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The following discussion and analysis should be read in conjunction with the combined financial information together with the accompanying notes in the Accountants’ Report included in Appendix I to this document. Our historical financial information and the combined financial statements of our Group have been prepared in accordance with the IFRS, which may differ in certain material aspects from generally accepted accounting principles in other jurisdictions. You should read the whole Appendix I and not rely merely on the information contained in this section. Unless the context otherwise requires, historical financial information in this section is described on a combined basis.

The discussion and analysis set forth in this section contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. Our actual results may differ significantly from those projected. Factors that could cause or contribute to such differences include, without limitation, those discussed in the sections headed “Risk Factors” and “Business” and elsewhere in this document. Discrepancies between totals and sums of amounts listed in this section in any table or elsewhere in this document may be due to rounding.

OVERVIEW

We are a marketing service provider in China’s FMCG outdoor marketing market, focusing on FMCG brands through the usage of vending machines. According to CIC, FMCG outdoor marketing market accounts for 6.4% market share of the FMCG marketing market in 2023. We are the fourth largest FMCG outdoor marketing service provider in China in terms of revenue in 2023, with a market share of approximately 1.2%, while the largest market player had a market share of 14.3%. Our revenue generated from marketing service increased by 7.5% from RMB376.7 million in 2021 to RMB404.8 million in 2022 and further increased by 99.6% to RMB808.0 million in 2023.

During the Track Record Period, we generated revenue from the following business segments, including (i) marketing service, which further consisted of (a) standard marketing service and (b) value-added marketing service; (ii) merchandise sales; and (iii) other services. Our total revenue increased by 10.2% from RMB502.4 million in 2021 to RMB553.6 million in 2022, and further increased by 81.8% to RMB1,006.7 million in 2023. Excluding the effect of fair value loss on financial liabilities at FVTPL, share-based compensation expenses and [REDACTED] expenses, our adjusted profit (a non-IFRS measure) would be RMB52.3 million, RMB78.2 million and RMB200.7 million in 2021, 2022 and 2023, respectively. Our adjusted EBITDA (a non-IFRS measure) would be RMB107.2 million, RMB154.6 million and RMB280.2 million in 2021, 2022 and 2023, respectively. For details, see “– Non-IFRS Measures.”

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MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial condition are affected by general factors, including:

- the overall economic growth and the political and economic environment in China;
- the level of marketing and sales expenses allocated to promote FMCG brands;
- the demands from brand customers for innovative and interactive marketing service;
- the competition of the FMCG outdoor marketing market; and
- the advancement in technologies affecting the FMCG outdoor marketing market.

In particular, our results of operations are affected by the growth of the FMCG outdoor marketing market. Attributable to the strong demands from FMCG brands, development of technologies and growing recognition of the industry, the FMCG outdoor marketing market has vigorous market opportunities and huge growth potential. Leveraging our market position, we are well positioned to benefit from these rapid growth opportunities. For details, see “Industry Overview” in this document.

In addition, we believe our results of operations are more directly affected by the following major factors.

Our Ability to Grow Customer Base and Drive Customer Engagement

Our success and sustainable development rest upon our capability to attract and retain quality brand customers. In 2021, 2022 and 2023, our FMCG marketing service comprised a significant portion of our revenue, accounting for 75.0%, 73.1% and 80.3% of our revenue in the respective years. Our customer base primarily consists of enterprises within the FMCG industry in China, with businesses spread across various sectors such as beverages, food, daily necessities and cosmetics.

Our service offerings are distinguished by an integrated system that combines offline and online channels, a core feature of our marketing service. This functionality facilitates consumer interactions with products being launched or promoted by our brand customers. During the Track Record Period, we provided marketing service to 525 brand owners, serving products from 74 emerging brands among the top 100 emerging brands in the industries of beverages, food and daily necessities in China, as measured by revenue in 2023, according to CIC.

Despite the significant industry impact caused by COVID-19 during the Track Record Period, our operating metrics experienced a consistent and steady increase in both the aggregate number and average revenue from both KA and non-KA customers, demonstrating continuous enhancement in public recognition of our services and technological capabilities.

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KA customers are defined as those who contribute at least RMB5.0 million to our total gross sales in the relevant year during the Track Record Period. For our marketing service, we experienced an upward trend in the number of KA customers, with 27 KA customers in 2021, 28 KA customers in 2022 and 47 KA customers in 2023. Additionally, our average revenue per KA customer, calculated by dividing the total revenue generated by KA customers by their total number, increased from RMB10.5 million in 2021 to RMB11.4 million in 2022, and further to RMB13.8 million in 2023. Despite the less entrenched relationships and potential variability with our non-KA customers under the impact of COVID-19, we have made continuous efforts to maintain a sizable non-KA customer base. The respective counts for non-KA customers were 147, 102 and 244 in 2021, 2022 and 2023. Furthermore, the average revenue per non-KA customer stood at RMB0.6 million, RMB0.8 million and RMB0.6 million for the same years, respectively.

However, our ability to maintain and expand our customer base is subject to various external factors beyond our control, such as changes in the general economic conditions, competition, and shifts in our brand customers’ business operations and strategies. Our customers, primarily brand customers in the FMCG industry, are continuously exploring, efficient, and cost-effective strategies to engage their target consumers. In particular, FMCG industry is sensitive to market conditions, and any fluctuations could potentially impact their expenditure on our services. Please refer to “Risk Factors – Risks Relating to Our Business and Industry” in this document for more detailed information.

Moreover, timely payment by our customers is vital for effective working capital and cash flow management. Unforeseen financial distress, including that induced by the COVID-19 pandemic, could hinder prompt payment, adversely affecting our financial condition and results. To mitigate these risks, we have implemented proactive measures, including enhanced customer engagement and stringent collection settlement procedures. We have also made adequate provisions and adjusted them from time to time based on the recoverability of trade receivables.

Revenue and Business Segments

During the Track Record Period, we generated revenue from the following business segments, including (i) marketing service; (ii) merchandise sales; and (iii) other services.

- **Marketing Service:** Our marketing service comprises two business lines, namely standard marketing service and value-added marketing service. Revenue from marketing service increased from RMB376.7 million in 2021 to RMB404.8 million in 2022, and further to RMB808.0 million in 2023. The increase in revenue was primarily driven by the expansion of our standard marketing service, in which we assist brand customers in distributing FMCG products to individual consumers through our vending machines, utilizing our online and offline channels and third-party media resources to provide comprehensive marketing and promotion service, and designing and implementing creative offline marketing campaigns promoting brands and products.

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Our marketing service largely adopts a fixed cost structure associated with the number of vending machines we operate during the relevant period, encompassing elements like depreciation and amortization charges and site fees. Consequently, this segment’s profitability is closely tied to the volume of marketing service we provide. In 2022, recurring waves of COVID-19 led to a reduction in our marketing service provided. Despite this negative impact and the consequent slower increase in revenue, we continued to incur fixed costs in managing this business segment, causing our gross profit margin to decrease from 79.7% in 2021 to 73.8% in 2022. From 2022 to 2023, the gross profit from our marketing service increased from RMB298.7 million to RMB479.5 million, primarily attributable to our growth in revenue under this business segment, and the gross profit margin of our marketing service decreased from 73.8% to 59.3%, primarily because we introduced more short video platform traffic acquisition service to customers since early 2023, which generally carry lower margin compared with vending machine-based services. Moving forward, we plan to broaden our service offerings with the aim of driving revenue growth and improving profitability. Our strategy involves attracting more brand customers and optimizing our cost structure, in particular optimization of strategic layout and penetration of our vending machine network. By doing so, we aim to enhance our financial performance and ensure long-term stability.

- **Merchandise Sales:** We derive revenue from this business segment primarily from retail sales of merchandise, including beverages, snacks and instant food, through our vending machines and online platform. We consider this business segment to complement our marketing service by attracting pedestrian flow to our vending machines network, enabling continuous expansion and penetration of marketing capability, while also providing valuable information such as comparable sales data for consumer goods and FMCG products promoted by our brand customers. During the Track Record Period, revenue from this business segment consistently increased, amounting to RMB105.0 million, RMB111.3 million and RMB144.3 million in 2021, 2022 and 2023, respectively. The principal cost in this segment is the cost of inventories sold, representing the direct expenses incurred in the purchase of goods that we sell to our consumers. In our daily operations, we consistently monitor such cost to ensure a reasonable inventory turnover. Our aim is to minimize the duration for which inventory remains unsold, thereby optimizing cash flow. During the Track Record Period, our gross profit from merchandise sales decreased from RMB37.8 million in 2021 to RMB18.3 million in 2022, then increased to RMB29.7 million in 2023. The decrease in our gross profit in 2022 was mainly due to the recurring waves of COVID-19 and the recognition of write-down of inventories. The gross profit margin in this business segment demonstrated some variation during the Track Record Period, with figures of 36.0%, 16.4% and 20.6% in 2021, 2022 and 2023, respectively. The fluctuation of the gross profit margin primarily resulted from the change of our selection of goods to be sold in managing this business segment. Going forward, we aim to maintain our gross profit margin within a relatively stable range to ensure consistent financial performance.

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- Other Services:** During the Track Record Period, in recognition of our technology capabilities and software development and project management expertise, many customers engaged us to develop IT system, as well as customized software, covering IoT technology utilization, information sharing and analysis, and IT platform development. In managing this business segment, we generally charge customers for our services on a project basis, taking into account the project complexity and human resource costs incurred by our research and development team. Customers of this business line are corporate clients which generally do not overlap with our brand customers of marketing service. Our revenue, gross profit and gross profit margin from other services experienced fluctuations during the Track Record Period, primarily driven by customer demands and the nature of specific technology development projects undertaken.

Our Ability to Expand and Optimize Our Network of Vending Machines

Our marketing service is built upon our extensive vending machine network, which serves as the foundation for connecting our brand customers with a large population of target consumers. This network acts as the first touchpoint for new consumers, allowing us to establish valuable connections. As of December 31, 2023, our network consisted of 7,543 vending machines, spanning 22 cities across 14 provincial administrative regions in China. As of December 31, 2023, 98.4% of our vending machines were located in tier one and new tier one cities. These cities in China are known for their dense population, higher levels of consumption and increased mobility. This positioning in higher-tier cities aligns with the distribution and consumption patterns of FMCG.

The table below sets forth a breakdown of our vending machine coverage by city tier as of the dates indicated:

	As of December 31,					
	2021		2022		2023	
	%	%	%	%	%	%
Vending machines by city tier						
Tier one cities	2,999	35.2	2,707	36.6	3,398	45.0
New tier one cities	5,113	60.0	4,494	60.7	4,026	53.4
Tier two cities	408	4.8	201	2.7	119	1.6
Total	8,520	100.0	7,402	100.0	7,543	100.0

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Strategically, we position our vending machines in locations with a concentrated presence of young demographics, including office premises, rental apartments, and shopping centers. These areas attract individuals who are more inclined to explore and purchase FMCGs, making them ideal target audiences for our marketing service. The following table sets forth the placement of our vending machines by type of sites as of the dates indicated:

	As of December 31,					
	2021		2022		2023	
	%	%	%	%	%	%
Vending machines by type of sites						
Office premises	4,674	54.9	3,771	50.7	3,376	44.8
Rental apartments	3,307	38.8	2,925	39.7	2,957	39.2
Shopping centers	261	3.1	232	3.2	366	4.9
Others*	278	3.2	474	6.4	844	11.2
Total	<u>8,520</u>	<u>100.0</u>	<u>7,402</u>	<u>100.0</u>	<u>7,543</u>	<u>100.0</u>

Note:

* *Others primarily include schools, parks and hotels.*

In 2022, we experienced reduction of total number of vending machines mainly to adapt to the changes in conditions of relevant regions during to COVID-19 pandemic impact. In 2023, in observance of revibration of offline shopping and consumption activities, as well as increase in out-door social and tourism activities, since early 2023, we slightly increased the number of vending machines in shopping centers, as well as schools, parks and hotels. Relevant factors in 2023 also resulted in improvement in utilization of our vending machines in the same year. The table below sets forth the movement of our vending machines for the years indicated:

	As of/For the year ended December 31,		
	2021	2022	2023
Number of vending machines at the beginning of the year⁽¹⁾	4,178	8,520	7,402
Number of vending machines put into use on new sites during the year ⁽¹⁾	5,185	2,801	3,877
Number of vending machines removed from terminated sites during the year ⁽²⁾	843	3,919	3,736
Net increase/(decrease) in the number of vending machines on sites during the year	4,342	(1,118)	141

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	As of/For the year ended December 31,		
	2021	2022	2023
Number of vending machines at the end of the year⁽¹⁾	8,520	7,402	7,543
Average daily number of vending machines⁽³⁾	5,677	8,435	6,435
Number of decommissioned vending machines ⁽⁴⁾	0	636	501

Note:

- (1) *The calculation of vending machines on sites has taken into account the vending machines utilized for all the services modules we provided, which also include vending machines utilized for AI interaction services that held by sessions.*
- (2) *Terminated sites consist of vending machine sites where their terms of use have ended either due to expiration or early termination.*
- (3) *The average daily number of vending machines is the mathematical average of the number of vending machines in a given year. As such, the average daily number of vending machines in a year can be higher or lower than the number of vending machines at the beginning/end of that year, as the latter only indicates the number of vending machines as of a specific day.*
- (4) *These vending machines were decommissioned typically due to the expiration of their service life. We typically assess vending machines that have been in use for five years and may consider disposing of those vending machines below our standards. There were no decommissioned vending machines in 2021 primarily due to the postponement of decommissioning for some machines, driven by the need for rapid expansion of our vending machine network that year. Towards the end of 2021, we procured a large batch of new vending machines to prepare for the renewal of our vending machines. In 2022 and 2023, we evaluated vending machines that had been in use for five years and disposed of those that did not meet our standards.*

During the Track Record Period, two of the major cost of sales components were depreciation and amortization charges and site fees. These were connected to the depreciation and amortization of vending machines, including the vending machines not placed in use, as well as fees associated with specific site usage for our vending machine placement. Therefore, vending machine site selection and management practices affect our financial performance and operating results. We evaluate the suitability of vending machine sites by ourselves or third-party consultants, and primarily source vending machine sites directly from venue operators. We continuously monitor and evaluate the performance of our vending machines and make necessary adjustment. For vending machines that require optimization, we will consider the need for improvement or redeployment, and accordingly formulate optimization plans by taking into account a range of factors. These factors include, among others, changes in foot traffic due to local circumstances, availability of vending machine sites, target consumers in particular sites, and relationship with venue operators. For details, see “Business – Our Vending Machine Network” of this document.

