁾

Note:

(1) Up to November 30, 2022.

We review the relevant regional dealer's reputation and the relevant franchised stores' performance before approving any factoring arrangement. We may approve multiple factoring amount applications from one regional dealer. We track the usage of the amounts by monitoring

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the procurements from us on an ongoing basis and assess the performance of the relevant stores, so as to manage our risks. If we acknowledge any material adverse change to the management team or to the performance of any franchised stores of a regional dealer, we may request early repayment from the regional dealer. We believe our regional dealers were in a good financial position as of the Latest Practicable Date.

Considering the historical factoring amount repayments of our regional dealers, the overall performance of the franchised stores currently, and our monitoring and management measures implemented with regard to financings extended to the regional dealers, our Directors believe that the financial support provided to regional dealers do not have a material risks in connection with the outstanding amounts. As of December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, provision made against factoring amounts due from regional dealers accounted for approximately 1.6%, 2.1%, 1.9% and 1.8% of total outstanding factoring amounts due from regional dealers, gross, as of the same dates.

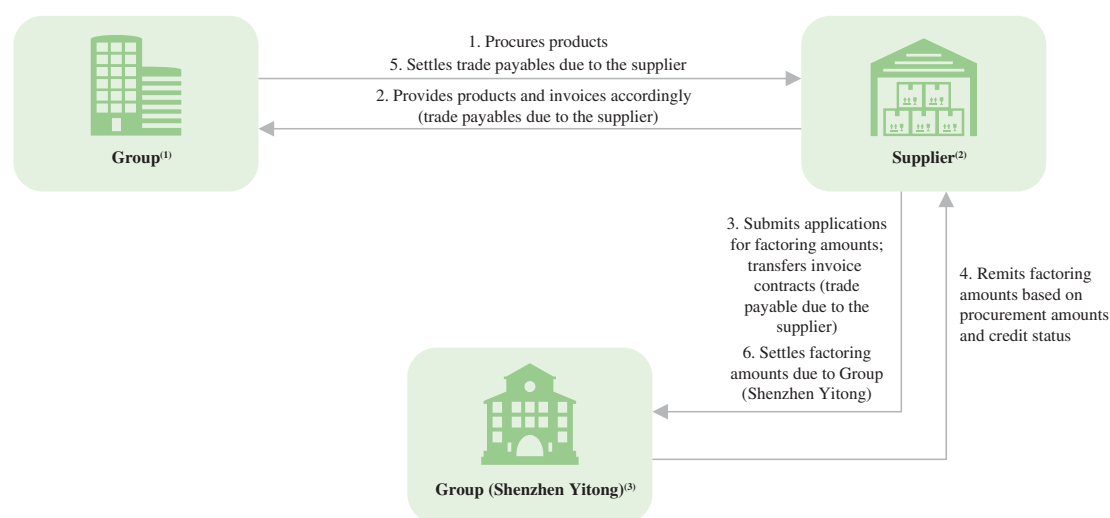
Financial Support Provided to Suppliers

To further maintain our ecosystem and to retain a stable and sound business relationship with our suppliers who are generally in a capital need during a long cultivation process before they harvest and sell the fruits, we facilitate our suppliers to seek financial support under factoring arrangements with Shenzhen Yitong, our wholly-owned subsidiary and a qualified factoring company in China. Such factoring arrangements enable our suppliers to release liquidity through transferring trade receivables for exchange of an immediate finance need. Pursuant to the factoring arrangements entered into between the suppliers and Shenzhen Yitong, we grant a maximum financing amount to the suppliers based on their procurement amounts and credit status. The suppliers can apply for factoring amount from us and such factoring amount is limited to the lower of our procurement outstanding balance to the suppliers or the maximum financing amount pre-granted. We shall approve the factoring amount applications on a case-by-case basis, by reviewing factors including maximum financing amount granted, their credibility and the background check result. We review and assess the risk exposure of the factoring arrangements only based on the transactions between the suppliers and us. After approval to the factoring amount application, we would remit the approved factoring amount to designated bank accounts of the suppliers. Interests arising from the factoring amounts are borne by the suppliers. Principal amounts and interests on the factoring amounts under our financial support arrangements, if applicable, may be settled and repaid separately by the suppliers after our settlement of the procurement outstanding balance (i.e. account payables due to the suppliers). Under the factoring arrangements with our suppliers, we would be the only creditor entitled to the outstanding account payables due to the relevant suppliers. During the Track Record Period, our factoring arrangements bore an interest rate from 6.0% to 18.0% per annum, which generally had a term ranging from 1 to 13 months with respect to the factoring arrangements during the Track Record Period. We typically require the controlling shareholders or legal representatives of the suppliers to provide personal guarantee.

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To effectively control our risk exposure, our current factoring financing is extended to suppliers only with respect to the trade receivables arising from the purchases from us. In addition, as an established fruit retailer with a strong industry value chain, we are well positioned to envision the market environment, which constantly facilitates us to assess the risk exposure of the suppliers receiving our financial support and modify relevant practice in a timely manner. By virtue of our reputation, healthy financial performance and credit history, during the Track Record Period and up to the Latest Practicable Date, we did not experience any material default from suppliers under the factoring arrangements. Moreover, according to Frost & Sullivan, provision of financial support, including in the format of factoring arrangements, by a retailer to its suppliers is not uncommon in the retail industry in China.

The diagram below illustrates major components of the factoring arrangements with suppliers under our financial support arrangements:



(1) As the debtor before and after the execution of the factoring arrangement (with recourse to the supplier).

(2) As the creditor before the execution of the factoring arrangement.

(3) As the creditor after the execution of the factoring arrangement (with recourse to the supplier).

As of December 31, 2019, 2020 and 2021 and June 30, 2022, the aggregate outstanding amounts under these arrangements were RMB153.3 million, RMB102.4 million, RMB29.2 million and RMB18.1 million, respectively, involving 15, 11, 2 and 1 suppliers, respectively. As of December 31, 2019, 2020 and 2021 and June 30, 2022, these factoring amounts accounted for approximately 38.6%, 30.1%, 46.5% and 80.1% of our total procurements from the relevant suppliers during the relevant periods. The aggregate procurements from such suppliers, in terms of dollar amount, were approximately RMB375.5 million, RMB340.9 million, RMB60.9 million and RMB20.7 million, respectively, in 2019, 2020 and 2021 and the six months ended June 30, 2022. Among these suppliers who entered into factoring

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arrangements with us during the Track Record Period, two, namely Shandong Liangzhi and Shandong Huiguo, were our connected parties. Total outstanding amounts due from these two suppliers were RMB55.0 million, RMB39.0 million, nil and nil, respectively, as of December 31, 2019, 2020 and 2021 and June 30, 2022. The terms and conditions provided to these suppliers are generally identical to those provided to other independent third-party suppliers. For example, the only supplier with outstanding factoring amount as of June 30, 2022 was a supplier of mellows to us. During the Track Record Period, the unit price range of mellows we purchased from this supplier was between approximately RMB8.8 per kg to RMB11.6 per kg, while the unit price range of mellows of same quality purchased from other suppliers not engaged in factoring agreements was between approximately RMB8.5 per kg to RMB11.8 per kg. The payment terms granted to this supplier, such as monthly settlement, were also identical to the terms granted to other suppliers.

The table below sets forth subsequent settlement of the balance receivable under the factoring arrangements with suppliers as of October 31, 2022.

	Period-end outstanding balance	Subsequent settlement up to October 31, 2022	% of total outstanding balance
	<i>RMB'000</i>		<i>%</i>
2019	153,256	153,256	100
2020	102,387	102,387	100
2021	29,165	29,165	100
June 30, 2022	18,136	–	–

Rational and Compliance of Factoring Arrangements with Regional Dealers and Suppliers

During the Track Record Period, we, through Shenzhen Yitong, entered into factoring arrangements with 10, 12, 13 and 13 regional dealers in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. As of December 31, 2019, 2020 and 2021 and June 30, 2022, there were 10, 12, 13 and 13 regional dealers, respectively, that had outstanding factoring amounts. In addition, we entered into factoring arrangements with 34, 25, 8 and 1 suppliers in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. As of December 31, 2019, 2020 and 2021 and June 30, 2022, there were 15, 11, 2 and 1 suppliers, respectively, that had outstanding factoring amounts. Other than our regional dealers and suppliers, we did not enter into any factoring arrangement with other third parties. Outstanding factoring amounts were accounted for as other receivables, and interests on outstanding factoring amounts were accounted for as income arising from loans under other income. For more details, please see “Financial Information — Current Assets/Liabilities, Net — Deposits, prepayments and other receivables.” In practice, the terms and conditions of our factoring arrangements with the regional dealers and suppliers were negotiated separately from our sales and procurement terms, respectively.

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Based on our understanding, our regional dealers generally experienced difficulties in obtaining loans or other types of financing from commercial banks and other qualified financial institutions at reasonable costs. For instance, at the initial development stage, the regional dealers invested significantly in the establishment and management of the distribution centers. It was difficult for the regional dealers to obtain interest-bearing loans from commercial banks and financial institutions due to their limited operational scale and before they became profitable. In addition, accounts receivables due from a large number of individual franchisees prevented the regional dealers from applying for factoring from commercial banks which were, typically inclined to approve single transaction with significant amount only, based on our understanding. Due to the similar reasons, it was also not easy for our suppliers to obtain loans or other types of financing from commercial banks and other qualified financial institutions at reasonable costs.

Considering the aforesaid, and in the anticipation of improving our ecosystem by empowering various industry participants across our value chain, in December 2018, we acquired the 100% equity interest in Shenzhen Yitong, which then was qualified as a factoring company in China, from an independent third party to dedicatedly provide factoring to our regional dealers and suppliers.

Sustainable and stable operation of our regional dealers and suppliers are vital to our business and entire ecosystem. We expect to support the growth of our regional dealers and suppliers, especially at their initial development stage, when capital needs are critical and other types of financing may be difficult and expensive. With respect to regional dealers, factoring allows them to allocate more capital for the establishment of distribution centers at the initial stage. It fulfils the capital needs for procurements from third-party suppliers other than us to a certain extent. In addition, the regional dealers require additional liquidity flexibility in their daily operation, which may not always be readily available since the sales proceeds of stores supervised by them are subject to monthly settlement by us. These liquidity flexibilities may include investments from time to time in franchisee recruitment, store management and training, rental and other prepayment, equipment installation and upgrades, and employee benefits. With respect to suppliers, factoring provides more flexible liquidity to pay their operations and upstream purchases. On the other hand, comparing with them seeking financing from other third parties, we believe we are well positioned to manage the risk exposure of the regional dealers and suppliers by leveraging our integrated ERP system to constantly monitor their business and financial performance, which include (i) with respect to the regional dealers, their total procurements of products, as well as procurements and sales of the store supervised by them, and (ii) with respect to suppliers, the quality, quantity and the quote price they submit to our intelligent supplier management system, and our estimated procurement from them. Lastly, our in-depth experience in the fruit retail industry enables us to envision challenges and opportunities the regional dealers and suppliers may encounter, which in turn, allows us to adjust the factoring arrangements accordingly, such as whether and when to approve additional factoring and collect payments.

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As advised by its PRC Legal Advisor, (i) in accordance with the Civil Code, a factoring contract is a contract under which a creditor of accounts receivable transfers the existing or after-acquired accounts receivable to a factor who provides services such as accommodation of funds, management or collection of the accounts receivable, guarantee for the payment of a debtor of the accounts receivable, and the like; in accordance with the Notice on Strengthening the Supervision and Administration of Commercial Factoring Enterprises by the General Office of the China Banking and Insurance Regulatory Commission (《中國銀保監會辦公廳關於加強商業保理企業監督管理的通知》), commercial factoring enterprises shall provide services in accordance with applicable provisions of the Civil Code and other relevant laws and regulations; and (ii) we have received confirmations of compliance from the Shenzhen Municipal Local Financial Regulatory Bureau addressed to Shenzhen Yitong, the wholly-owned subsidiary of us and a qualified factoring company in China, on March 12, 2020, January 20, 2021 and January 26 and August 25, 2022, confirming that during the Track Record Period, and Shenzhen Yitong was not subject to any administrative penalty.

Shenzhen Yitong's current licensed business scope has covered factoring business. In addition, we and our PRC Legal Advisor participated in an interview with the Shenzhen Municipal Local Financial Regulatory Bureau on June 15, 2022. During the interview, it was confirmed that, among others, (a) Shenzhen Yitong has obtained all requisite qualification to conduct the factoring business without further qualifications; (b) subject to compliance with appropriate indicators governed by the Notice of the General Office of the China Banking and Insurance Regulatory Commission on Strengthening the Supervision and Administration of Commercial Factoring Enterprises, the carrying out by us of our commercial factoring business, including the factoring arrangements with both regional dealers and suppliers, is in compliance with applicable laws and regulation; (c) Shenzhen Yitong has not been subject to any administrative penalty; and (d) assuming there is no change to current laws and regulations, Shenzhen Yitong is allowed to carry out and, upon the completion of this Listing, continue to carry out its current factoring business operations.