As we strive to fuel revenue growth and sustain long-term profitability, we plan to scale our vending machine count. For more detailed plans, please refer to the “Future Plans and Use of [REDACTED]” section of this document.

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Our Ability to Improve Operational Efficiency

Our ability to enhance operational efficiency and manage operating expenses effectively is crucial to our profitability. During the Track Record Period, specific expenses constituted a large portion of our total operating expenses:

- **Staff Costs:** our staff costs, a large component of our administrative expenses, selling and distribution expenses and research and development expenses, were RMB34.0 million, RMB39.5 million and RMB38.3 million, accounting for 6.8%, 7.1% and 3.8% of our total revenue in 2021, 2022 and 2023, respectively. We persistently aim for more cost-efficient business processes and operational optimization to maximize team productivity without incurring unnecessary expenses.
- **Outsourcing Service Expenses:** our outsourcing service expenses, a component of our research and development costs, were RMB50.1 million, RMB19.0 million and RMB55.3 million, accounting for 10.0%, 3.4% and 5.5% of our total revenue in 2021, 2022 and 2023, respectively. The decrease in outsourcing service expenses from 2021 to 2022 is attributable to the expansion of our in-house research and development capabilities. Despite such capability expansion, due to the significant increase of marketing service revenue in 2023, the outsourcing service expenses increased accordingly. As our internal capacity increases, we have been able to handle more technology-related tasks in-house, thereby improving cost efficiency. Meanwhile, external resources continue to be integral to our daily operations.
- **Marketing and Promotion Expenses:** our marketing and promotion expenses, a component of our selling and distribution expenses, were RMB87.3 million, RMB69.7 million and RMB148.5 million, accounting for 17.4%, 12.6% and 14.8% of our total revenue in 2021, 2022 and 2023, respectively. In 2022, we observed a decrease in marketing and promotion expenses as well as overall selling and distribution expenses primarily because COVID-19-related restrictive measures led to a decrease in offline promotional events and large-scale offline marketing activities, prompting increased emphasis on online marketing. Therefore, while overall brand promotion was maintained, the frequency of promotions in 2022 was slightly lower compared to 2021. As our business continues to expand and develop, we anticipate that marketing and promotion expenses will persist as one of our most significant costs in the foreseeable future.

As we progress, our goal is to achieve scale effect in our operations, utilizing our growing size and reach to improve cost efficiency. We anticipate realizing this through the expansion of in-house capabilities, strategic marketing and promotion efforts, and the optimization of staff costs.

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Our Ability to Continuously Improve in Technology and Innovation

Our operational results are largely dependent on our technological capabilities and our ongoing innovation. The continued enhancement of our platforms, particularly those utilized in our marketing service, distinguishes us as a provider capable of merging offline and online channels. Through our effective business model, we can offer consumers an engaging, and comprehensive experience for products that are either newly introduced to the market or are intended for promotion by our brand customers. We are committed to investing in research and development to continually advance our technology. Our plan is to focus on nurturing and enhancing our R&D capabilities through various strategies to support our business growth. For more information on our future plans and the intended use of [REDACTED], please refer to the “Future Plans and Use of [REDACTED]” section in this document.

BASIS OF PRESENTATION

Our historical financial information has been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). The historical financial information has been prepared under the historical cost convention, except for certain financial liabilities which are measured at fair value through profit or loss, and certain financial assets which have been measured at fair value through other comprehensive income. The preparation of the historical financial information in conformity with IFRS requires the use of certain material accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the historical financial information, are disclosed in Note 3 to the Accountants’ Report included in Appendix I to this document.

MATERIAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. We set out below some of the accounting policies and estimates that we believe are of critical importance to us or involve the most significant estimates and judgments used in the preparation of our financial statements. Our material accounting policies, judgments and estimates, which are important for understanding our financial condition and results of operations, are set out in further details in Note 2.4 and Note 3 to the Accountants’ Report in Appendix I to this document.

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Material Accounting Policies

Revenue Recognition

Revenue from Contracts With Customers

We recognize revenue from contracts with customers when we transfer control of goods or services to the customers, at an amount that reflects the consideration we expect to receive in exchange for those goods or services. In contracts where the consideration includes a variable amount, we estimate the amount of consideration we will be entitled to receive for transferring the goods or services to the customer. The estimation of variable consideration is estimated at the inception of the contract and is constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Marketing Service

We generate revenue from our marketing service by providing long-term extension marketing service for our customers’ new products. Revenue is recognized over time, using an input method to measure the progress towards complete satisfaction of the service. This is because the customer simultaneously receives and consumes the benefits provided by us. The input method recognizes revenue based on the labor hours expended relative to the total expected labor hours to complete the service.

Merchandise Sales

We generate revenue primarily from the sales of fast-moving consumer goods through vending machines operated by us. Revenue is recognized when control of the goods is transferred to the customers by the vending machines. There are no rights of return for sales made to the end customers. The customers typically make immediate payment for the goods through online payment platforms before the goods are delivered.

Other Services

Revenue from our other services is derived from utilizing our own research and development capabilities to develop customized online systems. We recognize revenue when a performance obligation is satisfied, which occurs when control of the goods underlying the specific performance obligation is transferred to the customer.

Other Income

We recognize interest income on an accrual basis using the effective interest rate method. This involves applying the rate that precisely discounts the estimated future cash receipts over the expected life of the financial instrument, or a shorter period when appropriate, to the net carrying amount of the financial asset.

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Property, Plant and Equipment and Depreciation

Property, plant, and equipment, excluding construction in progress, are recorded at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant, and equipment includes its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property, plant, and equipment have been put into operation, such as repairs and maintenance, are typically expensed in the period in which they occur. However, in cases where the recognition criteria are met, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. In situations where significant parts of the property, plant, and equipment need to be replaced at intervals, we recognize those parts as individual assets with specific useful lives and depreciate them accordingly.

Depreciation is calculated using the straight-line method to gradually reduce the cost of each item of property, plant, and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	50%
Vending machines	19%
Electronic equipment	32%

If parts of an item of property, plant, and equipment have different useful lives, the cost of the item is allocated among the parts on a reasonable basis, and each part is depreciated separately. The residual values, useful lives, and depreciation methods are reviewed and adjusted, if necessary, at least at the end of each financial year.

An item of property, plant, and equipment, including any significant part initially recognized, is derecognized either upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement is recognized in the profit or loss in the year the asset is derecognized and is calculated as the difference between the net sales proceeds and the carrying amount of the asset.

Construction in progress represents a building under construction, which is recorded at cost less any impairment losses and is not depreciated. The cost includes the direct costs of construction and capitalized borrowing costs on related borrowed funds during the construction period. Construction in progress is reclassified to the appropriate category of property, plant, and equipment when it is completed and ready for use.

Leases

We assess at contract inception whether a contract is, or contains, a lease. A contract is considered a lease or contains a lease if it grants the right to control the use of an identified asset for a specified period of time in exchange for consideration.

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Act as a Lessee

We apply a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. We recognize lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-Use Assets

We recognize right-of-use assets at the start of the lease term, which is the date when the underlying asset becomes available for our use. These assets are initially measured at cost, reduced by any accumulated depreciation and impairment losses, and adjusted for any changes in lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made on or before the commencement date, minus any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Vending machines	5 years
Buildings	2 – 4 years
Warehouse	1.5 – 4.5 years

If ownership of the leased asset transfers to us by the end of the lease term or if the cost reflects the exercise of a purchase option, depreciation is calculated based on the estimated useful life of the asset.

Lease Liabilities

Lease liabilities are recognized at the commencement date of the lease, based on the present value of lease payments expected to be made over the lease term. These lease payments include fixed payments (including in-substance fixed payments), net of any lease incentives receivable, as well as variable lease payments dependent on an index or rate, and amounts expected to be paid under residual value guarantees. Furthermore, the lease payments include the exercise price of a purchase option that is reasonably certain to be exercised by us, as well as payments of penalties for lease termination if the lease term reflects the exercise of the option to terminate.

Variable lease payments that are not tied to an index or rate are recognized as expenses in the period when the triggering event or condition occurs. When calculating the present value of lease payments, we use our incremental borrowing rate at the lease commencement date, as the interest rate implicit in the lease is not readily determinable. Subsequently, lease liabilities are increased to account for interest accretion and reduced by the lease payments made. Moreover, the carrying amount of lease liabilities is remeasured if there are modifications, changes in lease terms, changes in lease payments (such as adjustments due to changes in an index or rate), or changes in the assessment of an option to purchase the underlying asset.

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Short-Term Leases

We apply the short-term lease recognition exemption to our short-term leases of buildings. These leases have a lease term of 12 months or less from the commencement date and do not include a purchase option. Lease payments for short-term leases are recognized as an expense on a straight-line basis over the lease term.

Share-Based Payments

We operate employee share plans with the aim of providing incentives and rewards to eligible participants who contribute to our operational success. Our employees, including directors, receive remuneration in the form of share-based payments, where they provide services in exchange for equity instruments (“**equity-settled transactions**”).

The cost of equity-settled transactions with employees is determined by referencing the fair value at the grant date. The fair value is assessed by an external valuer using a discounted cash flow model. For details, see Note 28 to the Accountants’ Report in Appendix I to this document.

The cost of equity-settled transactions is recognized in employee benefit expense, resulting in a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each relevant period until the vesting date represents the portion of the lock-up restricted period that has expired, along with our best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period reflects the movement in cumulative expense recognized between the beginning and end of that period.

When determining the grant date fair value of awards, service and non-market performance conditions are not considered. However, the likelihood of meeting these conditions is assessed as part of our best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are accounted for in the grant date fair value. Any other conditions attached to an award, without an associated service requirement, are classified as non-vesting conditions. Non-vesting conditions are factored into the fair value of an award and lead to immediate expensing unless there are also service and/or performance conditions.

If awards do not ultimately vest due to unmet non-market performance and/or service conditions, no expense is recognized. In cases where awards include a market or non-vesting condition, the transactions are treated as vesting regardless of whether the market or non-vesting condition is fulfilled, provided that all other performance and/or service conditions are met.

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If the terms of an equity-settled award are modified, at a minimum, we recognize an expense as if the terms had not been modified, assuming the original terms of the award are met. Additionally, an expense is recognized for any modification that increases the total fair value of the share-based payments or benefits the employee in any other way, as assessed at the date of modification.

When an equity settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any unrecognized expense for the award is recognized immediately. This includes cases where non-vesting conditions within our control or the employee's control are not met. However, if a new award is substituted for the cancelled award and is designated as a replacement award on the grant date, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Financial Liabilities

We classify financial liabilities, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or payables, as appropriate. We recognize all financial liabilities initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. Our financial liabilities include payables, other payables and accruals, amounts due to a shareholder, interest-bearing bank borrowings, convertible redeemable preferred shares, and convertible bonds.

The subsequent measurement of our financial liabilities depends on their classification as follows:

Financial Liabilities at Amortized Cost (Loans and Borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method, unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in the statement of profit or loss when the liabilities are derecognized, as well as through the effective interest rate amortization process.

We calculate the amortized cost by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in the statement of profit or loss.

Financial Liabilities at FVTPL

Financial liabilities measured at FVTPL include convertible redeemable preferred shares and convertible bonds, which we designate upon initial recognition as at fair value through profit or loss.

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Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognized in profit or loss, except for the gains or losses arising from our own credit risk, which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss.

Our Level 3 financial instruments mainly represent financial liabilities at fair value through profit or loss, including (i) convertible redeemable preferred shares and (ii) convertible bonds. As these instruments are not traded in active markets, their fair values have been determined by using applicable valuation techniques, which involve a significant degree of management judgment and are inherently uncertain.

We applied the (i) Back-solve Approach based on recent transactions in the Company’s shares or (ii) discounted cash flow method to determine the underlying equity value and adopted option pricing method in equity allocation model to determine the value of the abovementioned Level 3 financial instruments. Considerable judgment is required to interpret market data used in the valuation techniques. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. In relation to the valuation of our financial liabilities measured within Level 3 fair value measurement, our Directors adopted the following procedures: (i) engaged an independent external valuer, provided necessary financial and non-financial information so as to enable the valuer to perform valuation procedures and discussed with the valuer on relevant assumptions; (ii) carefully considered all information especially those non-market related information inputs, which require management team’s assessments and estimates; and (iii) reviewed the valuation results prepared by the valuer and inquired to understand whether methodology is in compliance with valuation standards established by the International Valuation Standards Council. Based on the above procedures, our Directors are of the view that the value of our Level 3 financial liabilities is fair and reasonable, and our financial statements are properly prepared.

Details of the fair value measurement of financial instruments, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value are disclosed in Note 3, Note 25 and Note 34 of the Accountants’ Report in Appendix I to this document which was issued by the Reporting Accountants in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants for the purpose of expressing an opinion on our historical financial information for the Track Record Period as a whole in Appendix I to this document. The Reporting Accountants’ opinion on our historical financial information for the Track Record Period as a whole is set out on page I-2 of Appendix I to this document.

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In relation to the fair value assessment of the financial liabilities requiring Level 3 measurements under the fair value classification, the Sole Sponsor has conducted relevant due diligence work, including but not limited to, (i) obtained and reviewed the terms of the underlying agreements for the Level 3 financial liabilities; (ii) discussed with our management to understand the work performed in relation to such valuation, as well as the methodologies, assumptions and information relied upon in respect of the valuation of the Level 3 financial liabilities of our Group and our views on the fairness and reasonableness of the assumptions, basis and approaches of the valuation; (iii) discussed with, among others, the Reporting Accountants to understand the work they had performed in this regard; and (iv) reviewed the relevant notes to the Accountants’ Report in Appendix I to this document and the Reporting Accountants’ opinion on the historical financial information as a whole for the Track Record Period. Based upon the due diligence work conducted by the Sole Sponsor as stated above, and with respect to the views of our Directors, nothing material has come to the attention of the Sole Sponsor which would cause it to question the valuation in respect of the financial liabilities requiring Level 3 measurements under the fair value classification.

Material Accounting Judgments and Estimate

Provision for Expected Credit Losses on Trade Receivables

We use a provision matrix to calculate Expected Credit Losses (“ECLs”) for trade receivables within the Group. The provision rates in the matrix are based on an analysis of customer aging and their similar loss patterns.

Initially, the provision matrix is established using historical observed default rates within the Group. However, we calibrate the matrix by incorporating forward-looking information to adjust the historical credit loss experience. For example, if there is an anticipated deterioration in forecast economic conditions, such as a decline in the gross domestic product, leading to an expected increase in defaults within the distribution sector, we adjust the historical default rates accordingly. At each reporting date, we update the historical observed default rates and analyze changes in the forward-looking estimates.

The assessment of the correlation between historical observed default rates, forecast economic conditions, and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. It is important to note that our historical credit loss experience and forecast of economic conditions may not accurately predict a customer’s actual default in the future. For details, see Note 19 to the Accountants’ Report in Appendix I to this document.

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Impairment of Non-Financial Assets (Other Than Goodwill)

We assess whether there are any indicators of impairment for all non-financial assets, including the right-of-use assets, at the end of each relevant period. Other non-financial assets are tested for impairment when there are indications that their carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The fair value less costs of disposal is calculated based on available data from binding sales transactions of similar assets or observable market prices, taking into account incremental costs for disposing of the asset. When conducting value-in-use calculations, management estimates the expected future cash flows from the asset or cash-generating unit and selects an appropriate discount rate to calculate the present value of those cash flows.

As of December 31, 2021, 2022 and 2023, we did not recognize any impairments of non-financial assets.

Write-Down of Inventories

We value our inventories at the lower of cost and net realizable value. We make inventory write-downs based on estimates of realizable value, considering factors such as inventory age, condition, and market conditions. We conduct annual reviews to assess the need for inventory write-downs, if applicable. For details, see Note 18 to the Accountants' Report in Appendix I to this document.

Useful Lives and Residual Values of Items of Property, Plant and Equipment

When determining the useful lives and residual values of property, plant, and equipment, we consider various factors, including technical or commercial obsolescence resulting from changes or improvements in production and service provision, market demand for the asset's product or service output, expected usage, anticipated physical wear and tear, maintenance practices, and any legal or similar constraints on asset use. We estimate the useful life of an asset based on our experience with similar assets used in a comparable manner.

If there are differences in the estimated useful lives and/or residual values of property, plant, and equipment from previous estimates, we adjust the depreciation accordingly. We review the useful lives and residual values at the end of each year, considering changes in circumstances. For details, see Note 13 the Accountants' Report in Appendix I to this document.

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Deferred Tax Assets

We recognize deferred tax assets for unused tax losses to the extent that it is probable that taxable profits will be available against which the losses can be offset. Determining the amount of deferred tax assets that can be recognized requires significant management judgment, taking into account the likely timing and level of future taxable profits, as well as future tax planning strategies.

As of December 31, 2021, 2022 and 2023, the amounts of unrecognized tax losses were RMB0.5 million, RMB0.7 million and RMB0.8 million, respectively. For details, see Note 16 to the Accountants’ Report in Appendix I to this document.

Fair Value of Share-Based Payments

We determine the fair value of the options at the grant dates using the binomial option-pricing model. Management makes significant estimates on assumptions, including the underlying equity value, discount rate, expected volatility, and dividend yield. For details, see Note 28 to the Accountants’ Report in Appendix I to this document.

Fair Value of Financial Instruments

The convertible redeemable preferred shares and convertible bonds issued by us are not traded in an active market and the respective fair values are determined by using valuation techniques, including Black-Scholes option pricing model. For details, see Note 25 to the Accountants’ Report in Appendix I to this document.

Incremental Borrowing Rate

We cannot readily determine the interest rate implicit in a lease; therefore, we use an incremental borrowing rate (“**IBR**”) to measure lease liabilities. The IBR represents the rate of interest that we would have to pay to borrow funds over a similar term and with similar security in order to obtain an asset of similar value to the right-of-use asset, considering the prevailing economic conditions. The IBR reflects the hypothetical borrowing cost, which requires estimation in cases where observable rates are not available (such as for subsidiaries that do not engage in financing transactions) or when adjustments are needed to reflect the lease terms and conditions (e.g., when leases are not denominated in the subsidiary’s functional currency).

We estimate the IBR using observable inputs, such as market interest rates, whenever available. Additionally, we are required to make entity-specific estimates, such as assessing the subsidiary’s standalone credit rating, in order to determine the appropriate IBR.

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DESCRIPTION OF SELECTED COMPONENTS OF CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	For the year ended December 31,					
	2021		2022		2023	
	<i>RMB'000</i>	<i>% of Revenue</i>	<i>RMB'000</i>	<i>% of Revenue</i>	<i>RMB'000</i>	<i>% of Revenue</i>
Revenue	502,368	100.0	553,617	100.0	1,006,697	100.0
Cost of sales	(156,877)	(31.2)	(218,977)	(39.6)	(471,430)	(46.8)
Gross profit	345,491	68.8	334,640	60.4	535,267	53.2
Other income and gains	6,729	1.3	6,126	1.1	6,260	0.6
Selling and distribution expenses	(189,458)	(37.7)	(167,229)	(30.2)	(239,282)	(23.8)
Administrative expenses	(28,474)	(5.7)	(26,780)	(4.8)	(54,538)	(5.4)
Research and development expenses	(59,010)	(11.7)	(30,113)	(5.4)	(63,250)	(6.3)
Fair value loss on financial liabilities at FVTPL	(189,422)	(37.7)	(191,467)	(34.6)	(24,088)	(2.4)
Other expenses and losses	(760)	(0.2)	(1,355)	(0.2)	(2,119)	(0.2)
Impairment losses under expected credit loss model, net of reversal	(16,177)	(3.2)	(25,704)	(4.6)	197	0.0
Finance costs	(5,597)	(1.1)	(3,285)	(0.6)	(1,611)	(0.2)
(Loss)/profit before tax	(136,678)	(27.2)	(105,167)	(19.0)	156,836	15.6
Income tax expense	(2,800)	(0.6)	(10,890)	(2.0)	(20,134)	(2.0)
(Loss)/profit for the year	(139,478)	(27.8)	(116,057)	(21.0)	136,702	13.6
Attributable to:						
Owners of the parent	(139,465)	(27.8)	(116,025)	(21.0)	130,942	13.0
Non-controlling interests	(13)	(0.0)	(32)	(0.0)	5,760	0.6
	(139,478)	(27.8)	(116,057)	(21.0)	136,702	13.6

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Non-IFRS Measures

To supplement our consolidated financial statements which are presented in accordance with IFRSs, we also use adjusted profit (a non-IFRS measure) and adjusted EBITDA (a non-IFRS measure) as additional financial measures, which are not required by, or presented in accordance with, IFRSs. We believe that such measure provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management to evaluate our operating performance and formulate business plans. However, our adjusted profit (a non-IFRS measure) and adjusted EBITDA (a non-IFRS measure) may not be comparable to similarly titled measures presented by other companies. The use of such non-IFRS measures has limitations as an analytical tool, and you should not consider it in isolation, or as substitute for analysis of, our results of operations or financial position as reported under IFRSs.

Adjusted profit (a non-IFRS measure) is defined as profit or loss for the year by adding back the effects of (i) fair value loss on financial liabilities at FVTPL, (ii) share incentive plan expense and (iii) [REDACTED] expenses. Fair value losses on financial liabilities at FVTPL represent fair value losses relating to convertible redeemable preferred shares issued in our equity financings. The convertible redeemable preferred shares will be automatically converted into ordinary shares upon completion of the [REDACTED], and we do not expect to record further gains or losses in relation to valuation changes in such instruments after the [REDACTED]. We exclude share incentive plan expense as such expenses are non-cash in nature and do not result in cash outflows. We also exclude [REDACTED] expenses with respect to this [REDACTED]. Adjusted EBITDA (a non-IFRS measure) is defined as adjusted profit (a non-IFRS measure) for the year by adding back the effects of income tax expense, finance costs, bank interest income, and depreciation and amortization charges. The following tables reconcile our adjusted profit (a non-IFRS measure) and adjusted EBITDA (a non-IFRS measure) for the years presented.

	For the year ended December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Reconciliation of loss for the year and adjusted profit (a non-IFRS measure) and adjusted EBITDA (a non-IFRS measure)			
(Loss)/profit for the year			
Add:	(139,478)	(116,057)	136,702
Fair value loss of financial liabilities at FVTPL	189,422	191,467	24,088
Share incentive plan expense	2,379	2,753	14,634
[REDACTED] expenses	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

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	For the year ended December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Adjusted profit			
(a non-IFRS measure)	52,323	78,163	200,708
Add:			
Income tax expense	2,800	10,890	20,134
Finance costs	5,597	3,285	1,611
Bank interest income	(338)	(977)	(238)
Depreciation and amortization charges	46,776	63,281	58,027
	107,158	154,642	280,242
Adjusted EBITDA			
(a non-IFRS measure)	107,158	154,642	280,242

Revenue

Revenue by Business Segment

We generate revenue primarily from (i) marketing service, which further consisted of (a) standard marketing service and (b) value-added marketing service; (ii) merchandise sales; and (iii) others services. The table below sets forth a breakdown of our revenue by business segment for the years indicated:

	For the year ended December 31,					
	2021		2022		2023	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Marketing service	376,653	75.0	404,809	73.1	807,971	80.3
– Standard marketing service	342,982	68.3	348,851	63.0	692,195	68.8
– Value-added marketing service	33,671	6.7	55,958	10.1	115,776	11.5
Merchandise sales	104,962	20.9	111,333	20.1	144,320	14.3
Other services	20,753	4.1	37,475	6.8	54,406	5.4
Total	502,368	100.0	553,617	100.0	1,006,697	100.0

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Marketing Service

Our operation system, integrating offline and online channels, delivers comprehensive marketing service to our brand customers. This business segment comprises standard marketing service and value-added marketing service. Standard marketing service aims to help brands in the FMCG industry to enhance brand awareness, and reach and acquire target consumers in an interesting way that is more efficient and cost-effective than other commonly seen approaches. In managing this business line, we charge brand customers service fees on a project basis taking into account various factors, including the scale, duration and complexity of the project, scope of work, costs of labor, venue and media resources, the number of vending machines used, and any special request from the brand customers. Our value-added marketing service is designed to meet diverse needs of brand customers, optimizing marketing strategy and improving product competitiveness. In managing this business line, we charge variable service fees based on the volume and complexity of information to be processed, scope of work and costs of labor and technology resources. The table below sets forth a breakdown of our revenue generated from marketing service by business line for the years indicated:

	For the year ended December 31,					
	2021		2022		2023	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Standard marketing service	342,982	91.1	348,851	86.2	692,195	85.7
Value-added marketing service	33,671	8.9	55,958	13.8	115,776	14.3
Total	376,653	100.0	404,809	100.0	807,971	100.0

Merchandise Sales

We leverage our strategically planned vending machine network and data-driven operation system to digitalize and automatize the retail of FMCG products alongside our distribution of FMCG products. We derive revenue from this business segment primarily from retail sales of merchandise, including beverages, food, daily necessities and cosmetics, through our vending machines and online platform. We consider this business segment to complement our marketing service business. This is because retail not only enhances the attraction of pedestrian flow to our vending machine network, which lays a foundation for our continuous expansion and penetration of marketing capability, but also enables us to accumulate valuable information, particularly comparable sales data of consumer goods for retail and the FMCG products that our brand customers intend to promote.

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Other Services

During the Track Record Period, in recognition of our technology capabilities and software development and project management expertise, many customers engaged us to develop IT system, as well as customized software, covering IoT technology utilization, information sharing and analysis, and IT platform development. In managing this business segment, we generally charge customers for our services on a project basis, taking into account the project complexity and human resource costs incurred by our research and development team. Customers of this business line are corporate clients which generally do not overlap with our brand customers of marketing service. Our revenue, gross profit and gross profit margin from other services experienced fluctuations during the Track Record Period, primarily driven by customer demands and the nature of specific technology development projects undertaken.

The table below sets forth a breakdown of our revenue by sales channels for the years indicated:

	For the year ended December 31,					
	2021		2022		2023	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Online platform ⁽¹⁾	65,196	13.0	65,478	11.8	312,904	31.1
Vending machines	416,418	82.9	450,664	81.4	639,387	63.5
Others ⁽²⁾	20,753	4.1	37,475	6.8	54,406	5.4
Total	<u>502,368</u>	<u>100.0</u>	<u>553,617</u>	<u>100.0</u>	<u>1,006,697</u>	<u>100.0</u>

Note:

(1) *Online platform primarily includes revenue generated from marketing service through our online platform and other third-party media platforms and channels.*

(2) *Others primarily include revenue generated from other services.*

Our revenue from online platform increased from RMB65.5 million in 2022 to RMB312.9 million in 2023, primarily because of our strategic enhancement of our capability of utilizing social media platforms for standard marketing service delivery, which attracted and retained more quality customers.

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Cost of Sales

Our cost of sales primarily consists of (i) costs of inventories sold, representing procurement of FMCGs such as food, beverages, cosmetics and daily necessities sold through our vending machines. During the Track Record Period, our costs of inventories sold arose from our provision of merchandise sales; (ii) depreciation and amortization charges, which primarily include depreciation and amortization of the vending machines, including the vending machines not placed in use; (iii) information technology service fees, including costs associated with our provision of technology development services, the cost of SMS data packages and social media platform resources; and (iv) site fees, representing the charges for using specific sites or premises to place our vending machines. We generally evaluate the suitability of vending machine sites and source vending machine sites directly from venue operators. Once the vending machine location is determined, we enter into cooperation agreements with the venue operators to place our vending machines on their premises. These agreements allow us to deploy our vending machines in specific areas designated by the venue operators for a yearly occupancy fee, in addition to utility costs. For details, see “Business – Our Vending Machines Network”. The following table sets forth a breakdown of our cost of sales by nature for the years indicated:

	For the year ended December 31,					
	2021		2022		2023	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Costs of inventories sold	74,398	47.4	87,711	40.1	118,789	25.2
Depreciation and amortization charges	42,327	27.0	58,644	26.8	55,515	11.8
Information technology service fees	18,225	11.6	32,051	14.6	263,300	55.9
Site fees	21,927	14.0	31,771	14.5	27,535	5.8
Write-down of inventories	–	–	8,800	4.0	6,291	1.3
Total	<u>156,877</u>	<u>100.0</u>	<u>218,977</u>	<u>100.0</u>	<u>471,430</u>	<u>100.0</u>

During the Track Record Period, our cost of sales has consistently increased alongside our business growth. In particular, we consider our vending machines to be essential touchpoints for attracting new consumers. As a result, the costs associated with vending machines, including the vending machines not placed in use, have also risen accordingly from 2021 to 2022. These costs primarily include depreciation and amortization charges and site fees. In 2022, we incurred write-down of inventories arising from the provision of merchandise sales

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due to various factors, including the impact of COVID-19 on operations, reduced foot traffic, changes in our inventory procurement plan, and declining prices of certain FMCG products. To adapt to market trends, we regularly evaluate our inventories and procurement processes and make periodic adjustments for write-down of inventories to reflect changing market conditions. For 2023, while costs associated with vending machines decreased due to our optimization of vending machine network, we incurred increased information technology service fees for procuring social media platform resources and increased costs of inventories sold. See “– Results of Operations – Year Ended December 31, 2023 Compared to Year Ended December 31, 2022.”