According to the applicable laws and regulations, a company engaging in factoring business shall comply with certain indicators during its business operations, including (i) the aggregate amount of accounts receivables transferred from one single party shall not exceed 50% of the factoring company's total risk assets, (ii) the aggregate amount of accounts receivables transferred from one single party and its associates shall not exceed 40% of the factoring company's total risk assets, (iii) uncollected or unrecognized factoring amounts past due 90 days shall be included and managed as non-performing assets, (iv) risk reserves shall be no less than 1% of total factoring amounts at the relevant period end, and (v) aggregate risk assets shall not exceed 10 times total net assets. We have built these indicators into our ERP financial management module which monitors relevant financial performance on an ongoing basis and we have assigned designated finance personnel to review the indicators on a monthly basis to ensure they are in compliance with the regulatory requirements. In addition, our system also automatically projects indicators for the upcoming three months, which facilitates us to identify potential risks and adjust factoring arrangements timely. Based on the confirmation of Company and the interview participated on September 7, 2022 by the PRC Legal Advisor with Shenzhen Municipal Local Financial Regulatory Bureau, as of the date of this interview, the

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Group's factoring business carried out by Shenzhen Yitong is in compliance with the appropriate indicators governed by the Notice of the General Office of the China Banking and Insurance Regulatory Commission on Strengthening the Supervision and Administration of Commercial Factoring Enterprises.

Based on the above-mentioned laws and regulations and interviews with competent authorities, our PRC Legal Advisor is of the opinion that, the provision of factoring services by Shenzhen Yitong is currently in compliance with the applicable laws and regulations in all material aspects.

Financial Support to Associates and Third Parties

During the Track Record Period, we also provided interest-bearing loans to support certain associates and selected third parties that were in temporary capital needs. These third parties were fruit retail industry participants, mainly fruit suppliers, which we considered strategically cooperating with. These associates and third parties were private companies. Similar as the loans extended to franchised stores that are private companies detailed above, the risk of us being penalized is remote, and the loans extended to our associates and other third parties are in compliance with the applicable laws and regulations in all material aspects. The loan agreements with our associates and other third parties are valid and legally binding.

Confirmations from Authority

In addition to the confirmations we have obtained as described above, considering that we adopt a franchise business model, which is mainly subject to the supervision of the Department of Commerce of Guangdong Province. We and our PRC Legal Advisor participated in an interview with Department of Commerce of Guangdong Province on June 13, 2022. During the interview, it was confirmed that, among others, we are allowed to provide financial support for the business operation of our business partners. If, upon the completion of this listing, we continue to carry out the same business in current form, we are able to continue our franchise business model with financial support in accordance with the business scopes currently filed and the terms of related contracts.

As such, our PRC Legal Advisor further concluded that the financial support arrangements provided by us to our franchisees, regional dealers, suppliers, certain associates and selected third parties do not constitute a systemic non-compliance of the relevant laws and regulations. Assuming there is no material change to current laws and regulations and the practice in policy execution and inspection of local governments in connection with this matter, we are able to continue our business model and the financial support arrangements after the Listing.

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Provisions Against Amounts Provided under Financial Support Arrangements

We make general provisions for interest-bearing loans and factoring amounts under our financial support arrangements. Due to the overall sound financial performance and credit status of our franchisees, regional dealers and suppliers, by considering their historical repayments, credit rating of the counter-parties and historical loss rates, existing market conditions and forward-looking macroeconomic data, we had not encountered any material default by franchisees, regional dealers or suppliers.

The following table sets forth the movement in provisions made by us for interest-bearing loans, factoring amounts to regional dealers and factoring amounts to suppliers, respectively, for the periods indicated.

	Interest- bearing loans to franchisees	Factoring amounts to regional dealers	Factoring amounts to suppliers	Total
		<i>RMB'000</i>		
As at January 1, 2019.	508	–	–	508
Impairment loss/(reversal).	497	2,245	2,217	4,959
As of December 31, 2019/ January 1, 2020	1,005	2,245	2,217	5,467
Impairment loss/(reversal).	1,483	1,482	(885)	2,080
As of December 31, 2020/ January 1, 2021	2,488	3,727	1,332	7,547
Impairment loss/(reversal).	995	496	(1,267)	224
As of December 31, 2021/ January 1, 2022	3,483	4,223	65	7,771
Impairment loss/(reversal).	217	(1,228)	(65)	(1,076)
As of June 30, 2022.	3,700	2,995	–	6,695

LOGISTIC AND WAREHOUSING INTELLIGENCE

Our well-established logistic and warehousing network enables efficient inventory control, shipment coordination and store replenishment.

Logistics

We currently engage external logistic companies to fulfill our delivery needs. All the vehicles are required to follow our technical protocols with respect to temperature, humidity, hygiene and physical conditions for fruits in transit. Subject to the distance and the types of fruits they deliver, some vehicles are equipped with cold chain equipment. We install temperature controllers on those cold chain vehicles to ensure that our requirements are satisfied.

Warehousing Intelligence

Our nationwide warehousing network currently has 29 warehouses across China which also function as local preliminary processing and distribution centers. These preliminary processing and distribution centers are located in 29 cities with an aggregate floor area of approximately 194,733 sq.m., each of which can support the retail stores within a service radius up to approximately 300 km. Among these 29 preliminary processing and distribution centers, 16 are operated by us, including 2 leased from third-party warehousing service providers, aggregately accounting for approximately 85% of total floor area. The property leases for the remaining 13 preliminary processing and distribution centers were entered into by the relevant regional dealers themselves and they shall operate the preliminary processing and distribution centers strictly in accordance with our quality requirements.

Depending on its warehousing space, we rate and classify our preliminary processing and distribution centers into three levels, namely Level A, B and C. In particular, we have three Level A large regional distribution centers located in Shanghai, Dongguan and Foshan, with an aggregate floor area of approximately 106,476 sq.m. and an aggregate daily delivery capacity over 2,300 tons. The remaining preliminary processing and distribution centers generally have a daily delivery capacity ranging from 15 tons to 300 tons, being able to serve 30 to 300 stores, respectively. They mainly fulfill the daily intercity transportation of fruits among local distribution centers. In terms of floor area, approximately 34% of our preliminary processing and distribution centers are cold chain enabled with a maximum cold chain coverage of single distribution center of up to approximately 97%.

In considering a potential location for our additional distribution centers, we take into account the location in a particular city, convenience in transportation, the number of stores in surrounding areas and so on.

Upon arrival of the fruits at our distribution centers, our Pagoda ERP system records the details of each batch of goods, including fruit type, quantity, origin, quality grade and so on, which will subsequently be labelled with bar codes and dispatched to storage rooms with suitable temperatures. Once we receive and process a purchase order from the franchisees, our system assigns a local preliminary processing and distribution center based on the store location and order quantity to fulfill the order.

We are in the process of upgrading our digitalized intelligent warehousing and logistics system, which enables us to effectively minimize common warehousing and logistics mistakes, including picking error, inaccurate quantity, or mistaken delivery. We believe the upgraded warehousing and logistics system will be a significant strategic advantage for our future growth. To this end, we are improving the warehousing automation level by installing automated racking and retrieval systems. Accordingly, we are also optimizing the physical warehousing designs, mainly the routing planning for warehouse intelligent vehicles, to support such upgrades.

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Preliminary processing and distribution centers operated by our regional dealers are subject to the same strict quality control standards as those centers operated by us. To ensure the freshness and ripeness of fruit products stored in those locations meet our requirements, we have delegated a full-time quality control team to conduct on-site supervision and inspections.

In addition to the preliminary processing and distribution centers leased from landlords and operated by us, we also leased from professional third-party logistic and warehousing service providers for two of our preliminary processing and distribution centers. Such service providers provide premises and certain basic, technical supports and various warehousing services. To ensure the consistent quality of products and services, warehousing spaces provided by those third parties shall meet our warehousing technical standards for fresh fruits. We assign designated personnel to manage and supervise the daily operations of these preliminary processing and distribution centers.

Although we have experienced a remarkable growth in the operation of distributing other fresh groceries in recent years, we believe we are still at an early stage and the sales of other fresh groceries generally account for an insignificant portion of our total sales, either in terms of sales volume or revenue contribution, during the Track Record Period. As such, we currently do not have separate preliminary processing and distribution centers for other fresh groceries. Instead, we utilize the existing preliminary processing and distribution centers located in regions where we offer other fresh groceries. Most of our other fresh groceries can be stored at room temperature.

Preliminary Processing

We complete preliminary processing procedures in our regional distribution centers. Fruits we purchase are typically delivered in bulk quantities and wholesale packs. Certain preliminary processing procedures, such as cleaning and shelling, are conducted in our regional distribution centers. Fruits are then sorted based on our quality classification standards and packed by following designated specification and packing style before they are stored and dispatched.

Furthermore, most of our preliminary processing and distribution centers are equipped with ripening rooms which allow the artificial ripening process under our controlled conditions. In general, fruits become sweeter, softer and are in better color as they ripen. Climacteric fruits, such as banana and mango, are generally harvested before they reach their full maturity and can be further ripened during transit and warehousing. Non-climacteric fruits, such as orange, grape and cherry, do not ripen after harvest. Generally speaking, fruits are best harvested and consumed fairly close to ripening. However, harvesting of fruits prior to full ripening is necessary in our industry as ripe fruits are not suitable for long time warehousing and transport to distant locations. We have accumulated significant experience and knowledge on ripening process and ripening techniques during our past operations. We are able to manage the artificial ripening process for products which need ripening to attain the desired ripeness based on the corresponding time required for transit and warehousing, ensuring that the relevant products reach the optimal ripeness level when arriving at the retail stores.

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Deep Processing

To further optimize our product mix and take full advantage of our supply chain capability of high-quality fruits, we have commenced to develop, produce and sell various fruit-based products, such as dried fruits, fruit juices and frozen fruits. We have established a deep processing factory in Dongguan, and is currently constructing the second deep processing factory in Shanghai, which is expected to be completed in the near future. We believe that deep processing business is able to amplify our ecological synergies and enhance the values of our fruit specialty ecosystem.

INVENTORY MANAGEMENT

Our inventory mainly comprises fresh fruits we have sourced and a number of consumables, such as packaging materials. Due to the perishable nature, we adopt a physical “first-in-first-out” policy to ensure the freshness of our fruits. We conduct stock check and reconciliation with respect to fruits and vegetables on a daily basis so as to maintain an accurate inventory count. With respect to perishable fruit products, pursuant to our inventory policies, the average inventory turnover from our preliminary processing and distribution centers to the retail store is generally around 2.5 days.

Due to the nature of our fruit products, we also establish in-store inventory policies for the retail stores. With respect to certain highly perishable fruits, fresh-cut fruit bowls and juice products, we require the retail stores to discard on a daily basis to ensure the food quality and safety. We encourage our franchisees to manage their inventory at an appropriate level so as to maintain sufficient fresh fruits on the shelf on one hand, and minimize the loss rate on the other hand.

Given that the distribution of our other fresh groceries is subject to the online pre-order model, we are able to assess the demands and make procurement and logistic arrangements subject to the orders received. With respect to other fresh groceries that are better for short storage time to keep the best quality, such as vegetables and fresh meat, we generally deliver such products to relevant stores within 24 hours from their arrival at our distribution centers. The average inventory turnover for other pre-packaged groceries generally ranges from several days up to 60 days from our distribution centers to the retail stores. Other fresh groceries at the retail stores will be subsequently picked up in store or delivered to the consumers within the next day.

We generally does not allow return of products, except for defective items beyond a pre-agreed rate (if applicable) or mis-delivered products, and there does not appear to have any obsolete stock or repurchase arrangements between the franchisees and us; (ii) it is of rare occurrence for defective or mis-delivered products; (iii) we typically agree with the regional dealers upon a certain rate for defective products for products provided by us, and would compensate the regional dealers for such portion of defective products exceeding the pre-agreed rate if such defects are not caused by the regional dealers; (iv) we have implemented store-level POS system which captures the store-level operational data and is

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linked to the Pagoda ERP system on a real-time basis, allowing us to track and monitor, among others, the inventories and the sales of each store; and (v) our average inventory turnover days was relatively short during the Track Record Period, (a) the turnover days for perishable fruit products are on average 2.5 days from our preliminary processing and distribution centers to the retail stores; and (b) the turnover days for pre-packaged groceries generally range from several days up to 60 days from our distribution centers to the retail stores. As such, our Directors are of the view that the products of the Group are at low risk of channel stuffing under our current franchise business model.

FOOD SAFETY AND QUALITY CONTROL

Food safety and quality control are of paramount importance to our reputation and business. As such, we undertake stringent safety and quality control standards and measures throughout our entire industry chain, covering from supply chains, preliminary processing, logistics, warehousing to retail stores, to ensure the full safety and high quality of our products.

We consulted with SGS SA, a world's leading testing, inspection and certification company, and have applied for the ISO 22000 Certificates for Food Safety Management Systems, which cover our key operational aspects, including procurement, storage, logistics and sales. Obtaining and maintaining such certificates would imply that we have implemented safety protocols and requirements in connection with supplier management, compliance and risk analysis. In the second quarter of 2022, we received the ISO 22000 Certificates from SGS. We have also established designated food safety supervision teams by product categories to enhance the safety awareness among all personnel within our Group.