Gross Profit and Gross Profit Margin

Our gross profit represents our revenue less cost of sales. In 2021, 2022 and 2023, our gross profit was RMB345.5 million, RMB334.6 million and RMB535.3 million, respectively. Gross profit margin represents our gross profit as a percentage of our revenue. In 2021, 2022 and 2023, our gross profit margin was 68.8%, 60.4% and 53.2%, respectively. The following table sets forth a breakdown of our gross profit and gross profit margin by business segment for the years indicated:

	For the year ended December 31,					
	2021		2022		2023	
	<i>Gross profit</i> <i>RMB'000</i>	<i>margin</i> <i>%</i>	<i>Gross profit</i> <i>RMB'000</i>	<i>margin</i> <i>%</i>	<i>Gross profit</i> <i>RMB'000</i>	<i>margin</i> <i>%</i>
Marketing service	300,278	79.7	298,651	73.8	479,505	59.4
– Standard marketing service	271,895	79.3	254,519	73.0	380,650	55.0
– Value-added marketing service	28,383	84.3	44,132	78.9	98,855	85.3
Merchandise sales	37,795	36.0	18,294	16.4	29,738	20.6
Other services	7,418	35.7	17,695	47.2	26,024	47.8
Total gross profit/overall gross profit margin	<u>345,491</u>	68.8	<u>334,640</u>	60.4	<u>535,267</u>	53.2

During the Track Record Period, our overall gross profit and gross profit margin experienced fluctuations, influenced by both internal factors such as business expansion and external factors including the negative impact of the COVID-19 pandemic. For example, the recurrence of the COVID-19 pandemic posed challenges to our business from 2021 to 2022. The implementation of lockdown measures in certain cities resulted in reduced business

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activities and foot traffic, leading to a decline in overall gross profit from marketing service and merchandise sales in 2022. Moreover, many of our offline promotion activities had to be postponed or cancelled due to the prevailing circumstances. Despite the decrease in business activities, we continued to incur fixed costs, including depreciation charges. These fixed costs, coupled with the reduced revenue, exerted downward pressure on our overall gross profit margin in 2022. From 2022 to 2023, our gross profit experienced significant growth, primarily because of growth in revenue as a result of our business expansion, and our gross profit margin decreased primarily because we introduced more short video platform traffic acquisition service to customers since early 2023, which generally carry lower margin compared with vending machine-based services as they require procurement of third-party media resources to deliver. However, we consider such business innovation and service expansion to be able to serve our long-term business strategy and forge strong synergy among our services, as proven by our significant increase in revenue, expansion of KA customers and average purchase per KA customer in 2023.

Other Income and Gains

Our other income and gains primarily consist of (i) government grants, representing short-term subsidies received from the local governments in connection with the business development and rewards for financial and employment contribution; (ii) additional deduction of input value-added tax due to certain preferential tax policy enabling certain productive service taxpayers to deduct an extra 10% of their creditable input VAT from their tax dues in 2021 and 2022 and 5% in 2023; (iii) exchange gains reflecting the impact of appreciation of U.S. dollars against the Renminbi on our funds that are denominated in U.S. dollars; and (iv) interest income from bank deposits. The following table sets forth a breakdown of our other income and gains for the years indicated:

	For the year ended December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	3,239	1,342	1,785
Additional deduction of input value-added tax	3,135	2,236	4,135
Exchange gains	–	1,570	84
Interest income	338	977	238
Others	17	1	18
	6,729	6,126	6,260
Total	6,729	6,126	6,260

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Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of (i) marketing and promotion expenses, mainly representing service fees paid to the third-party marketing service providers to promote our brand and services; (ii) site expansion fees associated with selecting and acquiring suitable sites and locations for vending machines, including activities such as site scouting, evaluation, negotiation, and securing the desired locations for lease; (iii) logistics and transportation expenses incurred for setting up vending machines, restocking of merchandise across our network and maintenance and movement of our vending machines; (iv) wages for dispatched personnel; and (v) staff costs, primarily representing salaries, wages, bonus, social insurance costs and housing provident fund for our sales and marketing personnel. The following table sets forth a breakdown of our selling and distribution expenses for the years indicated:

	For the year ended December 31,					
	2021		2022		2023	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Marketing and promotion expenses	87,268	46.1	69,654	41.7	148,514	62.1
Site expansion fees	34,679	18.3	33,642	20.1	19,631	8.2
Logistics and transportation expenses	33,294	17.6	23,286	13.9	26,786	11.2
Wages for dispatched personnel	17,340	9.2	19,750	11.8	14,602	6.1
Staff costs	15,758	8.3	19,701	11.8	20,575	8.6
Depreciation and amortization charges	980	0.5	1,193	0.7	531	0.2
Others	139	0.0	3	0.0	–	0
Share-based payments	–	0	–	0	8,643	3.6
Total	189,458	100.0	167,229	100.0	239,282	100.0

In 2022, we observed a decrease in selling and distribution expenses. This decrease was primarily attributable to lower marketing and promotion expenses, as well as reduced expenses related to logistics and transportation. The impact of the COVID-19 pandemic led to a decrease in offline promotional events and large-scale offline marketing activities, prompting a shift towards increased emphasis on online marketing. While maintaining the overall brand promotion, the frequency of promotions in 2022 was slightly lower compared to 2021. Consequently, our selling and distribution expenses experienced a slight decrease during the corresponding year. In 2023, the increase of our selling and distribution expenses as compared to 2022 is primarily attributable to an increase in marketing and promotion expenses due to increased marketing campaigns to promote our brand after lifting COVID-19-related restrictions, partially offset by a decrease in site expansion fees due to the optimization of our vending machine network.

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Administrative Expenses

Our administrative expenses primarily consist of (i) [REDACTED] expenses in relation to the [REDACTED]; (ii) staff costs, primarily representing salaries, wages, bonus, social insurance costs and housing provident for our general and administrative personnel; (iii) operation related expenses, which primarily include utilities, maintenance fees and office related expenses; (iv) professional and consulting service fees incurred in relation to audit services, legal services and financing services; (v) amortization and depreciation charges in relation to our leased properties and office equipment; (vi) share-based payments; (vii) travel expenses for our administrative personnel; and (viii) taxes and surcharges. The following table sets forth a breakdown of our administrative expenses for the years indicated:

	For the year ended December 31,					
	2021		2022		2023	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
[REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Staff costs	9,383	33.0	9,409	35.1	9,837	18.0
Operation related expenses	4,902	17.2	1,890	7.1	3,389	6.2
Professional and consulting service fees	6,460	22.7	7,567	28.3	4,851	8.9
Amortization and depreciation charges	3,469	12.2	3,444	12.9	2,025	3.7
Share-based payments	2,379	8.4	2,753	10.3	5,991	11.0
Travelling expenses	980	3.4	948	3.5	1,507	2.8
Taxes and surcharges	246	0.9	330	1.2	878	1.6
Others	655	2.2	439	1.6	776	1.4
Total	28,474	100.0	26,780	100.0	54,538	100.0

During the Track Record Period, our administrative expenses consistently grew in parallel with our business expansion. Specifically, our staff costs within the administrative expenses experienced continuous increases. This was primarily driven by the need to hire additional professional management staff to support and accommodate our expanding operations.

FINANCIAL INFORMATION

Research and Development Expenses

Our research and development expenses primarily consist of (i) outsourcing service fees incurred when engaging external service providers to assist with our software and technology development, including planning, requirement gathering, basic design from 2021 to 2022, and technology application in 2023, and (ii) staff costs, primarily representing salaries, wages, bonus, social insurance costs and housing provident fund for our research and development personnel. The following table sets forth a breakdown of our research and development expenses for the years indicated:

	For the year ended December 31,					
	2021		2022		2023	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Outsourcing service expenses	50,057	84.8	18,998	63.1	55,332	87.5
Staff costs	8,857	15.0	10,425	34.6	7,868	12.4
Others	96	0.2	690	2.3	50	0.1
Total	<u>59,010</u>	<u>100.0</u>	<u>30,113</u>	<u>100.0</u>	<u>63,250</u>	<u>100.0</u>

Fair Value Loss on Financial Liabilities at FVTPL

Other fair value loss on financial liabilities at FVTPL represents the changes in fair value of convertible redeemable preferred shares and convertible bonds. For details, please refer to Note 25 to the Accountants’ Report as set out in Appendix I to this document.

Other Expenses and Losses

Our other expenses and losses primarily include losses from the disposal of office supplies and vending machines.

Impairment Losses Under Expected Credit Loss Model, Net of Reversal

During the Track Record Period, our impairment losses, net of reversals, were recognized as provisions for accounts receivable and other receivables under the expected credit loss model. The provision amount was determined based on the year-end balances. Our impairment losses, net of reversals, increased during the Track Record Period in line with the growth of accounts receivable, reflecting an increase in expected credit losses.

FINANCIAL INFORMATION

Finance Costs

Our finance costs primarily include (i) interests on bank borrowings and (ii) interests on lease liabilities. The following table sets forth a breakdown of our finance costs for the years indicated:

	For the year ended December 31,		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Interest on bank borrowings	5,047	3,113	1,543
Interest on lease liabilities	550	172	68
Total	5,597	3,285	1,611

Income Tax Expense

Our principal applicable taxes and tax rates are set forth as follows:

China

Our income tax expenses consist of current and deferred income taxes payable in the PRC by our subsidiaries. Income tax provision in respect of our operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the year, based on existing legislation and interpretations and practices in respect thereof. In addition, one of our subsidiaries in the PRC is eligible for preferential tax treatments such as the reduced rate of 15% for new and high-tech subsidiaries during the Track Record Period. Other than the eligible subsidiaries, our other PRC operating entities are subject to standard income tax rate of 25%.

During the Track Record Period, we incurred income tax expenses of RMB2.8 million, RMB10.9 million and RMB20.1 million in 2021, 2022 and 2023, respectively.

Our income tax expenses increased from 2021 to 2022, primarily due to an increase in our adjusted profit (a non-IFRS measure). Our income tax expenses increased from 2022 to 2023, primarily due to our growth in taxable income attributable to our increase in revenue.

Hong Kong

The provision for Hong Kong Profits Tax is subject to Hong Kong's two-tiered profits tax regime, under which the tax rate is 8.25% for assessable profits on the first HK\$2 million and 16.5% for any assessable profits in excess of HK\$2 million.

Cayman Islands

Under the current laws of the Cayman Islands, we are not subject to tax on income or capital gains.

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

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

Revenue

Our total revenue increased significantly from RMB553.6 million in 2022 to RMB1,006.7 million in 2023, primarily due to the continuous and rapid growth of all three business segments.

Marketing Service

Our revenue generated from marketing service significantly increased from RMB404.8 million in 2022 to RMB808.0 million in 2023. This increase was primarily due to the business growth in both standard marketing service and value-added marketing service, especially after the lifting of COVID-19-related restrictions in late 2022.

Standard Marketing Service

Our revenue from standard marketing service increased from RMB348.9 million in 2022 to RMB692.2 million in 2023. Leveraging our continuous innovation of service capability and expansion of marketing service portfolio to address evolving market demand and industry trend, we experienced strong growth in customer base. For instance, the number of our KA customers who purchased our standard marketing service increased from 26 in 2022 to 47 in 2023, and our average revenue per KA customer that purchased our standard marketing service increased from RMB11.2 million to RMB11.8 million in the same years. In particular, the increase in the revenue from our standard marketing service in 2023 was attributable to, among others, our enhanced capability of utilizing social media platforms for standard marketing service delivery, as a result of which we successfully attracted and retained more quality customers.

Value-added Marketing Service

Our revenue from value-added marketing service increased from RMB56.0 million in 2022 to RMB115.8 million in 2023. Such an increase was mainly attributable to an increase in the sales of value-added marketing service to KA customers, where we experienced growth in both customer number and average revenue per customer. Specifically, the number of KA customers that purchased our value-added marketing service increased from 21 in 2022 to 29 in 2023, and our average revenue per KA customer that purchased our value-added marketing service increased from RMB1.4 million to RMB3.3 million in the same years. The increase in our revenue from value-added marketing service was primarily driven by our continuous efforts to develop, upgrade and utilize technology, such as AI interaction modules on vending machines, to address ever-evolving market demand from brand customers who seek diversified marketing service.

FINANCIAL INFORMATION

Merchandise Sales

Our revenue from merchandise sales increased from RMB111.3 million in 2022 to RMB144.3 million in 2023. This growth was primarily attributable to increased average price per purchase order due to our proactive adjustment of product mix pursuant to our insights on market trends after the lifting of COVID-19-related restrictive measures.

Other Services

Revenue generated from other services increased from RMB37.5 million in 2022 to RMB54.4 million in 2023, primarily driven by customer demands and the nature of specific technology development projects undertaken in the corresponding years.

Cost of Sales

Our cost of sales increased from RMB219.0 million in 2022 to RMB471.4 million in 2023, primarily due to (i) an increase in information technology service fees from RMB32.1 million in 2022 to RMB263.3 million in 2023, primarily due to more short video platform traffic acquisition service that we offered to customers since 2023 to serve our long-term business strategy and forge strong synergy among our services; and (ii) an increase in costs of inventories sold from RMB87.7 million in 2022 to RMB118.8 million in 2023, in line with the growth of our merchandise sales business.

Gross Profit and Gross Profit Margin

Our overall gross profit increased from RMB334.6 million in 2022 to RMB535.3 million in 2023, generally in line with our growth of revenue as a result of our business expansion in all of our business segments. Our overall gross profit margin decreased from 60.4% in 2022 to 53.2% in 2023. The decrease in our overall gross profit margin was primarily attributable to our increased procurement of third-party media resources to deliver standard marketing service, as we invested in delivering such marketing service via utilizing short video platforms since early 2023, in line with our service innovation and expansion strategy, partially offset by optimization of our vending machine network coverage and penetration, which resulted in improvement in cost efficiency.

Marketing Service

Our gross profit from marketing service increased from RMB298.7 million in 2022 to RMB479.5 million in 2023. Such an increase was primarily attributable to our growth in revenue under this business segment. Furthermore, our gross profit margin for marketing service decreased from 73.8% in 2022 to 59.4% in 2023.