Food Safety

One major food safety risk of fresh fruits is excessive pesticide residue. To ensure the safety of the fruits we sourced, we require those suppliers to exercise stringent control over pesticide use in accordance with applicable laws and regulations as well as relevant industrial protocols. In general, the suppliers are further required to present us with the results of pesticide residual tests for each type of products from different places of origin they dispatch to us on a monthly basis. We will also perform sample tests upon the arrival and will refuse to accept the products if the test results indicate any potential food safety risks. To ensure and maintain the ongoing compliance with high safety and quality control standards, we also actively conduct risk assessment and comprehensive ability review on our suppliers, including periodical spot checks on their plantation bases. Similar requirements are also applied to the suppliers of other fresh groceries. We review the relevant qualification and certification of those suppliers before we enter into agreements with them, and conduct on-site quality inspections on them on a regular basis.

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We used to conduct sample tests on fruits we received for qualitative detections and analysis. Since 2018, we have established three pesticide testing centers in Zhengzhou, Dongguan and Shanghai, respectively, which enable us to perform quantitative detections and analysis of a variety of pesticides, nutrients and food additives. Our testing centers also engage in a variety of research projects in connection with fruit quality and safety enhancement.

Moreover, we have set up a Food Safety Committee led by one of our (executive) deputy general managers. The committee members also include heads from procurement, research and development, operation, quality control, legal and other department. Major responsibilities of our Food Safety Committee include (i) developing the food safety system for our Group, (ii) designing and establishing food safety related policies and procedures, (iii) implementing food safety responsibility system and supervising the implementation of food safety related policies and procedures, (iv) establishing training and evaluation procedures for food safety personnel, including relevant management talents, and (v) leading the settlement of material food safety incidents.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material administrative penalty in connection with food safety and quality issues.

Negative Publicity in Connection With Food Safety and Quality

We may become subject to public scrutiny relating to the safety and quality of our food products. From time to time, these objections, complaints and negative media coverage, regardless of their veracity, may result in negative publicity, which could result in government inquiry or harm our reputation and brand, which in turn, may adversely affect our business and prospects.

For example, during the Track Record Period, we were subject to negative publicity and lawsuits against us, mainly claiming about the poor quality of fruit products purchased from our stores. Although such incidents do not have any material impacts on our business operation and financial position as of the Latest Practicable Date, we have reviewed and enhanced our quality control measures to avoid future recurrence of similar incidents, which we believe is critical to our reputation.

We have already in place a number of food safety and quality control protocols, including store food and hygiene standards, store food processing and operating standard procedures, online order fulfilment standards, as well as store daily SOP which covers fruit freshness requirements that each store is required to review before store opening, during business hours and after store closing every day. We have recently reviewed these protocols and SOP and updated certain inspection requirements, such as the sanitation standards and procedures at fruit bar area and refrigerated cabinet area. We urge employees of all retail stores to study our food safety and quality control protocols carefully and to ensure their daily operation shall fully comply with our quality standards. In addition, we monitor the publicity on a regular basis

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and may produce case study materials in connection with the food safety incidents referred in the negative publicity and distribute such to all retail stores, requiring their employees to conduct a thorough self-inspection immediately.

With respect to the retail store which is subject to the complaint or negative publicity, we may further request the store to close temporarily and adopt rectification measures immediately. We will ask the relevant franchisees to organize training session for all their employees in connection with the compliance with our quality control protocols and they are only allowed to resume to work after passing our inspection.

Lastly, we also have recently enhanced the frequency and scope of inspection on stores by regional store supervisors and mystery customers, particularly focusing on in-store fruit freshness and quality.

Product Recall

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any mandatory recall imposed by relevant government authorities.

During the Track Record Period and up to the Latest Practicable Date, we initiated several voluntary recalls either after receiving consumers' complaints or during inspections by ourselves, mainly because (i) nutrition fact labels on relevant products contained term which might be suspected to be not in compliance with food safety related laws and regulations, or (ii) product quality issues identified through routine inspections. Among these voluntary recalls, two recalls in 2021, both of which were related to nutrition fact labels on packaged dried fruit products, affected over 3,400 and 4,500 retail stores nationwide, respectively. The remaining voluntary recalls during the Track Record Period only involved retail stores in certain regions. Aggregate value in connection with all products recalled during the Track Record Period and up to the Latest Practicable Date amounted to approximately RMB1.1 million. With respect to products with flawed nutrition fact labels, we returned them to relevant suppliers to replace product packaging, and repurchased products with rectified labels that meet our quality standards. With respect to products with quality issues, we returned them to the relevant suppliers or destroyed on spot. We also claimed compensation in an aggregate amount of RMB0.6 million for our losses arising from these recalls from the relevant suppliers pursuant to the purchase agreements with them. We believe the dollar amount of relevant products subject to recalls, individually or collectively, was insignificant and did not have a material and adverse impact on our business operations and financial performance. We did not receive any administrative penalty from relevant government authorities in connection with the products we recalled. We also did not receive any reports or claims that such products had caused any actual damage to our consumers.

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We have updated the internal control measures to prevent future incidents. Our marketing department shall be responsible for the design, review and approval of all product packaging, including the labels, marketing language and other content to be printed. It may also seek for our in-house legal team's advice to ensure our product packaging is in the compliance with the relevant laws and regulations. In addition to purchasing from quality suppliers certified by us, we conduct sampling inspections on each batch of fruit products upon arrival. See “— Food Safety and Quality Control” above for more details.

Quality Control

We have pioneered in China in establishing the a comprehensive and systematic written flavor-oriented 4-grade fruit quality classification system for fruit products, which forms a barrier to entry by educating the consumers to understand and appreciate the premium value of high-quality products. See “— Our Products and Brands — Proprietary 4-Grade Fruit Quality Classification System” above for more details.

We have established a Fruit Standard Committee at our headquarters which is responsible for the establishment and review of our fruit quality standards. The committee consists of national fruit experts we engage and various department heads from procurement, quality control, post-harvest research and development, logistics and sales, as well as marketing departments.

We endeavor to preserve the best quality of our fruits, from farm to table. To this end, we have accumulated in-depth industry knowledge and first-hand expertise during the past years, which are transformed to a comprehensive set of standardized technical criteria and operational requirements covering all material aspects with respect to our operations.

Moreover, we are in the process of developing similar quality classification systems for other fresh groceries by drawing on the successful experience accumulated in fruit retail industry. For example, with the technical support of Younongdao, we have developed various standardized dimensions and parameters to determine the level of delicacy of vegetables, and we intend to build the “Three Zeros with Fresh Flavor” quality standards for five major types of vegetables. Such quality standards provide detailed criteria in each process of harvest, storage and logistics, and inspection upon arrival.

Procurement Standards

We review and adjust our procurement standards for each type of fruits on a yearly basis based on the changing climate and marketing conditions in the upcoming year. With respect to each fruit type, our procurement standards not only cover those in relation to inherent quality such as flavor, freshness, size and color, but also cover aspects from safety, packaging, to requirements for logistics and warehousing, mainly, the suitable temperature and humidity for each type of fruits in transit. Our procurement staff are now equipped with a portable testing tool set for them to conveniently conduct preliminary inspections on site with respect to size, weight, hardness, scale thickness and sugar content.

BUSINESS

We conduct sampling inspections on each batch of fruit products upon arrival by applying the relevant quality standards in procurement. We also review relevant certificates or other documentations, if applicable, to ensure the products delivered have met the required safety standards. In case that a batch of products fails to meet our procurement requirements, we may return such products to the relevant suppliers, or may downgrade the quality level to be assigned before we accept this batch.

Quality Control Standards

We have established detailed quality control manuals for each process of product acceptance, product dispatch and inspection. To ensure that the fruits are in the same quality when they are dispatched from our warehouses as when they are delivered to us, we develop detailed technical criteria as to temperature and humidity for the warehousing of each type of fruits. Accordingly, our warehouses are separated into different temperature zones to satisfy the different storage requirements. We adopt “first-in-first-out” and “first-ripen-first-out” policy and require perishable fruits to be delivered within a specific period of time. We also closely monitor the vehicle fleets we engage to ensure the products in transit are preserved in the best conditions before dispatching to the retail stores.

Acceptance Standards and Sales Standards

Our continuous efforts to sell fruits in the best conditions and within an optimal shelf life by implementing stringent quality control measures throughout our operations require the ultimate cooperation from the retail stores. To ensure the retail stores are in the full compliance with our technical protocols and quality standards, we distribute comprehensive manuals and provide periodical trainings to our franchisees and their staff. Our in-store quality requirements cover from hygiene conditions, standards for product packaging and display, shelf stacking and shelf life, in-store storage requirements such as temperature and humidity, even to standardized consumer services such as shopping guide and foretaste. We also conduct both scheduled and unannounced inspections by store supervisors or mystery customers to ensure the full and constant compliance with our policies and procedures by the retail stores.

We currently have a quality control team comprising 172 employees, among which approximately 27% have a bachelor’s degree. Our director of quality control is a certified committee member of China Chain Store & Franchise Association and there are also over ten personnel who possess the preliminary or intermediate certificate in Food Safety Management or Food Testing.

RESEARCH AND DEVELOPMENT**In-house Research and Development**

Continuous research and development is fundamental to our brand recognition and is critical to maintaining our leading position in our industry. Our research and development efforts primarily focus on developing and improving cultivation and post-harvest processing techniques that are contributable to the upgrades of fruit quality and/or production yield. We also engage in the research and development of IT technologies. The continuous developments and improvements to IT systems support an efficient operation of our entire industry value chain.

As of the Latest Practicable Date, our post-harvest research and development center had 27 employees, including one expert consultant. All of the employees have a bachelor's degree or above and six have a master's degree. Our post-harvest research and development center is divided into three regional teams and has a post-harvest biology laboratory, and a food safety laboratory. The post-harvest biology laboratory currently has ten employees, all of whom have a bachelor's degree or above and four have a master's degree. Most of these employees major in post-harvest technology related subjects. The food safety laboratory has 12 employees, all of whom major in food related subjects and have a bachelor's degree. In addition, we have an IT research and development team with over 490 personnel. Apart from the daily IT maintenance for our Group, there are also designated teams responsible for development of mid-end platforms, algorithm and analysis, and various hardware and software development. We intend to establish industrial information platforms that may benefit various business partners by providing data synergy.

During the Track Record Period, we recorded research and development expenses of RMB59.3 million, RMB106.1 million, RMB139.7 million, and RMB86.3 million, respectively, in 2019, 2020 and 2021 and the six months ended June 30, 2022, mainly for our IT research and development efforts.

Industrial Investments and Collaborations

We actively identify and pursue partnerships or collaborations with various leading industrial players so as to take advantage of their specialized academic or technical expertise to supplement our in-house research capabilities, which in turn, are expected to improve our long-term business prosperity and further empower our entire ecosystem.

We have a track record of successful minority investments that have benefited our business and other players in our ecosystem through delivering advanced cultivation and post-harvest techniques or specialized cultivation management solutions. For example, we used to strategically hold minority interests in Youguolian and Younongdao before we increased equity investments and acquired them as our consolidated subsidiaries.

BUSINESS

We invest in a fruit seed research and development company, which is specialized in high-quality fruit seed identification, breeding, protection and management, and commercialization. This company has studied over 100 new breeds and successfully identified a number of fruit breeds with commercial potentials to promote cultivation experiments and subsequent commercialization. We also invested in an agricultural technology company engaging in service, marketing and consulting solutions. This company is the general agent of a number of foreign famous agricultural equipment and technologies, which strives to import advanced abroad equipment and technology into China to develop customized agricultural solutions for commercialized farmers. In addition, we have invested in several companies focusing on the development of single agricultural products, such as an avocado development and marketing company and a premium cherry breed development company.

Other than the minority investments in a diverse array of companies, we also from time to time establish collaborative relationships with national leading research and academic institutions. For example, we have entered into a strategic cooperation agreement with Jinan Fruit Research Institution, which is a national leading research entity specializing in the post-harvest engineering and technique researches. The strategic cooperation agreement provides several industry-research collaborations, including to jointly establish, evaluate and promote industrial technical standards for the purpose of the industry standardization strategy; to foster promotional cooperation for technology demonstration, under which Jinan Fruit Research Institution will allow us to access its resources and prioritize to consider the stores, plantation bases and preliminary processing and distribution centers as its technology demonstration bases; and to facilitate talent exchange and education, under which both parties periodically initiate experience exchange opportunities for our experts and technical personnel. In addition, pursuant to the strategic cooperation agreement, both parties also agree to jointly conduct research and share results through the establishment of a quality testing laboratory and a technology and innovation center for vegetarian fresh food and fruit products. We have cooperated with the Academy of Agricultural Sciences of Guangxi Zhuang Autonomous Region to establish a production and research base. Both parties will carry out long-term collaborations in terms of cultivation technology innovation for designated crops. Both parties will also train technical talents by taking advantage of one another's technological advancements. Moreover, we have established cooperation with certain fruit product research institutions to explore collaborations in terms of new breed development, cultivation experiments, and others. Under the collaboration agreements with research and academic institutions, we typically provide technologies and the collaborative experiments are usually conducted on fields or crops provided by the research and academic institutions. Both parties usually do not transfer their respective ownership of the core technologies. In addition, both parties share the information right to the experiment data. We typically have the right of first refusal as to the transfer or exclusive license with respect to the experimental results owned by the research and academic institutions. Each party shall be responsible for the respective costs and expenses it incurs in connection with the collaborative experiments.

DATA PRIVACY AND PROTECTION**Our Efforts on Data Privacy and Protection**

In the ordinary course of business, we from time to time collect and use certain personal information of our consumers, such as the consumer's mobile phone number and delivery address, which are primarily used for the purpose of membership identification and provision of consumer services. We consider the protection of the data privacy of our consumers to be of paramount importance. We have in place policies, procedures, software and technology infrastructure to collect, use, store, retain and transmit our consumer data in compliance with applicable data protection laws and regulations of the PRC, such as the Data Security Law of the PRC (《中華人民共和國數據安全法》) and the Personal Information Protection Law of the PRC (《中華人民共和國個人信息保護法》), please refer to “Regulatory Overview — Laws and Regulations in the PRC in relation to Privacy Protection” for further details.

We have adopted data security and protection protocols, which provide for data management responsibilities, data classification, data protection and confidentiality procedures. We have also established a dedicated data team to lead the implementation and review of internal data privacy protection policies and practice. In addition, 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 will also continually update our policies and internal control measures for data protection based on evolving regulatory requirements and industry standards.

We have currently implemented a number of detailed measures with respect to cybersecurity and personal data protection. For example, we have formulated appropriate rules to handle consumers' personal data and provide adequate notice to consumers by pop-up notification boxes or in other prominent ways. We notify consumers and obtain consents from them about how we collect and use their personal data, and how we transfer such data to third parties under the circumstance that we need to transfer data for delivering consumer services. We are in the process of optimizing our arrangements with third parties that may share data with us, who are required to comply with the applicable data protection laws and regulations in processing data from us. Data regarding our consumers' online purchases made through third-party platforms are managed subject to those third-party platforms' data governance policies.

During the Track Record Period and as of the Latest Practicable Date, we had complied with applicable laws and regulations relating to data security and privacy in all material aspects.

Our Compliance with Relevant Laws and Regulations

In recent years, with the promulgation of a series of laws and regulations related to cybersecurity and data protection, the MIIT, the CAC and other competent authorities have taken relevant measures against some mobile apps that infringe on users' rights and interests. The frequency of implementation of the relevant measures has gradually increased since 2020.

In 2020, our Pagoda mobile APPs were listed on a notice of criticism circulated by the MIIT, which determined our mobile APPs violated relevant regulations in collecting personal data in advanced stages and failed to fully disclose third-party software development kit (SDK) information and enabling authentication by default during account registration. We reviewed our APP system immediately and coordinated with China Academy of Information and Communications Technology to carry out rectification measures. Our rectified Pagoda mobile APPs were recognized and approved by the MIIT in November 2020. In addition, during the Track Record Period, in several cybersecurity drill tests run by the Public Information Network Security Monitoring Department under local municipal Public Security Bureau, we were identified with some cybersecurity vulnerabilities and had potential risks of information leakage. We were notified to make rectifications. After one drill test, we were also fined RMB10,000. Upon receipt of the rectification notices, we immediately conducted thorough reviews on relevant systems and made rectifications, including discontinuing unnecessary system services, modifying system access authorization, enhancing encryption algorithm for certain user data so as to improve confidentiality and security. Additionally, we engaged external cybersecurity companies to conduct tests on our systems and made rectifications accordingly. In the above-mentioned evaluations through drill tests by the relevant authorities, there have been no actual user data leakage incident. We have received confirmations from the competent authorities stating that we had completed the rectification with respect to the above-mentioned matters, and had not experienced any material non-compliance. We passed the annual evaluation of cybersecurity level protection in 2020 and 2021. As advised by our Special PRC Legal Adviser, based on the rectification measures we have adopted and the confirmations received from the relevant authorities, the likelihood that we will be subject to further administrative penalties in the future due to the above-mentioned incidents is remote.

We believe the measures we take with respect to data privacy and protection are consistent with industry practice. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material data breach incident. For risks related to data privacy protection, see “Risk Factors — Risks Relating to Our Business and Industry — Our business generates and processes a large amount of data, including personal and business data, and the improper collection, hosting, use or disclosure of data could harm our reputation and have a material adverse effect on our business and prospects. Any actual or perceived failure by us or third parties to comply with applicable data protection laws and regulations or privacy policies, including privacy concerns relating to unauthorized use of user information by us or third parties, could damage our reputation, adversely affect the consumers' confidence in us, or subject us to governmental regulation and other legal obligations.”

IT CAPACITIES AND INFRASTRUCTURE

Reliable and streamlined IT systems and infrastructure have been, and will continue to be, essential for us to enable growth and achieve efficiency. We have established integrated IT systems to support all major aspects of our operations, covering from procurement transactions, inventory management in both distribution centers and retail stores, logistics, franchisee management and store stock replenishments, membership management, to financial data management and other administrative functions. With the input of our accumulated operational experience and industry insights, our integrated IT systems are able to perform data mining and analysis for various operational modules.

We endeavor to continuously improve the capabilities of various operational modules embedded in our IT systems and to maximize data synergy across the entire systems. Among others, our front-end store-level POS system captures comprehensive store operational data, mainly procurement, inventory and sales, and other key performance indicators which are linked to and monitored by our Pagoda ERP system on a real-time basis. Our Pagoda ERP system also seamlessly functions with the WMS (warehouse management system) and TMS (transportation management system) systems, which are managing our warehousing and logistics information, respectively, through which we are able to monitor the status of our inventory level in the preliminary processing and distribution centers and adjust the logistic arrangements among local preliminary processing and distribution centers and to retail stores in a timely manner. We have developed our SCM (supply chain management) system to facilitate our procurement transactions and information sharing with our suppliers.

We are in the process of developing our business and data mid-end platforms. By centralizing module parts that are heavily utilized during daily operations into one streamlined architecture, mid-end platforms are expected to increase data collection unification and consistency, enhance collaboration among different departments, improve data transparency and accessibility by various functions, each of which will significantly improve our operating efficiency and reduce management cost. Meanwhile, mid-end architecture is featured with high flexibility and scalability that we are able to build on additional operational modules as our business continues to grow. We also expect our business and data mid-end platforms to empower our ecosystem by means of data exchange and sharing with other industrial players.

Most of our major IT systems are hosted and operated on cloud architecture which allows more scaling features at a relatively lower cost. We have established a strong IT team with five subsidiaries specifically engaging in the IT research and development for equipment support. We currently have a dedicated IT team of over 490 employees. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material technical incident that had a material impact on our operations.

BRANDING AND MARKETING

We place a great emphasis on our brand building and strive to promote our brand awareness among more consumers. We adopt a strategy to develop channel brands (such as Pagoda) and product brands (such as the Red Ballerina brand) in parallel. Leveraging our offline store network with over 5,600 stores, under our supervision, our retail store managers currently operate approximately 22,400 store-based WeChat groups to engage in real-time communication and transact with over 8.7 million WeChat community followers.

Our fundamental marketing strategy is to continuously provide high-quality fruits to the end consumers through our online and offline distribution channels. We place a significant emphasis on consumer experience instead of sales of products. We promote our business philosophy to consumers through marketing contents and communications. To this end, we carry out marketing campaigns by deploying various mediums, including text, graphic, audio and video, through our official WeChat account, Douyin short-form videos, Weibo, SMS, in-store display lightboxes and so on. This allows us to reach more potential consumers and reinforce the recognition of our products, brands and corporate image.

We strive to rejuvenate our brands. We fully upgraded our Pagoda brand by refreshing the brand visions and identities in 2019. We strive to make our brands constantly welcomed by consumers of different age groups. Meanwhile, we have also developed the intellectual property derivative products in association with our upgraded Pagoda brand, which are believed to be consumer-friendly and are more well-accepted by potential consumers. We have been focusing on the development of brand contents and the promotion of fruit knowledge and culture, which constitute an important part of our branding and marketing strategies. Leveraging those new and trending marketing channels and technologies, we expect our consumers to get more familiar with our products. We intend to accumulate more loyal consumers for our Pagoda brand by educating the accurate knowledge about fruits.

We carry out our multi-dimensional marketing campaigns through offline stores and online channels. Our store network currently has over 5,600 offline stores across the country, and each store is a marketing medium. We have also partnered with Zespri, a global leading kiwifruit marketing company, to promote the Zespri branded kiwifruit in the offline retail stores nationwide. We set up separate promotional zone in stores and assign dedicated sales assistants, which not only helps with the transactions at that time, but also benefits the ongoing marketing for such brand. We were well recognized by Zespri for many years and was awarded by it as the Best Retailing Customer in 2019, and Pagoda has been recognized as a top-ranked retail channel in terms of sales volume by Zespri for successive years from 2017.

Moreover, our multi-channel marketing approach also facilitates us in the development of product brands and featured products. For example, to promote musang king durian (大芭貓山王) and certain other featured fruit products, we leveraged in-store displays, together with promotional activities on mobile APPs and other new media channels, to create the theme-based marketing designs, creative product packaging as well as audio and video contents. The omni-channel marketing efforts to promote the product brands have been able to maximize the product value. We from time to time launch new products to cater to the consumer need for freshness and innovation. As such, Pagoda is not only a channel brand, but also a channel that incubates product brands and empowers products.

BUSINESS

We are dedicated to exploring innovative marketing activities that benefit our consumers. We have established presence on leading social commerce platforms in China, such as Douyin. We registered our official accounts to introduce our products, services, brands, as well as, cultivation and culture of fruits via short-form videos. As of the Latest Practicable Date, we had accumulated over 1.8 million followers on Douyin and our short-form videos aggregately received over 100 million views. We also hosted live streaming sessions on mainstream platforms, including Taobao and WeChat. Currently, we have launched several live streaming events for product promotion. Such new interactive marketing approach enables us to promote products and to create more sales opportunities at the same time.

We also from time to time organize immersive fruit origin trips. We take advantage of precise marketing strategy to identify potential consumer targets, and utilize community-based marketing to recruit loyal consumers as our Pagoda Hunters. During the fruit origin trips, we introduced those consumers to visit the fruit plantation bases and revealed affectionate stories behind the birth of the delicious fruits. The fruit origin trips not only promote the products themselves, but also spread the underlying values in connection with cultivate culture. From 2019 to 2021, we also partnered with local Royal Thai Embassy in Haikou city to host the Fruit Festival, which successfully boosted the sales of fruits from Thailand, paving the path to a long-term collaboration and business opportunities.

We always engage in frequent and close communications with our consumers. On daily and weekly basis, we release appealing contents and commence promotions through offline and online distribution channels including offline stores and mobile APPs, which reinforce our connection with consumers and generate potential transaction opportunities. We drive our offline consumers' focus on online marketing platforms and also attract online consumers to purchase in offline stores, which enables the closed loop marketing. Aside from a trading relationship, we are more eager to foster a partnership with our consumers where our brands and our consumers can grow together. This is also a part of our development strategy to establish caring and compassionate community stores.

We from time to time invite domestic influencers and KOLs to participate in interactive marketing events. We expect to achieve multifaceted and diversified word-of-mouth branding effects. Taking advantage of data analytics and the establishment of our membership systems, we are able to modify our marketing management based on the feedback from consumers, which in turn, allows us to improve the products and associated marketing methods. This also increases consumer satisfaction and contributes to the sales. We expect our branding and marketing efforts may eventually lead to quality brand equity.

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AWARDS AND RECOGNITIONS

The table below sets forth some of our major awards and recognitions as of the Latest Practicable Date.

<u>Awards/Recognitions</u>	<u>Issuing Entity</u>	<u>Year of Receipt and Expiry Date</u>
Top 100 Fruit Industry Revitalization Brand in 2021	China Fruit Marketing Association and the Seventh China Fruit Industry Brand Conference	May 2022
Most Admired Enterprise in Big Consumption Sector in China in 2021	iResearch	2021
Food Safety and Integrity Entity in 2020 and 2021	Committee of China Food Safety Conference	December 2020 and December 2021
2021 Most Leading New Retail Enterprise	China Internet Weekly	2021
Top 50 Most Influential Corporate Brand in 2016 to 2020	Committee of the Development of China Brand Conference	October 2016, October 2017, October 2018, October 2019 and June 2021
China Best Franchise Brand in 2019	China Chain Store and Franchise Association	March 2019
Top 50 Social E-commerce Business in 2019	Eburn.com	July 2019
Corporate Social Responsibility Award – Poverty Alleviation	People.com	December 2018
Enterprise Most Loved by Employees in Chain Store Franchise Industry in 2017 and 2018	China Chain Store and Franchise Association	November 2017 and November 2018

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EMPLOYEES

As of December 31, 2019, 2020 and 2021 and June 30, 2022, we had a total of 3,693, 3,550, 3,620 and 3,184 full-time employees, respectively. Currently, substantially all of our employees are in China. The table below sets forth our full-time employees by functions as of the Latest Practicable Date:

Department/Function	Number of Employees	%
Administration and others	415	13.7
Finance	109	3.6
Franchise development and engineering	50	1.7
IT (research and development)	494	16.3
Marketing	636	21.0
Operating and store management	552	18.2
Procurement	237	7.8
Production and logistics	533	17.6
Total	3,026	100.0

We currently recruit new employees primarily through on-campus recruitment programs. In addition, we place a significant emphasis on internal referral and internal promotional opportunities which we believe enable us to retain employees that understand our business model and appreciate our corporate value, which in turn, is vital to our sustainable long-term development. We do not use any employment agencies.