FINANCIAL INFORMATION

Standard Marketing Service

Our gross profit from standard marketing service increased from RMB254.5 million in 2022 to RMB380.6 million in 2023, mainly due to the significant growth in revenue primarily brought about by increased customer demand for marketing service in 2023 after the lifting of COVID-19-related restrictive measures, which outpaced the corresponding increase in our cost of sales as a result of our efforts in improving operating efficiency and optimizing vending machine network that reduced fixed costs. The gross profit margin for standard marketing service decreased from 73.0% in 2022 to 55.0% in 2023, primarily because we introduced more short video platform traffic acquisition service to customers since early 2023, which generally carry lower margin compared with vending machine-based services. However, we consider such business innovation and service expansion to be able to serve our long-term business strategy and forge strong synergy among our services, as proven by our significant increase in revenue, expansion of KA customers and average purchase per KA customer in 2023.

Value-Added Marketing Service

Our gross profit from value-added marketing service increased from RMB44.1 million in 2022 to RMB98.8 million in 2023. Our gross profit margin of value-added marketing service increased from 78.9% in 2022 to 85.3% in 2023. The increase in both gross profit and gross profit margin in 2023 was mainly attributable to our implementation of vending machine network optimization, through which we enhanced our network’s effective coverage and penetration, increasing our cost efficiency, which resulted in decrease in fixed costs, in particular, the depreciation and amortization charges and site fees. The increase is also attributable to our continuous efforts in improving AI interaction modules on vending machines, resulting in enhanced operation efficiency and customer engagement.

Merchandise Sales

Gross profit from merchandise sales increased from RMB18.3 million in 2022 to RMB29.7 million in 2023, primarily driven by the increase in our revenue in merchandise sales. Gross profit margin of merchandise sales increased from 16.4% in 2022 to 20.6% in 2023, primarily due to increased average price per purchase order attributable to our proactive adjustment of product mix pursuant to our insights on market trends.

Other Services

Gross profit from other services increased from RMB17.7 million in 2022 to RMB26.0 million in 2023. Gross profit margin of other services remained stable at 47.2% in 2022 and 47.8% in 2023. The increase in gross profit was primarily driven by customer demands and the nature of specific technology development projects undertaken in the corresponding years.

FINANCIAL INFORMATION

Other Income and Gains

Our other income and gains increased from RMB6.1 million in 2022 to RMB6.3 million in 2023, primarily due to an increase in additional deduction of input value-added tax primarily due to our growth in revenue, and an increase in government grants, which were occasional events and were varied from year to year, partially offset by a decrease in exchange gains.

Selling and Distribution Expenses

Our selling and distribution expenses increased from RMB167.2 million in 2022 to RMB239.3 million in 2023, primarily due to (i) an increase in marketing and promotion expenses due to increased marketing campaigns to promote our brand after COVID-19-related restrictions were lifted in late 2022, (ii) an increase in share-based payments and (iii) an increase in logistics and transportation expenses in line with increased merchandise sales revenue, partially offset by a decrease in site expansion fees due to the optimization of our vending machine network.

Administrative Expenses

Our administrative expenses increased from RMB26.8 million in 2022 to RMB54.5 million in 2023, primarily due to (i) [REDACTED] expenses in relation to the [REDACTED], (ii) an increase in share-based payments and (iii) an increase in expenses for office necessities and activities primarily due to resumption of related demands after COVID-19-related restrictive measures were lifted.

Research and Development Expenses

Our research and development expenses increased from RMB30.1 million in 2022 to RMB63.3 million in 2023, primarily due to more outsourcing technology development service fees incurred to carry out the upgrade of our vending machines to equip them with technologies related to users’ interaction with vending machines and visualization, which was in line with the needs arising from our evolving marketing service.

Fair Value Loss on Financial Liabilities at FVTPL

Our fair value loss on financial liabilities at FVTPL decreased from RMB191.5 million in 2022 to RMB24.1 million in 2023, primarily as a result of the changes in fair value of our preferred shares.

Finance Costs

Our finance costs decreased from RMB3.3 million in 2022 to RMB1.6 million in 2023, primarily due to lower interest expenses on bank borrowings resulting from the repayment of matured loans in 2023 and decrease in weighted average interest rate of our bank loans in 2023.

FINANCIAL INFORMATION

Income Tax Expense

Our income tax expenses increased from RMB10.9 million in 2022 to RMB20.1 million in 2023, reflecting the growth of our adjusted profit (a non-IFRS measure).

Profit/(Loss) for the Year

As a result of the above, we generated a net profit of RMB136.7 million in 2023, compared with a net loss of RMB116.1 million in 2022.

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

Revenue

Our total revenue increased by 10.2% from RMB502.4 million in 2021 to RMB553.6 million in 2022, primarily due to the continuous and rapid growth of all three business segments.

Marketing Service

Our revenue generated from marketing service increased from RMB376.7 million in 2021 to RMB404.8 million in 2022. This increase was primarily due to the expansion of our business scale, reflecting the business growth in both standard marketing service and value-added marketing service.

Standard Marketing Service

Our revenue from our standard marketing service increased from RMB343.0 million in 2021 to RMB348.9 million in 2022. Despite the recurrence of COVID-19 in 2022, we managed to maintain a stable brand customer base and effectively address their evolving needs. Specifically, the average revenue per KA customer that purchased our standard marketing service increased from RMB9.8 million in 2021 to RMB11.2 million in 2022. In particular, the significant increase in the average revenue per KA customer was primarily due to the precise marketing to nurture repeat customers due to the marketing limitations during the recurrence of COVID-19 in 2022.

Value-added Marketing Service

Our revenue from our value-added marketing service increased from RMB33.7 million in 2021 to RMB56.0 million in 2022. Specifically, the average revenue per KA customer that purchased our value-added marketing service increased from RMB1.3 million in 2021 to RMB1.4 million in 2022, while the average revenue per non-KA customer that purchased our value-added marketing service grew from RMB0.1 million in 2021 to RMB0.6 million in 2022. As we persistently enhanced our AI interaction modules on vending machines, and as our customers sought increasingly diverse promotional formats, our revenue from value-added marketing service increased accordingly.

FINANCIAL INFORMATION

Merchandise Sales

Our revenue from merchandise sales increased from RMB105.0 million in 2021 to RMB111.3 million in 2022. Despite the challenges posed by the pandemic, this growth was primarily attributable to our scalable network of vending machines. In particular, the average daily number of vending machines increased from 5,677 in 2021 to 8,435 in 2022. Such increase was partially offset by decrease in average revenue per vending machine from RMB18.5 thousand in 2021 to RMB13.2 thousand in 2022.

Other Services

Revenue generated from other services increased from RMB20.7 million in 2021 to RMB37.5 million in 2022, primarily driven by customer demands and the nature of specific technology development projects undertaken in the corresponding period.

Cost of Sales

Our cost of sales increased from RMB156.9 million in 2021 to RMB219.0 million in 2022, primarily due to (i) an increase in costs of inventories sold in line with our business expansion efforts to meet the growing demand from consumers. This expansion in our business scale, supported by the large number of deployed vending machines, played a crucial role in driving the overall increase in merchandise sales business, resulting in a corresponding increase in costs of inventories sold; (ii) an increase in site fees. Despite the decrease in the number of vending machines by the end of 2022, we entered into agreements with venue operators in late 2021, which allowed us to deploy vending machines in new locations. The costs associated with these deployments were recognized over the relevant period, resulting in the overall increase in our site fees in 2022; (iii) an increase in depreciation and amortization charges as we invested in acquiring and deploying vending machines across various locations; and (iv) an increase in information technology service fees as we increased the usage of SMS packages to stay connected with our consumers during the recurrence of COVID-19 in 2022. In addition, we recorded RMB8.8 million of write-down of inventories.

Gross Profit and Gross Profit Margin

Our overall gross profit decreased from RMB345.5 million in 2021 to RMB334.6 million in 2022. Our overall gross profit margin decreased from 68.8% in 2021 to 60.4% in 2022. The decreases in our overall gross profit and gross profit margin were primarily attributable to the negative impact of the COVID-19 recurrence in 2022. The implementation of lockdown measures in certain cities resulted in reduced business activities and foot traffic, leading to a decline in our overall gross profit from marketing service and merchandise sales. Additionally, many of our offline promotion activities were either postponed or cancelled during this period. Despite the decrease in business activities, we continued to incur fixed costs, including depreciation charges, which put downward pressure on our overall gross profit margin.

FINANCIAL INFORMATION

Marketing Service

Our gross profit from marketing service decreased from RMB300.3 million in 2021 to RMB298.7 million in 2022. This decrease was primarily attributable to the reduced business activities necessitated by the recurrence of COVID-19, which resulted in a shift towards focusing primarily on online activities. Additionally, our relevant depreciation and amortization charges increased due to a significant number of vending machine purchases made in the second half of 2021, leading to an increase in cost of sales and a consequent decrease in gross profit. Furthermore, our gross profit margin for marketing service decreased from 79.7% in 2021 to 73.8% in 2022. This decrease was primarily due to the continuous incurrence of fixed costs. Despite the overall reduced business activities during the COVID-19 recurrence, fixed costs such as depreciation and amortization charges continued to be incurred, exerting downward pressure on the gross profit margin.

Standard Marketing Service

Our gross profit from standard marketing service decreased from RMB271.9 million in 2021 to RMB254.5 million in 2022, mainly due to an increase in costs related to information technology service fees, especially those associated with the usage of SMS packages. This increase was, in part, a consequence of the COVID-19 pandemic disrupting our regular service provision, leading us to use SMS packages to maintain connectivity with our consumers. As a result, these increased or additional costs significantly affected our gross profit and gross profit margin. In particular, the gross profit margin for standard marketing service decreased from 79.3% in 2021 to 73.0% in 2022. The decrease in gross profit margin was also largely attributable to persistent fixed costs, in particular, the depreciation expenses for the vending machines, including the vending machines not placed in use, which continued to incur despite reduced business activities.

Value-Added Marketing Service

Our gross profit from value-added marketing service increased from RMB28.4 million in 2021 to RMB44.1 million in 2022, primarily driven by the growing adoption of such marketing service and our expanding business operations. Our gross profit margin of value-added marketing service decreased from 84.3% in 2021 to 78.9% in 2022, primarily because of the increase in fixed costs, in particular, the depreciation and amortization charges for the vending machines, including the vending machines not placed in use.

Merchandise Sales

Gross profit from merchandise sales decreased from RMB37.8 million in 2021 to RMB18.3 million in 2022. Gross profit margin of merchandise sales decreased from 36.0% in 2021 to 16.4% in 2022. The decreases in gross profit and gross profit margin were primarily because we experienced declining prices of certain FMCG products and recorded write-down of inventories.

FINANCIAL INFORMATION

Other Services

Gross profit from other services increased from RMB7.4 million in 2021 to RMB17.7 million in 2022. Gross profit margin of other services increased from 35.7% in 2021 to 47.2% in 2022. The increases in gross profit and gross profit margin were primarily driven by customer demands and the nature of specific technology development projects undertaken in the corresponding period.

Other Income and Gains

Our other income and gains slightly decreased from RMB6.7 million in 2021 to RMB6.1 million in 2022, primarily due to (i) a decrease in government grants, which were occasional events and varied from period to period and (ii) a decrease in additional deduction of input value-added tax. Such decrease was partially offset by exchange gains of RMB1.6 million in 2022 while no exchange gain was recognized in 2021.

Selling and Distribution Expenses

Our selling and distribution expenses decreased from RMB189.5 million in 2021 to RMB167.2 million in 2022, primarily due to (i) a decrease in marketing and promotion expenses due to the recurrence of COVID-19, which led to a decrease in offline promotional events and large-scale offline marketing activities; (ii) a decrease in logistics and transportation expenses in line with the reduced marketing activities due to the same reason; and (iii) a decrease in site expansion fees due to our adoption of cautious determining methodology in expanding our vending machine network under the impact of COVID-19. Such decrease was partially offset by an increase in staff costs resulting from the expansion of our selling and marketing headcount to support our business growth.

Administrative Expenses

Our administrative expenses decreased from RMB28.5 million in 2021 to RMB26.8 million in 2022, primarily due to a decrease in operation related expenses due to employees working from home during the 2022 COVID-19 recurrence. This decrease was partially offset by (i) an increase in professional and consulting service fees for financing related activities; (ii) an increase in staff costs resulting from the expansion of our administrative employee headcount to support our business growth; and (iii) an increase in share-based payments.

Research and Development Expenses

Our research and development expenses decreased from RMB59.0 million in 2021 to RMB30.1 million in 2022, primarily due to less outsourcing fees incurred. This decrease was attributable to the improved functionality of our system modules and our enhanced in-house capabilities. As a result, we were able to utilize a significant portion of previously developed module codes and shift our focus towards maintaining and further developing them using our in-house technical personnel in 2022.

FINANCIAL INFORMATION

Fair Value Loss on Financial Liabilities at FVTPL

Our fair value loss on financial liabilities at FVTPL increased from RMB189.4 million in 2021 to RMB191.5 million in 2022, primarily as a result of the changes in fair value of our preferred shares.

Finance Costs

Our finance costs decreased from RMB5.6 million in 2021 to RMB3.3 million in 2022, primarily due to lower interest expenses on bank borrowings resulting from the repayment of previous loans and reduced new borrowings.

Income Tax Expense

Our income tax expenses increased from RMB2.8 million in 2021 to RMB10.9 million in 2022, reflecting the growth of our adjusted profit (a non-IFRS measure).

Loss for the Year

As a result of the above, our net loss decreased from RMB139.5 million in 2021 to RMB116.1 million in 2022.