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 retailing, supply chain and logistics, 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 with all of our employees. We also enter into confidentiality agreements with all of our employees and franchisees. 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. Our sales and marketing personnel may also receive bonuses based on the sales targets they accomplish, by taking into account the overall sales performance of the stores in the same regional market in the relevant period. Save as disclosed in “— Licenses, Regulatory Approvals and 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.

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We established a labor union in July 2018 that represents the employees with respect to labor disputes and other employee matters. Such labor union is not covered by any collective bargaining agreement. 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 dispute during the Track Record Period.

PROPERTIES

Owned Properties

We occupy certain properties in China in connection with our business operations. As of the Latest Practicable Date, we owned five land parcels with a total site area of approximately 54,529 sq.m. and we had obtained the land use right certificates for these land parcels. There are properties with an aggregate floor area of approximately 27,103 sq.m. located on the land, mainly for warehousing spaces for Haiyang Jinchengtai and Jiangxi Wangpin, employee dormitories and public facility equipment.

Leased Properties

As of the Latest Practicable Date, we had entered into 176 lease agreements to lease properties with an aggregate floor area of approximately 227,613 sq.m. from third parties, mainly for our warehousing spaces, office spaces and employee dormitories. The leases generally have a term ranging from 0.5 year to 10 years. We will consider renewing the leases upon their expiry.

Leased Properties with Title Defects

Certain of our office spaces, including the premises where our current headquarters are located, and certain of our preliminary processing and distribution centers are located in leased properties that have title defects due to various reasons. As of the Latest Practicable Date, such leased properties with title defects included (i) three of our preliminary processing and distribution centers with an aggregate floor area of approximately 26,352 sq.m., accounting for approximately 16% of total floor area of preliminary processing and distribution centers operated by us, and (ii) employee dormitories, office spaces and others with an aggregate floor area of approximately 46,876 sq.m.

With respect to the preliminary processing and distribution centers, the title defects were primarily due to the failure by the lessors to obtain relevant ownership certificates. To be specific, such preliminary processing and distribution centers had obtained relevant construction planning permits, or construction work commencement permits, or had completed the acceptance inspections, but yet to obtain the ownership certificates.

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With respect to the office spaces and dormitories, the title defects were mainly due to one or more of the following causes: (i) uncompleted administrative procedures resulting from historical reasons or procedural failures during local urbanization progress; (ii) the defective leased properties were located on collectively owned land, allocated land, or land parcels with other title defects; and/or (iii) the lessors cannot obtain or provide to us sufficient and valid ownership certificates, proof of completing the procedures for leasing the allocated land, etc., or proper authorization from the owners of such leased properties.

As advised by our PRC Legal Adviser, it is the relevant lessors' responsibility to comply with the relevant requirements and to obtain the relevant ownership certificates. Any failure to fulfill such procedures may subject the relevant lessors to penalties imposed by the land administrative authorities, construction administrative authorities or planning authorities etc. and the lease agreements 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, if the lessors do not have the requisite rights to lease the defective leased properties, the relevant lease agreements may be deemed invalid, and as a result we may be required to vacate from such properties and relocate our offices, dormitories or distribution centers. With respect to the preliminary processing and distribution centers with title defects, our PRC Legal Adviser further advised that, the above-mentioned distribution centers had obtained relevant construction planning permits, or construction work commencement permits, or had completed the acceptance inspections, but not yet obtained the ownership certificates. Pursuant to the applicable laws and regulations, the relevant lease agreements are valid and legally binding. Furthermore, according to the Civil Code (《中華人民共和國民法典》) and Construction Law of the People's Republic of China (《中華人民共和國建築法》), a project construction of which is completed may be delivered for use upon passing the acceptance inspection. Among the aforementioned preliminary processing and distribution centers with an aggregate floor area of approximately 26,352 sq.m., leased properties with a total floor area of approximately 18,328 sq.m. have completed the acceptance filings. Therefore, the relevant lessors are entitled to deliver and lease such properties for us to use according to the lease agreements.

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.

With respect to the premises where our current headquarters are located, we have actively communicated with the landlords, and have consulted with the competent local authority. According to the interview, we received the confirmation that (i) the landlords have completed all requisite administrative procedures that they can complete at the current stage and are the legal owners of the leased properties, (ii) the landlords will apply for the ownership certificates for the leased properties once the local policies allow; and (iii) the local government does not have any plan to demolish, seize or otherwise dispose of the leased properties in the next five years.

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In addition, we have acquired a land parcel located in Yantian, Shenzhen city with a total site area of 3,234 sq.m. and are in the process of constructing a new office building there. We expect the new office building to be completed in 2024 and we intend to relocate most of our major departments to the new premises.

In addition, we have also received the confirmations from Mr. Yu, our Controlling Shareholder, and Ms. Xu Yanlin, undertaking that in case that the relevant lease agreements are determined invalid, or the lease agreements are terminated prior to the relevant expiry date by the landlords due to the title defects, and the Company is not able to properly use the properties, they will supervise and urge our Company to actively look for a replacement, and will indemnify the Company for damages and losses as a result of forced eviction and relocation due to any such defects.

We intend to continue to use and lease those defective leased properties in order to secure the current optimal locations, particularly for those of our preliminary processing and distribution centers.

Our Directors are of the view that although we had not obtained confirmations from all the competent government authorities confirming that we will not be requested to vacate the defective leased properties, the risk of enforcement action by the relevant government authorities resulting in our large-scale eviction from such properties is remote and would not have a material adverse impact on our business, results of operations and financial condition. This is based on the following reasons: (i) given that these leased properties with title defects due to the lack of relevant ownership certificates are widely distributed across 29 cities in China, the risk that the relevant competent government authorities of all or several of such cities would simultaneously require us to evict from such properties is extremely remote; (ii) during the Track Record Period and as of the Latest Practicable Date, we are not aware of any request for or any enforcement action to vacate any of the defective leased properties; (iii) with regard to leased properties for the purpose of our office spaces and employee dormitories, it is generally easy for us to identify a replacement premise and relocate without incurring significant relocation cost; (iv) with respect to the premises where our headquarters are currently located, we have acquired a land parcel in Yantian, Shenzhen city and are in the process of constructing a new office building, which will be completed in 2024 and we intend to relocate most of our major departments to the new premises; and (v) it is not difficult for us to identify a suitable replacement property for the relocation of the distribution centers and the relocation cost with respect to each distribution center, including but not limited to rental fees for the new lease, relocation expenses, decoration expenses, and other costs and expenses in connection with the temporary interruption to such distribution center, is expected to be immaterial, because (a) the warehousing spaces in the size similar to our distribution centers that are subject to title defects are generally available in the market, (b) we are generally able to remove and relocate the equipment and facilities from our existing distribution centers to the new leased properties, (c) the properties we lease for our distribution centers generally do not need major construction or renovation before it can commence operations, thus, the renovation costs for the newly leased properties, are generally insignificant, (d) given our current logistic and warehousing network nationwide with strong IT support for logistic arrangements, a temporary closure of a local distribution center due to the relocation generally will not cause any interruption to our business as the distribution centers in surrounding areas will have sufficient capacity to support the retail stores initially covered by the relocated distribution

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center; we may also be able to leverage the logistic and warehousing capacity of our business partners located in the relevant regions. As such, if we are not able to continue to use such distribution centers due to the above mentioned title defects, we expect to be able to identify alternative places for relocation in a timely manner, which will not cause a material interruption to our operations. Based on current average lease fees we incurred in connection with our distribution centers and the aggregate gross floor area, the estimated expenses in connection with equipment and decoration for relocating a local distribution center, and the estimated additional expenses in connection with logistic and other operating rearrangements due to the temporary interruption to a local distribution center in one month, we estimate that we may incur no more than approximately RMB8.2 million on average to relocate a distribution center of average size, assuming a temporary interruption to operation of such center for less than one month.

Based on (i) the communications with relevant lessors, (ii) the confirmation made by the Company that it is not difficult for the Company to identify a replacement premise and relocate in case of a forced eviction, and (iii) the undertaking from Mr. Yu and Ms. Xu Yanlin, our PRC Legal Adviser concurs with the view of our Directors that the risk of us being subject to enforcement action by the relevant government authorities resulting in our large-scale eviction from such properties which causes actual material losses to us is remote.

In an effort to prevent future recurrence of occupying properties with defective titles, we have established internal control policies regarding the selection and approval of leasing and purchasing of properties, as follows: (i) as to leased properties that are currently subject to title defects, we have assigned dedicated personnel to follow up with the lessors and/or other relevant parties in connection with the status of the ownership certificates and/or other relevant documentations and to understand any other potential risks based on periodical communications; (ii) as to the leases that we expect to enter into in the future, we have internally promoted the awareness of legal compliance and urged the relevant personnel to prioritize pursuing lease without any title defect; meanwhile, our legal department is responsible for the review and approval of relevant lease agreements, with a focus on confirming the designated use of land and the status of relevant ownership certificates; and (iii) we are currently contemplating to carry out rectification measures with respect to leased properties that are currently subject to title defects, and may consider vacating from such properties and seek other suitable replacement or to collaborate with professional third-party warehousing service providers in the future.

Lease Registration

As of the Latest Practicable Date, 176 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 Adviser, 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 maximum fine will be approximately RMB1.8 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 the failure to register and file all the relevant lease agreements at the same time is very remote.

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PROPERTY VALUATION

As of June 30, 2022, 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.

INTELLECTUAL PROPERTY

We rely on a combination of trademark, trade secret and other intellectual property laws to protect our trade secrets and other intellectual property rights. We have entered into confidentiality agreements with each of our senior management. In addition, the franchise arrangements we enter into with our franchisees also contain provisions that prohibit the franchisees from infringing our intellectual property and trade secrets during their daily operations.

As of the Latest Practicable Date, we had 1,430 registered trademarks in China and 75 pending trademark registration applications. In addition, we had 17 registered trademark in Hong Kong and 140 trademarks registered in other countries and regions as of the same date. As of the same date, we also had 20 domain names.

As our brand names are becoming more and more recognized among consumers in China, we believe that protecting and enforcing our intellectual property rights is of significant importance for our business operation, branding and reputation. We seek to maintain registration of intellectual property rights that are material to our business under appropriate categories and in appropriate jurisdictions. On the other hand, a number of proprietary know-how that is not patentable and processes for which patents are difficult to enforce are also important for us. We expect to rely on trade secret protection and confidentiality agreements to safeguard our interests in this respect. We believe that certain elements in our operations are not covered by patents or trademarks. We have taken security measures to protect such elements.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material infringement claim of trademarks, copyrights, trade secret or any other intellectual property rights against or raised by us. As of the Latest Practicable Date, we did not have any outstanding material proceedings in connection with infringement of intellectual property rights brought about by any third party, and we were not aware of any threatened material proceedings or claims relating to intellectual property rights against us. Moreover, despite our best efforts, we cannot be certain that third parties will not infringe or misappropriate our intellectual property rights or that we will not be sued for intellectual property infringement.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Our Governance

We are subject to various health, safety, social and environmental laws and regulations and regular inspection by governmental authorities. We are committed to environmental, social responsibility, governance and climate-related (collectively “ESG”) issues which are essential to our continuous business development and success.

Our Board has the ultimate accountability for our ESG strategy, management and performance. Our Board examines and approves our ESG objectives, strategies, priorities, initiatives and targets as well as the corresponding policies and frameworks that support their achievement.

To effectively manage ESG related matters, our Board has established an ESG committee, which comprises three directors, namely our president, Ms. Xu, our executive deputy general manager and an executive director, Mr. Jiao, and a non-executive director. Our ESG committee is primarily responsible for (i) supervising and reviewing the establishment of our Group’s ESG vision and strategies, and reporting and advising to the Board, (ii) evaluating and sorting out ESG risks and opportunities, and reporting and advising to the Board, (iii) reviewing ESG related reports to be released to the public, and reporting and advising to the Board, and (iv) studying and advising on other ESG related significant matters that may affect the Company’s development.

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.

Impact of The Climate Risks and Opportunities

We consider that the risks and opportunities of changing climate have a significant impact on our business, strategy or financial performance. We have identified the following ESG risks and opportunities, primarily relating to climate risks and responses related to our business, with reference to the list of climate-related risks recommended by the Task Force on Climate-related Financial Disclosures, as follows:

- **Physical risks:** The frequency of extreme weather events, such as hurricanes, typhoons, hail, etc., and natural disasters, such as earthquakes, forest fires, floods, etc., may continue to increase, which may cause physical harm to the fruit cultivation. Under extreme climates, several affected regions may face the loss of the entire fruit harvest, and the supply of fruit is vulnerable to crop diseases or pests. Therefore, we constantly explore planting techniques to help enhance disease and pest monitoring and control for various fruit types, as well as to protect the planting conditions of fruits under extreme weather. At the same time, extreme weather may also have certain adverse effects on our offline franchised stores and distribution

centers, endangering the safety and health of employees, and affecting the flow of consumers to the franchised stores. In response, we have implemented emergency preventive measures to deal with severe weather conditions, such as regular drills and training on extreme weather emergency plans at our distribution centers, and implementation of safety risk prevention and control measures in stores to ensure the health and safety of employees.

- **Transition risks:** As public awareness of climate change grows, our business faces a series of transition risks. With the rising awareness of consumers on environmental protection and health, more consumers are likely to change their eating habits and pay more attention to food traceability, environmental protection and demand for green and healthy product requirements. This may require us to diversify our products and services, improve food quality, and reduce our own carbon footprint (such as the use of environmentally friendly packaging materials) in daily operations to meet the expectations of consumers, which may increase our operating and compliance costs, affecting our business and financial performance as a result.
- **Potential opportunities:** The whole society is transitioning to a green, low-carbon, zero-carbon economy. With the popularization and application of technologies and the further streamline of our online and offline operations, our business operations will see a huge improvement in managing the energy efficiency and there will be better chances for us to be recognized by end consumers and business partners over other less environmentally friendly competitors. At the same time, as the public shifts to healthier eating habits, fresh fruits will play a more important role in people's daily diet and our well established brand awareness in connection with high-quality fruits will enable us to acquire more market share in the future, which in turn, is beneficial to further increasing our popularity, sales and profit margins. Looking forward to the future, we will continue to explore sustainable business opportunities and apply more environmentally friendly new technologies, and we are committed to practicing corporate social responsibility and low-carbon development strategies.

Measures to Manage and Mitigate ESG risks

We are committed to building a green ecological industry chain from plantation to retail. We have adopted the following measures to identify, assess, manage and mitigate ESG risks:

- With respect to the upstream, we establish sustainable supply chain through our own plantation bases or empowering our suppliers.
- With respect to the midstream, we have established an efficient warehouse distribution cold chain system. By controlling the different temperature zones of the warehouse and optimizing the frequency of incoming and outgoing shipments in different temperature zones, the intensity of the energy consumption of the warehouse continues to improve, and through proper route planning in logistic, it helps reduce cost and improve distribution efficiency.

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- With respect to the downstream, we are committed to establishing a fruit franchise retail business model that closely integrates online and offline operations with the store-as-warehouse features. Community-based offline retail stores are typically within walking distance, and online ordering with flexible delivery options further provides convenience and efficiency in purchasing. In addition, we take seriously the effects that the retail stores may have on the environment; hence, in establishing our retail store operation policies, the retail stores are retrofit using environmentally friendly building materials and equipped with LED lighting.

Collaboration with Business Partners

At the plantation and procurement end, we work with our suppliers, plantation bases and fruit farmers to protect and restore lands so they remain productive for generations to come. This means taking actions to prevent deforestation, nourishing the soil and conserving fresh water. We are constantly evolving and collaborating with suppliers on sustainable sourcing. We are committed to engaging with plantation bases and fruit farmers to reduce the environmental impacts by encouraging them to adopt a precise approach to applying pesticides and fertilizers. We introduce the following technologies to our upstream business partners and our plantation bases to reduce the used of pesticides:

- Introduce precision irrigation technology, such as drip irrigation, to improve the utilization rate of water, so as to save water;
- Through precision fertilization technology, different fertilization plans are designed according to the characteristics of different crops and production areas, and use of fertilization is formulated;
- Use of organic fertilizers, which can effectively improve the utilization rate of fertilizers and reduce the use of chemical fertilizers;
- Exterminate pests through an integrated pest and disease defense system, and use advanced plant protection programs to control pesticide residues; and
- Promote stronger crop growth through soil improvement and root strengthening, enhancing self-immunity and disease resistance, thereby reducing the use of chemical pesticides.

At the logistic end, we have engaged service providers that have electric truck fleets to help us to fulfill the delivery from our distribution centres to franchised stores. Electric trucks have considerably lower emissions over their lifetime than conventional vehicles. Please also refer to “— Downstream Environmental Impacts and Last-mile Solutions” below.

At the store level, we have engaged contractors to use environmental-friendly building materials for the renovation of new stores. As for wastes, retail stores follow our waste handling policy which indicates our efforts to reduce, reuse and recycle our operational waste.

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Largest types of waste handled at retail stores come from fruit peels, product damages and returns, and carton packaging. For fruit peels and damaged and returned products, store employees will dispose them using the domestic waste bins provided by the local municipality. For some cities which have waste segregation policy in place, the wastes will be segregated to food waste bins provided by the local municipal. All the carton packaging is sorted at the back of each store and sent to segregated bins provided by the local municipal. The carton packaging will be further separated and ready for recycling by the municipal waste service providers. We have switched straws, packaging used in retail stores to recyclable materials.

Downstream Environmental Impacts and Last-mile Solutions

The growth of our retail store network is changing the demands on our logistics network and is evolving our approach to distribution, warehouse, and delivery technologies. We believe that part of the solution will lie in new technologies. We are collaborating with our warehouses, logistic, service providers regional dealers, and franchisees to make our logistic chain safe, efficient, reliable and cost-effective. We have engaged service providers that have electric truck fleets to help us to fulfill the delivery from our distribution centers to franchised stores. Electric trucks have considerably lower emissions over their lifetime than conventional vehicles. Relevant measures we have taken include:

- Customizing our warehousing management system to improve the order picking process. We group items in the correct storage types to minimize warehousing handling;
- Selecting distribution centers that are close proximity to retail stores and have good access to transportation;
- Using the transportation management system, or TMS, to schedule the route planning and maximize the vehicle utilization by using the shortest route for delivery from distribution centers to retail stores. Previously, it took about 70 to 90 minutes to arrange delivery for 300 stores by using manual scheduler. With TMS, we can arrange the delivery in 30 to 40 minutes;
- Using night-time deliveries to overcome urban traffic jams and ensure the freshness of our fruits;
- Encouraging third-party logistic service providers to use new energy trucks in accordance with government policy requirement to reduce carbon emission; and
- Encouraging third-party riders to use electrical bikes during the delivery.

In particular, as online shopping boomed over the past few years and has been gaining importance among all ages and demographics, we are committed to assuming our social responsibility by increasing the convenience and social welfare in communities where we establish our presence. Efforts in this area include:

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- Engaging with reliable third-party delivery service providers, such as Meituan and JD.com, to solve the last-mile delivery problem which refers to the final leg in delivery from our retail stores to consumers. Such service providers provide fast delivery within 29 minutes minimum for online orders within 3 km distances;
- Making it easy for consumers to order fruit products anywhere, anytime;
- Making order accessible during the COVID-19 pandemic. Retail stores were optimized for social distancing and sourcing was adjusted to ensure the availability of essential fruit products for online orders;
- Customers can choose from our mobile APPs to order delivery to their homes or pick up in stores. The convenience to consumers of picking up their orders in stores on their way home is a key factor driving the increased adoption of click and collect;
- Caring for the riders by providing free drinks and fruits during the order pick-up; and
- Creating value for the communities we operate in by providing access to affordable fruit products and by contributing to economic vitality and community resilience.

Resource Usage

We are motivated to engage, and encourage third-party suppliers to engage the logistic services using new energy trucks in accordance with government policy requirements.

By optimizing energy management, replacing equipment and adopting energy-saving measures, we improve the resource utilization efficiency of our offices, preliminary processing and distribution centres, and deep processing zones. Main energy-consumption equipment at our preliminary processing and distribution centres include refrigerators, conveyor belts and other electronic devices during packaging, sorting, warehousing and logistics. We also use a number of processing machinery at the deep processing zones to produce dried fruits, juices and frozen fruits. We have improved power efficiency by choosing energy-saving equipment. For example, some large refrigerators in distribution centres are installed with inverter settings. Our resource-saving measures also include:

- Installation of LED lights in all office areas;
- Enhanced insulation in distribution centers to reduce temperature loss through sealing of window and compartments;
- Requiring the personnel at distribution center to close the door and turn off the lights when leaving the refrigerators;
- Promoting the development of simplified, efficient and paperless office processes;

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- Electric power forklifts used in the distribution centers;
- Optimizing the routes from the distribution centers to the retail stores to improve vehicle utilization and loading rate, save fuel, and speed up the delivery;
- Inspection and cleaning of refrigeration equipment on a monthly basis at distribution centers to maintain the equipment condition at a proper energy consumption level; and
- Faulty equipment is maintained and replaced in a timely manner to avoid wasting of electricity due to equipment damage or poor insulation.

Waste

Major daily wastes of our preliminary processing and distribution centers are mainly spoiled fruit products and wastewater from fruit cleaning. Specific measures are taken to deal with such wastes as follows:

- The solid wastes generated by the distribution centers are mainly damaged fruits, which are collected and uniformly handled by designated third parties.
- The solid wastes produced by the fruit product processing areas are mainly fruit peels, which are processed by separating dry and wet characteristic of the wastes, and are placed in separate designated trash cans and handed over to designated third parties.
- The wastewater produced by us is mainly water for fruit cleaning, which is discharged into the municipal discharge network. In addition, all the cooling water required by the freeze-drying process equipment is recycled without being discharged.

Packaging Materials

We are committed to environmental protection and we advocate and practice sustainable development. We strive to reduce the impact of pollution of product packaging materials on the environment. We do not provide excessive product packaging and adhere to the principles of recycling and environmental friendliness for packaging materials.

Currently, packaging materials used by us may be divided into warehouse bulk packaging and store retail packaging. Specific environmental protection measures are as follows:

- Warehouse bulk packaging uses reusable baskets and incubators for delivery from our distribution centers to stores. At the same time, for shipment to distribution centers, we recommend our fruit suppliers to use recyclable baskets instead of paper cartons to jointly promote sustainable development. For cartons used by fruit

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suppliers, we recycled the materials to the extent possible. During the Track Record Period, we had recycled more than 2,000 tons of packaging materials each year which were mainly the warehouse bulk packaging cartons. All these packaging materials are collected by qualified third parties.

- Store retail packaging mainly includes straws, shopping bags, fruit cutting containers, packaging boxes, packaging bags, gift boxes and baskets and fruit labelling. When purchasing retail packaging materials, we require suppliers to provide corresponding environmental qualification certificates, such as environmental impact approval, and for printing suppliers, they need to provide pollution discharge permits and FSC certification. At the same time, we are more inclined to choose merchants with ISO14001 certification. At present, the various packaging materials used by us can be mainly further divided into biodegradable, environmentally friendly degradable, environmentally friendly recyclable plastics, and paper products. details as follows:
 - Biodegradable packaging materials include straws, large and medium shopping bags and fruit cutting containers, the material composition of which is sugar cane pulp or new fully degradable materials.
 - Environmentally friendly and degradable packaging materials include non-woven take-out bags, the material composition of which is PP laminated.
 - Environmentally friendly plastics packaging materials include fruit cutting containers, packaging boxes and packaging bags, the material composition of which includes food-contact grade PP, PET or new PO materials, etc.
 - Paper-based packaging materials include gift boxes, gift baskets and fruit labels, which are made of white cardboard, corrugated paper and coated paper.

Going forward, we will continue to promote the de-plasticization of product packaging and gradually increase the proportion of biodegradable packaging materials. We continue to seek suppliers that could provide more cost-effective sustainable options. In addition, we also encourage consumers to bring their own shopping bags to the store to reduce resource usage.

Major Indicators

We have calculated quantitative information that reflects our major ESG risks, including greenhouse gas emissions and resource consumptions.

Greenhouse gas emissions include Scope 1 and Scope 2 emissions. Scope 1 direct emissions include refrigerants used in refrigerators and fuel consumed by the company vehicles. Scope 2 indirect energy emissions include greenhouse gas emissions from the purchase of electricity.

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The table below sets forth data on our greenhouse gas emissions and resource consumption at our Shenzhen headquarters, our fruit product processing area in Dongguan, and 16 self-operated distribution centres across the country for the periods indicated.

	Units	For the year ended December 31,			For the ten months ended October 31,
		2019	2020	2021	2022
Scope 1 direct greenhouse gas emissions	Tons of CO ₂ equivalent	4,610	908	133	3,010
Scope 2 indirect greenhouse gas emissions	Tons of CO ₂ equivalent	7,233	8,176	12,377	11,828
Total greenhouse gas emissions	Tons of CO ₂ equivalent	11,843	9,085	12,510	14,838
Intensity of total greenhouse gas emissions/ total revenue RMB'000	Tons of CO ₂ equivalent	0.001353	0.001052	0.001252	/

* The energy consumption of the distribution centre in Ningbo is handled by the property management companies, thus it is not included in this calculation.

** The fluctuations of scope 1 were mainly due to the refilling of refrigerant in the distribution centers which was based on the functioning of the refrigerators.

*** The increase of scope 2 indirect greenhouse gas emission in 2021 was due to new fruit product processing area in Dongguan and increased usage of electricity as the result of increased business volume.