DISCUSSION OF CERTAIN SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated:

	As of December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	233,408	174,623	117,652
Right-of-use assets	5,121	2,094	2,361
Deferred tax assets	3,764	8,447	11,014
Prepayments, deposits and other receivables	1,950	91	34,750
Equity instruments at FVTOCI	–	–	4,000
	–	–	4,000
Total non-current assets	244,243	185,255	169,777

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	As of December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current assets			
Inventories	20,426	32,690	27,785
Trade receivables	243,181	461,903	493,999
Prepayments, deposits and other receivables	55,167	55,213	76,788
Amount due from shareholders	1,188	1,188	7
Cash and bank balance	191,752	87,342	299,018
	511,714	638,336	897,597
Total current assets	511,714	638,336	897,597
Total assets	755,957	823,591	1,067,374
LIABILITIES			
Non-current liabilities			
Interest-bearing bank borrowings	32,202	15,000	13,500
Lease liabilities	1,729	215	528
Deferred income	1,040	720	400
Convertible redeemable preferred shares	936,133	1,310,947	1,253,988
	971,104	1,326,882	1,268,416
Total non-current liabilities	971,104	1,326,882	1,268,416
Current liabilities			
Trade payables	50,874	20,792	11,451
Other payables and accruals	9,441	7,184	9,404
Contract liabilities	711	182	2,762
Income tax payable	–	13,892	21,365
Lease liabilities	3,489	1,752	1,659
Interest-bearing bank borrowings	59,800	26,247	119,940
Amount due to a shareholder	80,000	–	–
Convertible bonds	40,574	–	–
Deferred income	320	320	320
	245,209	70,369	166,901
Total current liabilities	245,209	70,369	166,901
Total liabilities	1,216,313	1,397,251	1,435,317
Net liabilities	460,356	573,660	367,943

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	As of December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
EQUITY			
Share capital	7	7	7
Reserves	(460,550)	(573,822)	(387,832)
Non-controlling interests	187	155	19,882
Deficiency in equity	(460,356)	(573,660)	(367,943)

Property, Plant and Equipment

Our property, plant and equipment primarily consist of (i) vending machines; (ii) leasehold improvements; and (iii) other electronic equipment. Our property, plant, and equipment decreased from RMB233.4 million as of December 31, 2021 to RMB174.6 million as of December 31, 2022. This decrease was primarily due to vending machine network optimization and the depreciation of certain vending machines, including the vending machines not placed in use in 2022. Our property, plant, and equipment further decreased from RMB174.6 million as of December 31, 2022 to RMB117.7 million as of December 31, 2023, primarily due to depreciation for 2023.

Right-of-Use Assets

Our right-of-use assets primarily represent leases of our vending machines, office premises, and warehouse. Upon the lease commencement date, we recognize right-of-use assets and corresponding lease liabilities, except for short-term leases with a lease term of 12 months or less. Our right-of-use assets decreased from RMB5.1 million as of December 31, 2021 to RMB2.1 million as of December 31, 2022. This decrease was primarily driven by depreciation, partially offset by new lease agreements entered into for office premises and the warehouse. Our right-of-use assets increased from RMB2.1 million as of December 31, 2022 to RMB2.4 million as of December 31, 2023, primarily due to new lease agreements entered into for office premises and warehouses, partially offset by depreciation provided during the year.

Inventories

Our inventories primarily consist of fast-moving consumer goods like beverages and food for our merchandise sales business. Our inventories increased from RMB20.4 million as of December 31, 2021 to RMB32.7 million as of December 31, 2022, primarily due to our business expansion. In addition, our retail operations were affected by the recurrence of COVID-19 as we had slower-than-expected inventory consumption during this period. Our inventories decreased from RMB32.7 million as of December 31, 2022 to RMB27.8 million as of December 31, 2023, primarily due to our improved inventory management and supply chain efficiency.

FINANCIAL INFORMATION

The following table sets forth the number of our inventory turnover days for the years indicated:

	For the year ended December 31,		
	2021	2022	2023
Inventory turnover days*	69.4	128.8	117.2

Note:

* *Inventory turnover days were calculated based on the average of opening and closing inventory balance (before deduction of impairment) for the relevant year, divided by the costs of inventories sold for the same year, and multiplied by 365 days in 2021, 2022 and 2023.*

Our inventory turnover days increased from 69.4 days in 2021 to 128.8 days in 2022, aligning with our business expansion. In particular, our inventory turnover days experienced a significant increase in 2022, primarily due to slower-than-expected inventory consumption during the recurrence of COVID-19. As we improved our inventory management and supply chain efficiency, our inventory turnover days decreased to 117.2 days for 2023.

Throughout the Track Record Period, except from write-down of inventories in 2022 and early 2023 in line with our accounting policies after taking into account various factors that we believe are non-recurring, including the impact of COVID-19 on operations, reduced foot traffic, changes in our inventory procurement plan, and declining prices of certain FMCG products, we have not experienced any material adverse effect in inventory consumption, and we believe sufficient provision has been made. Our management also regularly reviews the recoverability of our inventories to ensure that adequate impairment losses provision are made for irrecoverable amounts, and we assess our procurement processes and make periodic adjustments to reflect changing market conditions. Going forward, we will continuously closely monitor our inventory levels and consumption status, and keep improving inventory flexibility to reduce inventory risks. In light of these, we do not expect to experience any material issue in the recoverability of inventories in the foreseeable future.

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

	As at December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 180 days	19,956	33,716	24,735
180 – 365 days	449	6,406	6,808
Over 365 days	21	1,368	3,272
Inventory Provision	–	8,800	7,030
Total	20,426	32,690	27,785

FINANCIAL INFORMATION

As of March 31, 2024, approximately RMB21.2 million, or 60.8%, of our inventories as of December 31, 2023 had been consumed.

Trade Receivables

Our trade receivables represent outstanding amounts receivable by us from customers primarily in connection with the provision of marketing service. The following table sets forth the details of our trade receivables as of the dates indicated:

	As of December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	265,915	510,274	541,331
<i>Allowance for expected credit loss</i>	<u>(22,734)</u>	<u>(48,371)</u>	<u>(47,332)</u>
Subtotal	<u>243,181</u>	<u>461,903</u>	<u>493,999</u>

Our trade receivables increased from RMB243.2 million as of December 31, 2021 to RMB461.9 million as of December 31, 2022. This increase was primarily attributable to a combination of factors, including the expansion of our business scale leading to increased trade receivables, as well as slower settlement progress from certain customers. We made a decision to temporarily extend credit terms to these customers to ease their financial burden during the recurrence of COVID-19 in 2022. In determining qualified customers for this arrangement, we consider factors such as their previous business track record with us, growth potential, and credit history. Our trade receivables remained relatively stable from RMB461.9 million as of December 31, 2022 to RMB494.0 million as of December 31, 2023.

The following table sets forth the number of our trade receivables turnover days for the years indicated:

	For the year ended December 31,		
	2021	2022	2023
Trade receivables turnover days*	<u>182.2</u>	<u>320.3</u>	<u>222.5</u>

Note:

- * *Trade receivables turnover days were calculated based on the average of opening and closing balance of trade receivables (before deduction of loss allowance) for the relevant year, divided by the revenue from marketing service and other services for the same year and multiplied by 365 days in 2021, 2022 and 2023.*

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Our trade receivable turnover days increased from 182.2 days in 2021 to 320.3 days in 2022 primarily due to the temporary extension of credit terms to certain customers to help them cope with the lockdowns imposed due to COVID-19. In addition, consistent with our seasonal pattern and exacerbated by the resurgence of COVID-19 in China in 2022, the increase in our trade receivables as of December 31, 2022 as compared with December 31, 2021 was predominantly due to increased revenue in the third and fourth quarters of 2022, which was still within credit term as of December 31, 2022. For the risks related to our trade receivables, please see “Risk Factors – Risks Relating to Our Financial Position and Need for Additional Capital – We are exposed to credit risk of our brand customers and we may experience delays or defaults in collecting our trade and other receivables and our results of operations, financial position and liquidity may be materially and adversely affected.”

We have stepped up our collection efforts for 2023 to reduce the trade receivable turnover days to 222.5 days. The decrease in trade receivable turnover days is attributable to a series of measures that we have put in place. Such measures include (i) establishing a credit control department to minimize our credit risk and maintain control over our outstanding receivables; (ii) establishing and annually updating customer files with essential and financial information, conducting yearly evaluations to classify customers into three credit levels based on transaction history and payment timeliness to guiding future cooperation; (iii) comprehensively assessing customer credit based on each customer’s basic qualifications including business licenses and public credit information, historical transaction and payment data, and industry ranking; (iv) assessing customers’ credit based on provided documents and previous year’s total cooperation amount, setting credit terms in sales contracts, requiring financial and legal review before implementation, enforcing strict adherence to agreed terms, and mandating a formal re-evaluation process for any credit term adjustments requested by customers; and (v) robust implementation of credit limits, including securing payment of the amount in excess of the credit limit before granting new credits, and we would only grant exemptions after receiving a formal customer request and approval from the managers of our three departments. While these efforts have reduced our trade receivable turnover days in 2023 through enabling us to collect a substantial portion of long-term trade receivables, some of the remaining long-term trade receivables were from our longstanding customers that were significantly affected by COVID in 2022 and still in recovery in 2023. Given our stable, good, and ongoing historical cooperation with them, we granted them some grace periods to ensure long-term mutually beneficial growth. Apart from making necessary provisions, we are closely monitoring their performance on an on-going basis to ensure the remaining receivables can be collected. We also regularly track repayment times, notify sales managers of overdue accounts for follow-up, and continuously monitor credit compliance to mitigate potential losses from credit defaults. Our management also regularly review the settlement situations of customers with relatively long credit periods.

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The following table sets forth an aging analysis of our trade receivables as of the dates indicated presented based on invoice date:

	As of December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	165,829	274,598	284,315
6 months to 12 months	52,100	75,708	169,995
1 to 2 years	24,412	104,671	33,132
Over 2 years	840	6,926	6,557
Total	243,181	461,903	493,999

The following table sets forth an aging analysis of the subsequent settlement of our trade receivables as of December 31, 2023:

	As of	Settled	% of trade
	December 31,	amount as of	receivables
	2023	March 31,	settled as of
	<i>RMB'000</i>	<i>RMB'000</i>	December 31,
		<i>(unaudited)</i>	2023
			<i>%</i>
			<i>(unaudited)</i>
Within 6 months	284,315	88,268	31.0
6 months to 12 months	169,995	47,539	28.0
1 to 2 years	33,132	15,891	48.0
Over 2 years	6,557	4,270	65.1
Total	493,999	155,968	31.6

Note:

* Only including the portion of trade receivables that was actually settled from our trade receivables after impairment allowance as of December 31, 2023, i.e., not taking into account the settlement of new trade receivables generated from December 31, 2023 to March 31, 2024.

Throughout the Track Record Period, we had not experienced material recoverability issues with respect to our trade receivables, and we believe sufficient provision has been made. Our trade receivables have been primarily due to large customers who have maintained robust credit profiles and have established long-term business relationships with us. We offer more flexible payment terms to customers that we believe are creditworthy based upon their proven business records. Our trade receivables aged over one year primarily comprise receivables

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from brand customers for marketing service, especially in the FMCG industry. As brand customers in the FMCG industry were adversely affected by COVID-19 and still undergoing gradual recovery, we have been gradually enhancing our collection efforts in 2023 while maintaining amicable business relationships with them. With our continued efforts, as of March 31, 2024, 50.8% of our trade receivables after impairment allowance aged over one year as of December 31, 2023 had been settled. In addition, we believe we have recorded sufficient allowance for impairment of trade receivables to account for any future liabilities, write-offs or contingencies consistent with IFRS. In light of these, we do not expect to experience any material issue in recoverability of trade receivables in the foreseeable future.

As of March 31, 2024, approximately RMB156.0 million, or 31.6%, of our trade receivables after impairment allowance as of December 31, 2023 had been settled. Based on our assessments during the Track Record Period, we have made adequate provisions for our trade receivables to account for potential uncertainties.

Prepayments, Deposits and Other Receivables

Our prepayments, deposits and other receivables primarily consist of (i) value added tax recoverable, primarily represents the value-added input tax in excess of the value added output tax, which can be deductible or recoverable in the future; (ii) prepayments to suppliers for purchasing merchandise, procuring services, and covering deferred expenses, specifically related to site fees; (iii) deposits and other receivables, primarily represent lease deposits and miscellaneous receivables; (iv) prepayments for property, plant and equipment are made in advance for the purchasing of vending machines in accordance with the contract terms; and (v) deferred [REDACTED] expenses in relation to the [REDACTED]. The following table sets forth the details of our prepayments, deposits and other receivables as of the dates indicated:

	As of December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current:			
Value-added-tax recoverable	31,999	29,061	3,355
Prepayments	19,693	22,552	67,756
Deposits and other receivables	4,013	4,221	3,809
Income tax recoverable	16	–	–
Deferred [REDACTED] expenses	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>
	55,721	55,834	78,251
Allowance for expected credit loss	(554)	(621)	(1,463)
<i>Subtotal</i>	<u><u>55,167</u></u>	<u><u>55,213</u></u>	<u><u>76,788</u></u>

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	As of December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current:			
Prepayments for property, plant and equipment	1,950	91	34,750
Total	57,117	55,304	111,538

Our prepayments, deposits and other receivables decreased from RMB57.1 million as of December 31, 2021 to RMB55.3 million as of December 31, 2022 primarily due to a decrease in value-added tax recoverable. This decrease was attributable to our slightly slower expansion in 2022, resulting in a lower deductible input tax amount. Our prepayments, deposits, and other receivables increased from RMB55.3 million as of December 31, 2022 to RMB111.5 million as of December 31, 2023, primarily due to (i) an increase in prepayments to external vendors for the procurement of certain third-party media resources to ensure supply stability and promptness, (ii) an increase in prepayments for property, plant and equipment related to our vending machines, and (iii) deferred [REDACTED] expenses in relation to the [REDACTED].

The table below sets forth a breakdown of our current prepayments by nature as of the dates indicated:

	As of December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Site fees	14,514	11,568	8,273
Inventory purchase	1,984	4,811	1,570
Service purchase	2,975	6,095	57,510
Others	220	78	404
Total	19,693	22,552	67,756

By nature, our prepayments can be categorized into (i) prepayment for site fees, which represents the prepayments we made to cover the charges for using specific sites or premises to place our vending machines. As of December 31, 2021, 2022 and 2023, our prepayments for site fees fluctuated in line with the size of our vending machine network due to the payment requirements that we needed to fulfill for using the sites or premises; (ii) prepayments for inventory purchase, which was used in the procurement of FMCGs such as food, beverages, cosmetics and daily necessities sold through our vending machines. During the Track Record Period, our prepayments for inventory purchase arose from our provision of merchandise sales.

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As of December 31, 2021, 2022 and 2023, our prepayments for inventory purchase fluctuated in line with the fluctuation in our inventories; (iii) prepayments for service purchase, which correspond to prepayments associated with our marketing efforts and our information technology service purchases. Such prepayments increased from December 31, 2021 to December 31, 2022, primarily due to increased prepayments to deliver technology development services. The increase in our prepayments for information technology service purchase from December 31, 2022 to December 31, 2023 was primarily due to our strategic enhancement of our capability of utilizing social media platforms for standard marketing service delivery, which attracted and retained more quality customers and simultaneously increased our procurement of third-party media resources. Such procurements typically required prepayments per industry convention.