**** The scope 2 indirect greenhouse gas emission in 2022 included two new additional distribution centers located in Zhongshan and Guiyang cities, respectively.

Although our overall energy consumption would increase along with our future business growth, our goal is to gradually adopt greener measures to reduce the average energy consumption by unit in our daily operations. The data will be used as a basis for developing more relevant energy saving and emission reduction measures and setting appropriate emission reduction targets for us in the future.

For any retailer, Scope 3 emissions created indirectly via suppliers are the most complex to measure. As a purchaser and a retailer at the same time, we have a responsibility to support emissions reductions right across our value chain.

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Scope 3 emissions are all other indirect emissions that arise as a result of our activity but are under the operational control of another entity. The greenhouse gas protocol defines 15 different categories of Scope 3 emissions, and we currently plan to set up the data collection mechanism against three categories: business travels, wastes from operations, fuel and energy related activities. We are currently working with key suppliers to help map a more complete view of our Scope 3 emissions by understanding the transport mode and distance of the delivery.

Resource Consumption

	Units	For the year ended December 31,			For the ten months ended October 31,
		2019	2020	2021	2022
Electricity	kWh'000	8,849	9,995	15,284	14,528
Intensity of Electricity/ total revenue RMB'000	kWh'000	0.0010	0.0011	0.0015	/
Gasoline	Liters	5,101	5,099	6,931	5,245
Intensity of Gasoline/ total revenue RMB'000	Liters	0.00058	0.00059	0.00069	/

* The energy consumption of the distribution centre in Ningbo is handled by the property management company, thus it is not included in this calculation.

** The increase of electricity usage in 2021 was due to the new fruit product processing area in Dongguan and increased usage of electricity as the result of increased business volume.

*** Electricity in 2022 included two new additional distribution centers in Zhongshan and Guiyang cities, respectively.

Water Consumption

The use of water in our business are divided into three parts: water for our offices and distribution centers, water for our fruit product processing areas which mainly used for fruit cleaning, and water for our plantation bases.

We are working with farmers and scientists to understand the risk of water shortage for fruit plantation across the country. We use precision irrigation technology to improve the utilization rate of water in our plantation bases. To help optimize our water use, we have introduced reduction initiatives at our distribution centers and fruit product processing area in Dongguan. We have focused on fixing leaks, making sure our existing system are working effectively and adopting water reduction technologies. For example, our cooling water required by the fruit freeze-drying process equipment is recycled and without being discharged.

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In 2021, our headquarters, distribution centres and fruit product processing areas had consumed approximately 557,628 m³ of water.

Anti-Corruption

We adopt a zero-tolerance attitude towards bribery and corruption, and strictly prohibit any form of fraud or corruption by employees or representatives of us. In this regard, we have formulated a number of policies, including the Anti-Fraud and Anti-Corruption System, Four Provisions on Preventing the Use of Power for Personal Interest, Employee Integrity and Self-discipline Management Regulations, and Conflict of Interest Management System. During our daily operation, we strictly prohibit employees from taking advantage of their positions or explicitly, implicitly, or tacitly allowing others to take advantage of their positions, to provide special convenience, preferential policies, opportunities and resources for themselves, relatives, friends or other stakeholders.

We have also established a whistle-blowing system with hotline, e-mail and mailbox, and announced it to employees at all levels and all stakeholders that have direct or indirect economic relations with us. Our whistle-blowing number has been exhibited in all offline franchised stores, which is open to consumers at any time to report actions that may violate professional ethics or codes of business conducts.

Corporate Social Responsibility

Industrial poverty alleviation

We actively respond to national policies and take advantage of our own industry chain to carry out a comprehensive poverty alleviation strategy. For many years, we have been committed to helping farmers in poor areas to develop fruit agriculture and increasing the income of poor families.

In 2018, we launched the poverty alleviation strategy of “One Hundred Fruits and One Hundred Counties” by selecting 100 fruit categories in 100 impoverished areas across the country, and organizing production in poverty alleviation bases by leveraging our advantages in industry chain and technology. By assisting the establishment of poverty alleviation bases, our professional and technical team of Youguolian imparted planting knowledge to local fruit farmers and helped them grow good fruits. We then provided empowerments in subsequent marketing and commercialization, and branding.

Our poverty alleviation actions have won a number of honorary titles, such as the “Annual Poverty Alleviation Award” issued by People’s Daily Online in 2018. We were selected as the “Industrial Poverty Alleviation Model,” “Outstanding Enterprise in Fulfilling Social Responsibilities” and “Consumption Poverty Alleviation Love Unit” by China Fruit Circulation Association, Consumer Daily and Shenzhen Poverty Alleviation Office, respectively, in 2020. At the 2019 Brand Agricultural Influence Annual Ceremony held in Beijing, our chairman, Mr. Yu was awarded the “Agricultural Brand Influencer,” and our Company won the “Industrial Poverty Alleviation Model” award.

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Charitable Activities

In the context of the normalization of the COVID-19 pandemic, we established the “Spring Blossoms” public welfare project team to help medical frontline. At present, through the “Spring Blossoms” public welfare project, we have cooperated with partners at home and abroad to carry out more than 80 campaigns, donating medical and living materials to over ten epidemic-and disaster-stricken areas or groups.

Our efforts were well accepted and appreciated by various epidemic prevention and control headquarters, hospitals and sub-district committees and other institutions. We were recognized as “A Warm-hearted Enterprise” and “An Excellent Anti-pandemic Enterprise” by the Wuhan Municipal Blood Donation Leading Group Office and the Responsibility Cloud Research Institute respectively in 2020.

HEALTH AND SAFETY MATTERS

Although we are not a manufacturing company, we still have implemented stringent work safety policies. We have established an internal audit and monitoring department and have appointed a designated safety manager, who is responsible for managing and closely working with our regional safety personnel. We have measures on safety management in place, which specify the obligations of regional safety personnel, and the detailed scope and procedures of safety inspection work. In addition, we have also established management measures in response to particular incidents such as fire, theft and typhoon, which contain emergency response plans that the retail stores shall comply with. We have designated fire safety administrative personnel to supervise our fire safety management, who is led by the head of the internal audit and monitoring department at the headquarters level. With respect to our office spaces, our fire safety administrative personnel are required to inspect the fire equipment, facilities and emergency exits and report on a monthly basis. With respect to the retail stores and the preliminary processing and distribution centers, fire safety administrative personnel are required to conduct on-site inspections on the fire facilities and emergency exits on a monthly basis and prepare and archive the inspection reports.

During the Track Record Period and up to the Latest Practicable Date, we did not experienced any material health and safety incidents in the course of its business operation.

INSURANCE

As of the Latest Practicable Date, we had not had any outstanding material insurance claims against us. Except for the statutory social insurances as required by the relevant PRC laws and regulations, such as pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance, a limited number of vehicle insurance policies and the property all risk insurance purchased by certain subsidiaries, we do not retain any other insurance policies, such as product liability insurance and business interruption insurance, to cover our operations. We have purchased property all risk insurance policies for all of the 16 preliminary processing and distribution centers operated by us, which

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comprehensively covered major business interruptions and accidental loss, such as fire, water and malicious damage. See “Risk Factors — Risks Relating to Our Industry and Business — We have limited insurance to cover our potential losses and claims” for more details. We believe that our existing insurance coverage of our business is consistent with what we believe to be customary for business of our size and type and in line with the standard commercial practice in our industry.

COMPETITION

We operate in a highly competitive and fragmented industry. According to the Frost & Sullivan Report, the aggregate market share of the top five players of China’s fruit retail industry only accounted for approximately 3.6% in the fruit retail market in China in 2021.

We compete with a broad range of competitors in the industry, including traditional markets, modern retail operators (including supermarkets, fresh food supermarkets and convenience stores), e-commerce operators, and fruit specialty retail operators (including national fruit specialty chain retail, regional fruit specialty chain retail and mom-pop stores). We compete with these industry players for high-quality suppliers, consumers, store locations and corporate operation talents.

We believe that our competitive advantages include our fruit quality classification system, strong supply chain management capability, efficiently franchise management, extensive distribution network, and advanced IT capabilities. According to the Frost & Sullivan Report, we were the largest fruit retailer in China in terms of total fruit retail sales value in 2021, accounting for 1.0% of total market share in China.

EFFECTS OF THE COVID-19

In late 2019, an outbreak of respiratory illness caused by a novel coronavirus, or COVID-19, was quickly spreading around the world, including in China. The COVID-19 pandemic has resulted in a high number of fatalities and materially and adversely affected the global economy. As the pandemic continues to flare, it remains considerably uncertain at current stage when the livelihood of the people and the global economy will achieve a full recovery. In an effort to combat the pandemic, the PRC central and local governments had imposed several policies, including travel restrictions in certain regions and a 76-day lockdown of Wuhan city from January 23, 2020. The retailing and consumer goods industries in the PRC have been interrupted during the mass quarantines as many local governments implemented travel restrictions and mandatory lockdown measures. Many retail stores also have voluntarily adopted protective measures and issued a temporary closure in 2020.

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Since late 2019 up to the end of May 2020, a total of 191 of the retail stores had temporarily closed for over ten days to comply with the local governments' mandatory restrictive measures, most of which were located in Hubei Province. Due to the COVID-19 outbreak, the consumer traffic to other stores that did not close had also declined significantly in general. By the end of September 2020, all of the 191 stores that temporarily closed had resumed business and the consumer traffic has been recovering.

We had implemented precautionary measures since the early stage of the COVID-19 outbreak. For instance, drivers of our delivery fleets were subject to our centralized management, which ensured their safety and attendance and reduced the risks arising from human mobility. We also paid special attention to certain cities where we arranged special delivery routines for delivery at specific time and locations, ensuring uninterrupted logistic services in those cities. We adopted stringent standards in cleaning and disinfecting our vehicles and relevant staff. Our logistic services across the country and other business operations had not been materially interrupted by the COVID-19.

To respond to the evolving situations of the COVID-19 in 2020, we introduced certain temporary policies to support our franchisees and regional dealers during this difficult time. For example, to support those stores remained open during the COVID-19 outbreak, for the month of February 2020, we exempted the interests on the loans under our financial support arrangements with franchisees and regional dealers. Moreover, given the fact the number of online orders experienced a considerable increase during the COVID-19 outbreak, we exempted the monthly royalty fees in connection with online orders that were fulfilled by offline stores for February 2020. We also incurred expenses to provide protective materials to our employees and store staff and participated in various charitable donations. Travel restrictions and other measures in response to the COVID-19 in certain cities had resulted in the local residents' needs for fruits, vegetables and other fresh groceries unsatisfied, which unexpectedly stimulated online retail opportunities. We launched our quality fresh grocery strategy.

We incurred anti-pandemic related expenses of approximately RMB11.5 million in 2020, which were primarily in connection with the purchase of medical and safety supplies. We believe such amount, together with the potential expenses incurred in connection with our anti-pandemic measures were insignificant.

Although conditions have improved and the pandemic has generally been under control in China in 2021, since early 2022, there were resurgences of COVID-19 outbreak, including the COVID-19 Delta and Omicron variant cases, from time to time in multiple cities in China, and the local governments re-imposed certain quarantine and other restrictive measures. Certain offline retail stores in those affected areas were subject to temporary closure but to the extent practicably possible, maintained operations to respond to online orders. Since January 1, 2022 up to the Latest Practicable Date, some retail stores across the country that were subject to a temporary closure mainly in compliance with the local restrictive measures, but to the extent possible maintained operations to fulfill online orders, half of which were located in

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Shanghai. A majority of the affected stores experienced a closure for less than one month, with an average period of closure of 18 days. As of the Latest Practicable Date, approximately 95% of these stores had resumed business operation.

Moreover, the restrictive measures adopted in certain affected regions have caused uncertainty and disruption to our domestic supply chain. We experienced slight delays and increases in expenses in connection with rearranging our logistic services to ensure delivery of products from the places of origin to our distribution centers, and from such distribution centers to retail stores across the country. On the other hand, the temporary closure of major port cities and prolonged time required by customs clearance have also increased uncertainty and expenses for products imported from overseas. Since early 2022, our management has promptly adopted responsive measures to ease the pressure on our supply chain. We actively cooperated with local governments and strived to become a recognized livelihood security supplier, which would allow our logistic fleets to receive special licenses for inland travel. In addition, we promptly rearranged our route planning to maximize the logistic capacity, and explored additional flexible transport methods, such as drop-and-pull transport. With respect to imported products, we actively communicated with overseas suppliers and redirected designated ports to places that were not or less affected by travel restrictions. Lastly, we have also been continuously identifying high-quality local suppliers that may reduce our risk exposure to long-distance transportation. Due to our timely and effective responses, the delays and increases in expenses in connection with our logistic services arising from the resurgences of COVID-19 outbreak since 2022 were not material.