The following table sets forth an aging analysis of our current prepayments as of the dates indicated presented based on payment date:

	As at December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 180 days	19,507	21,864	65,090
180 – 365 days	186	688	2,666
Total	19,693	22,552	67,756

The following table sets forth an aging analysis of the subsequent utilization of our prepayments as of the dates indicated:

	As of	Utilized	% of
	December 31, 2023	amount as of March 31, 2024*	prepayments utilized as of December 31, 2023
	<i>RMB'000</i>	<i>RMB'000</i>	%
Within 180 days	65,090	55,108	84.7
180 – 365 days	2,666	219	8.2
Total	67,756	55,326	81.7

Note:

* Only including the portion of prepayments that was utilized from our prepayments as of December 31, 2023, i.e., not taking into account the utilization of new prepayments made from December 31, 2023 to March 31, 2024.

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In 2021, 2022 and 2023, our service purchase prepayment turnover days were 29.8, 51.6 and 44.1 days, respectively. Such turnover days are calculated as the average of opening and closing balance of service purchase prepayment for the relevant year, divided by the information technology service fees for the same year, and multiplied by 365 days in 2021, 2022 and 2023.

As of March 31, 2024, RMB55.8 million, or 72.7%, of our prepayments, deposits and other receivables as of December 31, 2023 had been subsequently settled.

Cash and Bank Balance

Our cash and bank balance consist of (i) cash and cash equivalents and (ii) time deposits with a maturity over three months. Our bank balances and cash decreased from RMB191.8 million as of December 31, 2021 to RMB87.3 million as of December 31, 2022, primarily as a result of repayment of bank loans. In addition, the decrease in cash and bank balance was also attributable to the deterioration of working capital as a result of COVID-19. Our cash and bank balance increased to RMB299.0 million as of December 31, 2023, primarily due to our increased trade receivables collected from our customers and the working capital loans that we obtained from certain banks.

Trade Payables

Our trade payables mainly represent payable marketing expenses, payable vending machine site expansion costs, payable outsourcing research and development fees, and payables to our suppliers for our vending machines and merchandise. Our trade payables decreased from RMB50.9 million as of December 31, 2021 to RMB20.8 million as of December 31, 2022, primarily due to (i) a decrease in payables of outsourcing research and development as we focused on enhancing our in-house research and development capabilities and (ii) a decrease in payables to purchase vending machines. Our trade payables further decreased to RMB11.5 million as of December 31, 2023, primarily because of the change of composition of our suppliers and of payment terms required by one of our major standard marketing service suppliers.

Our trade payables are typically non-interest-bearing liabilities that are settled within a customary payment period ranging from 30 to 60 days. The following table sets forth an aging analysis of our trade payables as of the dates indicated based on the invoice date:

	As of December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	50,827	20,792	11,481
1 to 2 years	6	–	–
Over 2 years	41	–	–
	50,874	20,792	11,451
Total	50,874	20,792	11,451

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The following table sets forth the number of our trade payables turnover days for the years indicated:

	For the year ended December 31,		
	2021	2022	2023
Trade payables turnover days*	48.3	31.4	7.6

Note:

* Trade payables turnover days was calculated based on the average of opening and closing balance of trade payables for the relevant year, divided by the total of cost of sales, selling and distribution expenses, and research and development expenses for the same year, and multiplied by 365 days in 2021, 2022 and 2023.

Our trade payables turnover days decreased from 48.3 days in 2021 to 31.4 days in 2022, primarily due to a shift in our procurement. In 2022, we transitioned from procuring primarily vending machines, which previously constituted a major part of our trade payables in 2021, to purchasing other services and inventories that have shorter credit terms. In 2023, as we strategically enhanced our capability of utilizing social media platforms for standard marketing service delivery, we increased our procurement of third-party media resources, which typically required prepayments per industry convention. As a result, our trade payables turnover days further decreased to 7.6 days for 2023.

As of March 31, 2024, approximately RMB7.9 million, or 69.2%, of our trade payables as of December 31, 2023 had been settled.

Other Payables and Accruals

Our other payables and accruals primarily consist of salary payables, encompassing salaries and bonuses payable to our employees. The following table sets forth the details of our other payables and accruals as of the dates indicated:

	As of December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salary payables	4,431	4,524	3,668
Other tax payables	205	29	194
Outsourcing service fee payables	2,358	2,026	997
Professional service fee payables	2,000	20	–
Other payables and accruals	447	585	847
Accrual for [REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]
Total	9,441	7,184	9,404

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Our other payables and accruals decreased from RMB9.4 million as of December 31, 2021 to RMB7.2 million as of December 31, 2022, primarily due to a decrease in professional service fee payables. Our other payables and accruals increased from RMB7.2 million as of December 31, 2022 to RMB9.4 million as of December 31, 2023, primarily due to accrual for [REDACTED] expenses.

Contract Liabilities

Our contract liabilities primarily represent sporadic advance payments received for contracts towards the end of each fiscal year. During the Track Record Period, these liabilities remained relatively minimal, with amounts of RMB0.7 million, RMB0.2 million and RMB2.8 million as of December 31, 2021, 2022 and 2023, respectively. Our contract liabilities increased from RMB0.2 million in 2022 to RMB2.8 million as of December 31, 2023, primarily due to increased advances from our customers primarily due to our increase in business scale.

Income Tax Payable

Our income tax payable represents the amount of taxes owed to the tax authorities at the end of each year. We had an income tax payable of nil as of December 31, 2021, RMB13.9 million as of December 31, 2022 and RMB21.4 million as of December 31, 2023, due to the increase in our taxable income attributable to our increase in revenue.

Convertible Redeemable Preferred Shares and Convertible Bonds

Our liabilities of convertible redeemable preferred shares and convertible bonds were primarily related to convertible redeemable preferred shares and convertible bonds issued in our equity financings, which will be re-designated as equity upon the [REDACTED]. We had current and non-current liabilities of convertible redeemable preferred shares and convertible bonds of RMB976.7 million, RMB1,310.9 million and RMB1,254.0 million as of December 31, 2021, 2022 and 2023, respectively. See Note 25 to the Accountants’ Report in Appendix I to this document for details.

Such convertible redeemable preferred shares were also the primary contributor to our accumulated losses of RMB309.6 million as of January 1, 2021 as we recorded fair value loss of the convertible redeemable preferred shares as of January 1, 2021 due to the increase in our valuation in the preceding years, resulting in losses of our reserves. We continued recording fair value losses of the convertible redeemable preferred shares in 2021, 2022 and 2023 for the same reason.

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LIQUIDITY AND CAPITAL RESOURCES

Overview

Our principal use of cash during the Track Record Period was primarily for working capital purposes. Our main source of liquidity has been generated from financing activities and operations. As of December 31, 2023, we had cash and bank balance of RMB299.0 million. Our Directors are of the view that, and the Sole Sponsor concurs that, we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this document, taking into account our financial resources, including internally generated funds, the [REDACTED] from the [REDACTED], and available facilities from bank borrowings. We base this confidence on the following factors:

- **Cash Flow Generated From Operations:** Despite experiencing negative cash flow during the Track Record period, this was primarily attributable to the increase in trade receivables. The temporary impact of COVID-19 resulted in decreased cash flow, but we anticipate a positive shift as the effects diminish. We have confidence in our ability to generate cash from our core business operations, especially as we continue to grow. Our aim is to achieve steady cash flows from operating activities, which will ultimately contribute to our overall liquidity.
- **Bank Borrowings:** As of March 31, 2024, we had unutilized facilities for bank borrowings of RMB86.7 million, providing us with additional financial resources. Historically, we have been able to obtain bank borrowings when needed, and we believe that our strong relationships with banks and financial institutions will continue to support our borrowing needs in the future. We are committed to negotiating favorable terms and interest rates while maintaining a cautious approach to obtaining additional borrowings. Managing our indebtedness and maintaining a healthy financial position are key priorities for us.
- **[REDACTED] From the [REDACTED]:** We expect to receive net [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED], after deducting [REDACTED] commissions, fees, and estimated expenses payable by us in connection with the [REDACTED]. These [REDACTED] will further strengthen our financial position and support our business development initiatives.
- **Stringent Cash Management:** We closely monitor and manage our cash position and requirements to ensure that we have sufficient working capital for our operations. Our finance department is responsible for managing our working capital and the collection of our receivables settlement. We review our cash position and requirements on a weekly basis to determine the usage and allocation of cash in our operations, optimize our capital structure, and meet our working capital needs.

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Cash Flows

The following table sets forth our consolidated statements of cash flows for the years indicated:

	For the year ended December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash generated from operations before movements in working capital	123,128	190,178	262,772
Changes in working capital	(182,898)	(298,420)	(56,070)
Cash generated from/(used in) operating activities	(59,770)	(108,242)	206,702
Income tax paid	(9,455)	(1,665)	(15,228)
Interest received	338	977	238
Net cash flows (used in)/generated from operating activities	(68,887)	(108,930)	191,712
Net cash flows used in investing activities	(96,689)	(416)	(39,261)
Net cash flows generated financing activities	295,145	4,936	59,225
Net (decrease)/increase in cash and cash equivalents	129,569	(104,410)	211,676
Cash and cash equivalents at beginning of the year	62,183	191,752	87,342
Cash and cash equivalents at end of the year	191,752	87,342	299,018

Net Cash (Used in)/Generated From Operating Activities

In 2023, we had RMB191.7 million net cash flows generated from operating activities. The difference with RMB156.8 million of profit before income tax on accrual basis was mainly the result of adding back non-cash items such as RMB55.5 million in depreciation of property, plant, and equipment and RMB24.1 million in fair value losses on financial liabilities at FVTPL. In addition, a total of RMB56.1 million of cash was used in our working capital primarily due to (i) our trade receivables increased by RMB31.1 million, (ii) our prepayments and other receivables and other assets increased by RMB19.1 million and (iii) our trade payables decreased by RMB9.3 million.

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In 2022, we had RMB108.9 million net cash flows used in operating activities. The difference with RMB105.2 million of loss before income tax on accrual basis was mainly the result of adding back non-cash items such as RMB191.5 million in fair value losses on financial liabilities at FVTPL, RMB59.7 million in depreciation of property, plant, and equipment and RMB25.6 million in provision for impairment of trade receivables, net of reversal. In addition, a total of RMB298.4 million of cash was used in our working capital as (i) our trade receivables increased by RMB244.4 million, (ii) our trade and bill payables decreased by RMB30.1 million and (iii) our inventories increased by RMB21.1 million.

In 2021, we had RMB68.9 million net cash used in operating activities. The difference with RMB136.7 million of loss before income tax on accrual basis was mainly the result of adding back non-cash items such as RMB189.4 million in fair value losses on financial liabilities at FVTPL, RMB42.1 million in depreciation of property, plant, and equipment and RMB16.0 million in provision for impairment of trade receivables, net of reversal. In addition, a total of RMB182.9 million of cash was used in our working capital as (i) our trade receivables increased by RMB135.0 million; (ii) our increase in prepayments and other receivables and other assets by RMB24.5 million; (iii) our decrease in trade payables by RMB15.6 million; and (iv) our inventories increased by RMB12.6 million.

Net Cash Used in Investing Activities

For 2023, our net cash used in investing activities was RMB39.3 million, primarily due to our purchases of property, plant and equipment related to vending machines, and also due to our purchase of equity investments in Shandong Sofine Food Technology Co., Ltd (山東頌飯食品科技有限公司) (“Sofine”) designated purchases of financial assets at fair value through profit or loss.

Our investment in Sofine, a company that engages in catering management consulting services, was attributable to the expected synergies that may arise therefrom. As they primarily use their digitally enabled store network to cook and deliver their flash frozen dumplings to a young customer base located in tier one and new tier one cities, we seek to leverage our investment in Sofine to expand our expertise in developing new service offerings by making inroads into the flash frozen food category, which is witnessing growing customer demand. In addition, we intend to utilize their existing customer base and develop multi-dimensional “dine and experience” marketing contents, which could further enhance our competitiveness.

During the Track Record Period, our provision of marketing service to Sofine had been conducted on an arm’s length basis, and the terms of our transactions were substantially identical with similar transactions with other customers that are not in any way related to us. To the best of our knowledge, except from being one of our customers in 2022 and having contributed 3.0% of our revenue for the same year, Sofine does not have any other past or present relationship (including, without limitation, family, business, financing, employment or otherwise) with us, our subsidiaries, our shareholders, Directors, senior management or any of our respective associates.

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In 2021 and 2022, our net cash used in investing activities was RMB96.7 million and RMB0.4 million, respectively, primarily as a result of purchase of property, plant and equipment.

Net Cash Generated From Financing Activities

For 2023, our net cash generated from financing activities was RMB59.2 million, primarily as a result of (i) new bank loans raised of RMB119.9 million and (ii) proceeds from issue of preferred shares of RMB60 million, which was partially offset by (i) consideration paid for acquisition of 5.19% equity interest in Shanghai Quna of RMB80.0 million; (ii) repayment of bank loans of RMB27.7 million and (iii) capital deduction by employee shareholding platform of RMB6.7 million.

In 2022, our net cash from financing activities was RMB4.9 million, primarily as a result of (i) proceeds from issue of preferred shares of RMB142.8 million and (ii) new bank loans of RMB132.9 million, which was partially offset by (i) repayment of bank loans of RMB183.7 million; (ii) decrease in amount due to a shareholder of RMB80.0 million; and (iii) payments of lease liabilities of RMB3.8 million.

In 2021, our net cash from financing activities was RMB295.1 million, primarily as a result of (i) proceeds from issue of preferred shares of RMB185.8 million; (ii) new bank loans of RMB173.9 million and (iii) increase in amount due to a shareholder of RMB80.0 million, which was partially offset by (i) repayment of bank loans of RMB144.3 million and (ii) capital deduction by the Controlling Shareholders of RMB27.7 million.