We estimated we incurred additional logistic expenses of no more than RMB6.0 million in connection with temporary logistics arrangements during the COVID-19 pandemic during the Track Record Period. Due to the regional travel restrictions from time to time, we experienced certain slight delays in transportation from suppliers to our distribution centers. We generally did not encounter any material delays in transportation from our distribution centers to franchised stores. We considered the impact from such delays, if any, was immaterial. Moreover, we did not record any material write-off of inventory arising from the disruptions to our domestic supply chain as a result of various COVID-19 restrictive measures. We estimated that we incurred anti-pandemic expenses of approximately RMB0.3 million during the period from January 1, 2022 and up to the Latest Practicable Date.

As of the Latest Practicable Date, we were closely monitoring the development of COVID-19 in China. There remain uncertainties surrounding the COVID-19 pandemic, including the existing and new variants of COVID-19. It is difficult to predict at current stage for how long and to what extent the COVID-19 would continue to have impacts on our operations. Nevertheless, given the nature of fruits which is a necessity for people's daily diets, we consider that the market demands and our sales, by taking into account the significant growth in our online sales, have resumed to normal in general.

We cannot guarantee you, however, that the COVID-19 pandemic will not further escalate or will not have a material adverse effect on our results of operations, financial position or prospects. The above-mentioned analysis is for illustrative purposes only and the actual impact

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caused by the COVID-19 pandemic will depend on its subsequent development. Our Directors will continue to assess the impacts of the COVID-19 on the business and financial performance of our Group and will closely monitor the risks and uncertainties arising thereof.

LEGAL PROCEEDINGS

We may be involved, from time to time, in legal proceedings arising from the ordinary course of our operations. As of Latest Practicable Date, there was no litigation, arbitration, administrative proceeding or claim of material importance pending or threatened by or against our Group or any of our Directors, that would have a material adverse effect on our results of operations or financial conditions.

RISK MANAGEMENT, INTERNAL CONTROL AND NON-COMPLIANCE

We have developed and implemented risk management policies to identify and address the potential risks in relation to our operations, including strategic risks, operational risks, financial risks, and legal risks. Our risk management policies set forth procedures to identify, analyze, categorize, mitigate and monitor various risks. Our Board is responsible for overseeing the overall risk management. 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.

We have also developed and implemented a series of internal control management measures. Our internal control system is designed to provide adequate assurance for effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Our internal control system covers all material aspects of our operations, including but not limited to corporate governance enhancement, supervision on legal compliance of franchised stores, settlement and reconciliation mechanism with franchisees, procurement and payment procedures, inventory track and reconciliation mechanism, investment management, internal audit and financial reporting 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 February 2020, we engaged an independent consulting firm, as our internal control consultant to perform a review over our internal controls over financial reporting, covering areas such as entity level control, revenue and receivables, procurement to pay, inventory management, treasury management, human resources, financial reporting, tax management, fixed assets management, investment management, contract management, insurance management, information technology. The scope of the internal control review work performed and the long form report issued have been agreed between the Sole Sponsor, the internal control consultant and us.

We have adopted a set of procedures and measures based on the suggestion of our internal control consultant to further ensure the effectiveness of our internal controls and corporate governance practice. Our internal control consultant also performed follow-up procedures on our system of internal controls with regard to the remedial actions taken by us. Our internal

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control consultant did not have any further recommendation in the follow-up review. The internal control review and follow-up review described above were conducted based on information provided by us and no assurance or opinion was expressed by the internal control consultant.

Other than the internal controls and risk management measures in connection with various aspects of our operations, we will continue to implement the following internal control measures at our Group level:

- To meet the corporate governance standards as a listed company on the Stock Exchange, we will establish an audit committee, a remuneration committee and a nomination committee under the Board, and will provide in writing the respective responsibility of each committee; their primary duties include, among others, providing an independent view of our financial reporting process, internal control and risk management system, ensuring the levels of remuneration and compensation are appropriate, and recommending to the Board with suitably qualified persons;
- We will implement information disclosure policies and procedures for information identification and disclosure in connection with sensitive information and related party transactions subject to the requirements under the Listing Rules and relevant accounting standards;
- 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; in particular, 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 plan to engage professional consulting firms and/or law firms to provide trainings and advise on ongoing regulatory compliances with the relevant PRC laws and regulations; we will also constantly update our internal control policies based on our operational needs as well as changes of new laws and regulations.

Our Directors are of the view that our enhanced internal control system is sufficient and effective for our current operations.

NON-COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date and save as disclosed below in this section, we have complied with the relevant PRC laws and regulation in all material respects and have obtained all requisite licenses, approvals and permits from relevant authorities that are material to our operations in China.

Failure to make full contribution to social insurance premiums and housing provident funds for all employees

During the Track Record Period, we failed to make full contribution to the social insurance premiums and housing provident funds (collectively “**Defined Contribution Plan**”) for certain employees based on the statutory contribution bases. In 2019, 2020 and 2021 and the six months ended June 30, 2022, our total salary remuneration, being employee benefit less benefits and allowances and defined contribution plans, amounted to RMB463.8 million, RMB483.2 million, RMB593.9 million and RMB303.1 million, respectively. For the same periods, the percentage of total salary compensation for the Defined Contribution Plan that we incurred were approximately 11.1%, 8.5%, 9.1% and 11.3%, respectively.

Reasons for the Non-compliance

We believe this non-compliance incident was mainly because some of our employees declined to make full social insurance contributions based on actual income, for which we would have been required to make matching contributions.

Legal Consequences

As advised by our PRC Legal Adviser, the relevant PRC authorities may notify us that we are required to pay the outstanding social insurance contributions within a stipulated deadline and pay an overdue charge equal to 0.05% of the outstanding amount for each day of delay. If we fail to repay the outstanding social insurance contributions within such prescribed period, we may be liable to a fine of one to three times the outstanding contribution.

In the case that we fail to pay the full amount of housing provident funds as required, the housing provident fund management center may order us to make the outstanding payment within a prescribed time limit. If the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement.

Rectification Actions Taken And Potential Impacts

As of the Latest Practicable Date, we had not received any notification from the relevant PRC authorities alleging that we had not fully contributed to the social insurance premiums and housing provident funds and demanding payment of the same before a stipulated deadline, nor were aware of any plan of relevant authorities to collect the outstanding amounts from us. We also had not received any notification from the relevant authorities requiring us to amend our policies or practice regarding our contribution of social insurance premiums and housing provident funds for employees.

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We have obtained the written confirmations from competent local authorities in charge of social insurance premiums and housing provident funds in substantially all of the cities where our major operating entities are located, providing that, during the Track Record Period, no administrative penalties had been imposed in connection with the matter of social insurance premiums and housing provident funds.

Also, 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. We have reviewed and improved our practice. As of the Latest Practicable Date, except for those newly recruited employees for whom the registration of social insurance premiums and housing provident funds contribution had not been completed and those employees with whom the employment relationship was terminated (as such the contribution of social insurance premiums and housing provident funds in current month for these people was not possible), we had completed the registration procedures for our current employees in connection with the contribution of social insurance premiums and housing provident funds as practicably possible, and were in the process of rectifying the contribution for them. Moreover, we have been actively communicating with our employees to obtain their consent for a full contribution of their respective social insurance premiums and housing provident funds.

We were also not aware of any employee's complaints or demands for payment of social insurance premium or housing provident fund contributions, nor had we received any legal documentation from the labor arbitration tribunals or the PRC courts regarding disputes in this regard.

We have also received the confirmations from Mr. Yu, our Controlling Shareholder, and Ms. Xu Yanlin dated March 9, 2022, undertaking that in case that our Company incurs economic losses if it is required by the relevant government authorities to make full repayment of the outstanding amounts and/or pay relevant penalties, they will indemnify the Company for such payments so that the Company will not suffer from economic losses in this regard.

Based on the above-mentioned confirmations and undertakings, as well as the interviews conducted with the relevant government authorities which encompassed material geographical locations of our Group's operations, our PRC Legal Adviser is of the opinion that, assuming there is no material change to current laws and regulations and the practice in policy execution and inspection of local governments in connection with this matter, the likelihood that our Group would be required overall by relevant authorities to pay the entire shortfall for social insurance and housing provident fund contributions so that we are subject to material administrative penalties due to our failure to provide full social insurance and housing provident funds contributions for our employees is remote. Moreover, based on the confirmations and facts described above and on the basis that there is no material change to the

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relevant laws and regulations and the local governments' practice on social insurance premium or housing provident fund contribution, our PRC Legal Adviser is of the opinion the risks that this non-compliance incident will cause actual material losses to us is remote.

We have reviewed and implemented enhanced internal control measures to prevent future potential non-compliances. We have prepared and distributed internally a compliance policy with respect to social insurance and housing provident fund contribution in accordance with the PRC laws and regulations. We have assigned designated personnel to monitor the status of payments of social insurance premiums and housing provident funds on a regular basis in order to ensure that we have made these payments for our employees on time in compliance with the applicable laws and regulations or in a manner as required by the relevant government authorities. The designated team includes our human resources staff, who shall prepare the written records of the relevant payments on a monthly basis and submit the same to the heads of our human resources and finance departments for review. We also intend to engage an external law firm to provide compliance trainings to the responsible administrative staff on the updates of the relevant laws and regulations on an on-going basis. Our Directors believe that our enhanced internal control measures are sufficient and effective for our current operations.

Based on the above-mentioned rectification measures we have adopted, the opinions from our PRC Legal Adviser, the confirmations we obtained from the competent government authorities as well as the undertakings from our Controlling Shareholders, we have made provisions in connection with the underpaid social insurance premiums and housing provident funds in the amount of RMB24.5 million, RMB13.8 million, RMB12.8 million and RMB5.9 million, respectively, in 2019, 2020 and 2021 and the six months ended June 30, 2022. Based on the confirmations and facts described above, the advice from our PRC Legal Adviser and the enhanced internal control measures we have implemented, our Directors are of the opinion that this non-compliance incident will not have a material adverse impact on our business operations or financial condition as a whole.

Engaging Third-party Human Resource Agency to Pay Social Insurance Premiums and Housing Provident Funds

During the Track Record Period, certain of our PRC subsidiaries engaged third-party human resource agency to pay social insurance premium and housing provident funds for certain of our employees in certain location where they work. Such arrangements, although not uncommon in China, are not in strict compliance with relevant PRC laws and regulations.

Pursuant to the arrangements between the relevant subsidiaries and such third-party human resource agency, the human resource agency is required to pay social insurance premiums and housing provident funds for our relevant employees in a timely manner. The third-party human resource agency has confirmed in writing that it has paid such contributions according to our agreements.

Reasons for the Non-compliance

The incidents happened primarily because (i) certain of our subsidiaries that enter into employment contracts with such employees have their registered addresses in cities that are different from where these employees actually worked, hence not being able to pay social insurance premiums or housing provident funds for them locally, or (ii) such employees worked in a number of cities across the nation where we do not have established subsidiaries to pay social insurance premiums or housing provident funds for them locally.

Legal Consequences

Despite the agreements between us and the third-party human resource agency, if such agency fails to pay the social insurance premiums or housing provident funds for and on behalf of our employees as they agreed or if such arrangements are challenged by government authorities, we may be subject to additional contribution, late payment fee and/or penalties imposed by the relevant PRC authorities for failing to discharge our obligations in relation to payment of social insurance and housing provident funds as an employer or be ordered to rectify. Please refer to “— Failure to make full contribution to social insurance premiums and housing provident funds for all employees — Legal Consequences” above for a detailed discussion of potential penalty we may be subject to.

Rectification Actions Taken and Potential Impacts

As of the Latest Practicable Date, neither of the relevant subsidiaries had been subject to any administrative penalty or received labor arbitration notices from any of their employees in relation to such agency arrangements.

We have obtained confirmations from the competent local authorities in charge of social insurance premiums and housing provident funds in substantially all of the cities where our major operating entities are located, confirming that, during the Track Record Period, no administrative penalties had been imposed us in connection with the matter of social insurance premiums and housing provident funds. In addition, we have also received the confirmations from Mr. Yu, our Controlling Shareholder, and Ms. Xu Yanlin dated March 9, 2022, undertaking that in case that our Company incurs economic losses if it is required by the relevant government authorities to pay relevant penalties due to the above-mentioned agency arrangements, they will indemnify our Company for such payments so that our Company will not suffer from economic losses in this regard. Based on the confirmations and facts described above and on the basis that there is no material change to the relevant laws and regulations and the local governments’ practice on social insurance premiums or housing provident fund contribution, our PRC Legal Adviser is of the opinion the risks that this non-compliance incident will cause actual material losses to us is remote.

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We have reviewed our practice and adopted various remedial measures to rectify the non-compliance, including (i) modifying relevant employment contracts and causing the locally registered subsidiaries to enter into the employment contracts with such employees working in the same city; (ii) establishing new subsidiaries in the cities where the above-mentioned employees work and enter into new employment contracts with relevant employees; and (iii) outsourcing a small amount of auxiliary or non-core businesses to third parties.

As advised by our PRC Legal Adviser, on the basis that there is no material change to the relevant laws and regulations and the local governments' practice on social insurance premiums or housing provident fund contribution, considering the facts stated above and the remedial measures we will take to pay social insurance premiums and housing provident funds from our own accounts, the risk of us being subject to material penalties due to the above-mentioned arrangements with third-party human resource agency which cause material adverse effect on our financial condition or results of operations as a whole is remote.