Net Current Assets/Liabilities

	As of December 31,			As of
	2021	2022	2023	March 31,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
Current assets				
Inventories	20,426	32,690	27,785	19,059
Trade receivables	243,181	461,903	493,999	478,953
Prepayments, deposits and other receivables	55,167	55,213	76,788	117,710
Amount due from shareholders	1,188	1,188	7	–
Cash and bank balance	191,752	87,342	299,018	386,781
Total current assets	511,714	638,336	897,597	1,002,503

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	As of December 31,			As of
	2021	2022	2023	March 31,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2024 <i>(unaudited)</i>
Current liabilities				
Trade payables	50,874	20,792	11,451	16,498
Other payables and accruals	9,441	7,184	9,404	14,682
Contract liabilities	711	182	2,762	6,279
Income tax payable	–	13,892	21,365	23,647
Lease liabilities	3,489	1,752	1,659	1,082
Interest-bearing bank borrowings	59,800	26,247	119,940	199,840
Amount due to a shareholder	80,000	–	–	–
Convertible bonds	40,574	–	–	–
Deferred income	320	320	320	320
Convertible redeemable preferred shares	–	–	–	1,253,988
Total current liabilities	245,209	70,369	166,901	1,516,335
Net current assets/liabilities	266,505	567,967	730,696	(513,832)

INDEBTEDNESS

Our indebtedness mainly included bank borrowings, lease liabilities, and amount due to a shareholder (non-trade in nature) during the Track Record Period. Except as disclosed in the table below, we did not have any material mortgages, borrowing or similar indebtedness, charges, debentures, loan capital issued and outstanding or agreed to be issued, debt securities, bank loans and other loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees or other contingent liabilities as of March 31, 2024. After due and careful consideration, our Directors confirm that there had been no material change in our indebtedness since the Latest Practicable Date and up to the date of this document. Our Directors have confirmed that, as of the Latest Practicable Date, there was no material covenant on any of our outstanding debt and there was no breach of any covenants during the Track Record Period and up to the Latest Practicable Date. During the Track Record Period and up the Latest Practicable Date, to the best knowledge of our Directors, we did not experience any difficulty in obtaining bank loans.

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The following table sets forth a breakdown of our indebtedness as of the dates indicated:

	As of December 31,			As of
	2021	2022	2023	March 31,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>
Current				
Interest-bearing bank borrowings	59,800	26,247	119,940	199,840
Lease liabilities	3,489	1,752	1,659	1,082
Amount due to a shareholder (non-trade in nature)	80,000	–	–	–
Non-current				
Interest-bearing bank borrowings	32,202	15,000	13,500	13,500
Lease liabilities	1,729	215	528	369
Total	<u>177,220</u>	<u>43,214</u>	<u>135,627</u>	<u>214,791</u>

Interest-Bearing Bank Borrowings

Our interest-bearing bank borrowings during the Track Record Period were primarily used for business operations. Our interest-bearing bank borrowings bore interest at a rate equivalent to 3.20% to 5.75% per year. For more details of these pledges, see Note 24 to the Accountants’ Report in Appendix I to this document. Our Directors confirm that we have not defaulted in the repayment of the bank loans during the Track Record Period and up to the Latest Practicable Date.

FINANCIAL INFORMATION

Lease Liabilities

The following table sets forth our lease liabilities as of the dates indicated:

	As of December 31,			As of March 31,
	2021	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
Current	3,489	1,752	1,659	1,082
Non-current	1,729	215	528	369
Total	5,218	1,967	2,187	1,451

Our lease liabilities decreased from RMB5.2 million as of December 31, 2021 to RMB2.0 million as of December 31, 2022, primarily due to the expiration of certain leases. Our lease liabilities increased to RMB2.2 million as of December 31, 2023 primarily due to our renewal of leases for our office space that were at the early stage of amortization, and decreased to RMB1.5 million as of March 31, 2024, primarily due to the payment of lease obligations.

CAPITAL EXPENDITURES

We regularly incur capital expenditures to expand our business operations and vending machine network. Our capital expenditures represented payment for purchases of property, plant and equipment during the Track Record Period. In 2021, 2022 and 2023, we incurred capital expenditure of RMB107.6 million, RMB0.4 million and RMB35.5 million, respectively.

CONTRACTUAL OBLIGATIONS

Capital Commitments

As of December 31, 2021, 2022 and 2023, we had capital commitments of nil, RMB0.9 million and RMB16.8 million, respectively, primarily in connection with the fixed asset procurement in relation to vending machines.

Lease Commitments

As of December 31, 2021, 2022 and 2023, the outstanding lease commitment relating to our warehouse premises was RMB0.6 million, RMB0.9 million and RMB0.8 million, respectively. Our lease commitments increased from 2021 to 2022 primarily due to the addition of warehouse leases in subsequent years in line with business expansion. Our outstanding lease commitments decreased in 2023 because of the expiration of certain leases in 2023.

FINANCIAL INFORMATION

CONTINGENT LIABILITIES

As of December 31, 2021, 2022 and 2023, we did not have any material contingent liabilities. We confirm that as of the Latest Practicable Date, there had been no material changes or arrangements to our contingent liabilities.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

KEY FINANCIAL RATIOS

The table below sets forth the key financial ratios for the years or as of the dates indicated:

	As of/For the year ended December 31,		
	2021	2022	2023
Current ratio ⁽¹⁾	2.1	9.1 ⁽⁵⁾	5.4
Gross profit margin ⁽²⁾	68.8%	60.4%	53.2%
Adjusted profit margin (A non-IFRS measure) ⁽³⁾	10.4%	14.1%	19.9%
Adjusted EBITDA margin (A non-IFRS measure) ⁽⁴⁾	21.3%	27.9%	27.8%

Notes:

- (1) equals current assets divided by current liabilities as of the same date.
- (2) equals gross profit for the year divided by revenue for the year and multiplied by 100%.
- (3) equals adjusted profit (a non-IFRS measure) for the year divided by revenue for the year and multiplied by 100%.
- (4) equals adjusted EBITDA (a non-IFRS measure) for the year divided by revenue for the year and multiplied by 100%.
- (5) our current ratio increased from 2.1 as of December 31, 2021 to 9.1 as of December 31, 2022, primarily due to a significant decrease in total current liabilities from RMB245.2 million to RMB70.4 million as of the respective dates. Such a decrease is primarily attributable to (i) a decrease of amount due to a shareholder from RMB80.0 million to nil as of the respective dates because of our settlement in January 2022 of amounts due to Nanjing Siyue, an affiliate of Banyan Pacific, for Nanjing Siyue’s advance payment to Shanghai Quna and (ii) a decrease of convertible bonds from RMB40.6 million to nil as of the respective dates because of the conversion of such convertible bonds into Series E Preferred Shares in 2022 pursuant to the Series E Preference Share Purchase Agreement dated September 22, 2021. The current ratio subsequently decreased to 5.4 as of December 31, 2023, primarily due to a significant increase in total current liabilities from RMB70.4 million as of December 31, 2022 to RMB166.9 million as of December 31, 2023. Such an increase is primarily attributable to an increase in interest-bearing bank borrowings from RMB26.2 million to RMB119.9 million as of the respective dates.

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RELATED PARTY TRANSACTIONS

As of December 31, 2021, we had RMB80.0 million related party transaction in relation to amount due to a shareholder, which was fully settled in January 2022. As of December 31, 2021 and 2022, we had RMB1.2 million outstanding balance of amount due from shareholders related to reorganization, who repaid the balance subsequently in July 2023. As of December 31, 2023, we had RMB7 thousand outstanding balances of amount due from shareholders related to reorganization. The balances with related parties are all non-trade in nature and has been settled prior to [REDACTED]. For details, see Note 31 to the Accountant’s Report in Appendix I to this document. Our Directors confirm that all material related party transactions during the Track Record Period were conducted on an arm’s length basis, and would not distort our results of operations over the Track Record Period or make our historical results over the Track Record Period not reflective of our expectations for our future performance.

MARKET RISK DISCLOSURE

We are exposed to a variety of financial risks and market risk, including market risk, credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. For more details, see Note 35 to the Accountants’ Report in Appendix I to this document.

Interest Rate Risk

We are exposed to interest rate risk on our floating-rate bank borrowings.

Credit Risk

We trade only with recognized and creditworthy third parties, and there is no requirement for collateral. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, we monitor receivable balances on an ongoing basis, and our exposure to bad debts is not significant. We manage concentrations of credit risk based on customer/counterparty and industry sector.

Liquidity Risk

We monitor our exposure to liquidity risk by assessing the current ratio, which is determined by comparing our current assets with our current liabilities. Our liquidity is primarily dependent on our ability to generate adequate cash inflows from operations to fulfill our debt obligations as they come due. Additionally, we consider our ability to secure external financing to meet our committed future capital expenditure. For more details, see Note 35 to the Accountants’ Report in Appendix I to this document.

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DIVIDENDS

No dividend has been paid or declared by us during the Track Record Period. Currently, we do not have a formal dividend policy or a fixed dividend payout ratio. Our Board may declare dividends in the future after taking into account our results of operations, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Act. In addition, our Directors may from time to time pay such interim dividends as our Board considers to be justified by our profits and overall financial requirements, or special dividends of such amounts and on such dates as they deem appropriate. Under the Cayman Companies Act, a Cayman Islands company may pay a dividend out of its profits or the credit standing to its share premium account, provided that immediately after the date on which the dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business. As advised by our Cayman Islands legal adviser, a position of accumulated losses does not necessarily restrict us from declaring and paying dividends to our Shareholders, as dividends may still be declared and paid out of our share premium account, provided that, immediately after payment of the dividend, we are able to pay our debts as they fall due in the ordinary course of business.

DISTRIBUTABLE RESERVES

As of December 31, 2023, we had nil distributable reserves.

[REDACTED] EXPENSES

[REDACTED] expenses to be borne by us are estimated to be approximately RMB[REDACTED] (HK\$[REDACTED]) at the [REDACTED] of HK\$[REDACTED] per Share, representing [REDACTED]% of the total gross [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED]. We estimate the [REDACTED] expenses to consist of approximately RMB[REDACTED] (HK\$[REDACTED]) in [REDACTED] fees and RMB[REDACTED] (HK\$[REDACTED]) in non-[REDACTED] fees (which consist of fees and expenses of legal advisors and our Reporting Accountant of approximately RMB[REDACTED] (HK\$[REDACTED]) and other fees and expenses of approximately RMB[REDACTED] (HK\$[REDACTED])). As of December 31, 2023, we incurred [REDACTED] expenses of RMB[REDACTED] (HK\$[REDACTED]), of which (i) RMB[REDACTED] (HK\$[REDACTED]) was charged to the consolidated statements of profit or loss for the year ended December 31, 2023 and (ii) RMB[REDACTED] (HK\$[REDACTED]) was directly attributable to the [REDACTED] and [REDACTED] of our [REDACTED] and recognized as deferred [REDACTED] expenses and will be deducted from equity upon the [REDACTED].

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We estimate that additional [REDACTED] expenses of approximately RMB[REDACTED] (HK\$[REDACTED]) (based on the [REDACTED] of HK\$[REDACTED] per [REDACTED]) will be incurred by our Company, approximately RMB[REDACTED] (HK\$[REDACTED]) of which is expected to be charged to our consolidated statements of profit or loss, and approximately RMB[REDACTED] (HK\$[REDACTED]) of which is directly attributable to the [REDACTED] and [REDACTED] of our [REDACTED] and expected to be recognized as a deduction in equity directly upon the [REDACTED]. The [REDACTED] expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

UNAUDITED [REDACTED] STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited [REDACTED] statement of adjusted consolidated net tangible assets prepared in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants for illustration purposes only, and is set out here to illustrate the effects of (i) the [REDACTED] and (ii) conversion of Series Seed-1, Seed-2, Angel, A, B, C, D, E, E+ and F Preference Shares into ordinary shares upon completion of [REDACTED] on the consolidated net tangible assets attributable to ordinary shareholders of our Company as of December 31, 2023 as if the [REDACTED] had taken place on December 31, 2023.

The unaudited [REDACTED] statement of adjusted consolidated net tangible assets has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets attributable to ordinary shareholders of our Company had the [REDACTED] been completed as of December 31, 2023 or as at any future dates.

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The unaudited [REDACTED] statement of adjusted consolidated net tangible assets is prepared based on the consolidated net tangible assets attributable to ordinary shareholders of our Company as of December 31, 2023 as set out in the Accountants’ Report in Appendix I to this Document and is adjusted for the effects described below.

Consolidated net tangible liabilities of our Group attributable to owners of our Company as of December 31, 2023 RMB’000 (Note 1)	Estimated net [REDACTED] [REDACTED] [REDACTED] RMB’000 (Note 2)	Estimated impact to the consolidated net tangible liabilities upon the conversion of preferred shares RMB’000 (Note 3)	Unaudited [REDACTED] adjusted consolidated net tangible assets as of December 31, 2023 RMB’000	Unaudited [REDACTED] adjusted consolidated net tangible assets per Share as of December 31, 2023 RMB (Note 4)	HK\$ (Note 5)
Based on an [REDACTED] of HK\$[REDACTED] per Share	(387,825)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK\$[REDACTED] per Share	(387,825)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK\$[REDACTED] per Share	(387,825)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

- (1) *The consolidated net tangible liabilities of our Group attributable to equity holders of our Company as of December 31, 2023 was equal to the consolidated net liabilities attributable to owners of our Company as of December 31, 2023 of RMB387,825,000 set out in the Accountants’ Report in Appendix I to this Document.*
- (2) *The estimated net [REDACTED] from the [REDACTED] are based on estimated low end, mid-point and high end [REDACTED] of HK\$[REDACTED], HK\$[REDACTED] and HK\$[REDACTED] per Share after deduction of [REDACTED] fees and commissions and other related expenses payable by our Company (excluding the [REDACTED] expenses that have been charged to profit and loss account during the Track Record Period).*
- (3) *Upon the completion of the [REDACTED], all preferred shares will be automatically converted into ordinary shares. The conversion of Series Seed-1, Seed-2, Angel, A, B, C, D, E, E+ and F Preference Shares would have reclassified such preferred shares amounting to RMB[REDACTED] from liabilities to equity and accordingly increased the unaudited [REDACTED] adjusted consolidated net tangible liabilities of our Group at December 31, 2023 by RMB[REDACTED].*
- (4) *The unaudited [REDACTED] adjusted consolidated net tangible assets attributable to owners of our Company per Share is arrived at by dividing the unaudited [REDACTED] adjusted net tangible assets by [REDACTED] shares, being the number of shares in issue assuming that the [REDACTED] had been completed on December 31, 2023.*

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- (5) *For the purpose of this unaudited [REDACTED] statement of adjusted net tangible assets, the balances stated in RMB are converted into HK\$ at the rate of RMB1.0000 to HK\$1.1012.*
- (6) *No other adjustment has been made to the unaudited [REDACTED] adjusted consolidated net tangible asset of our Group to reflect any trading result or other transactions entered into subsequent to December 31, 2023.*

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that up to the date of this document, other than as disclosed under “Summary – Recent Developments” in this document, there had been no material adverse change in our financial, operational or prospects since December 31, 2023, being the latest balance sheet date of our consolidated financial statements as set out in the Accountants’ Report in Appendix I to this document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.