

SUMMARY

This summary aims to give you an overview of the information contained in this document and should be read in conjunction with the full text of this document. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document, including our financial statements and the accompanying notes, before you decide to invest in [REDACTED]. There are risks associated with any investment. Some of the particular risks in investing in [REDACTED] are set out in “Risk Factors” in this document. You should read that section carefully before you decide to invest in [REDACTED].

OVERVIEW

We are the second largest Pu’er tea company in China in terms of revenue generated from Pu’er tea products with a market share of 2.8% in 2021, ranking after a player with a market share of 12.9%, according to the F&S Report. With stringent quality requirements running through the entire industrial chain, we are among the very few tea companies in China experienced in raw material management, product development, production, end customer reach and membership services, according to the F&S Report, which we believe sets us apart from our competitors. After twenty years of operation, we have established ourselves as one of the most famous Pu’er tea brands in China. We are among the very few tea companies whose products have been included as one of the Top Ten Famous Teas in Yunnan Province for four consecutive years, and our products ranked first in the 2021 list. We are also one of the two tea companies recognized as Yunnan Top 10 Green Food Enterprises by certain provincial government departments including Yunnan Department of Agriculture and Rural Affairs in 2022, and among the few Pu’er tea companies included in the list of Key National Leading Enterprises for Agricultural Industrialization accredited by the Ministry of Agriculture and Rural Affairs of China in 2019.

Tea, a traditional Chinese beverage with a history of several thousands of years and considered beneficial for health, has in recent years gradually reclaimed its glamor from old times. The market size of China’s tea leaf market in terms of revenue increased from RMB214.8 billion in 2016 to RMB304.9 billion in 2021 at a CAGR of 7.3%, and is expected to reach RMB408.0 billion in 2026 at a CAGR of 6.0% from 2021 to 2026; and in particular, the Pu’er tea market in China is expected to increase from RMB18.5 billion in 2021 to RMB31.1 billion in 2026 at a CAGR of 10.9%, according to the F&S Report. Leveraging our brand and market position, we believe we are uniquely positioned to capitalize on the growth opportunity in the relevant markets.

Over twenty years of operation, we have established *Lan Cang Gu Cha* (瀾滄古茶) as our core brand, under which we have developed and structured two product lines, *i.e.*, *1966* and *Tea Mama* (茶媽媽), and launched a new product line, *Iland Tea* (岩冷), in July 2022, to meet the various demands from different groups of consumers, such as Pu’er enthusiasts, advanced tea drinkers, broader mass consumers, and new middle-class consumers with stronger purchasing power, who are perceived to be more fashionable and more generous to themselves. The following table sets forth a breakdown of our revenue by product line for the years indicated.

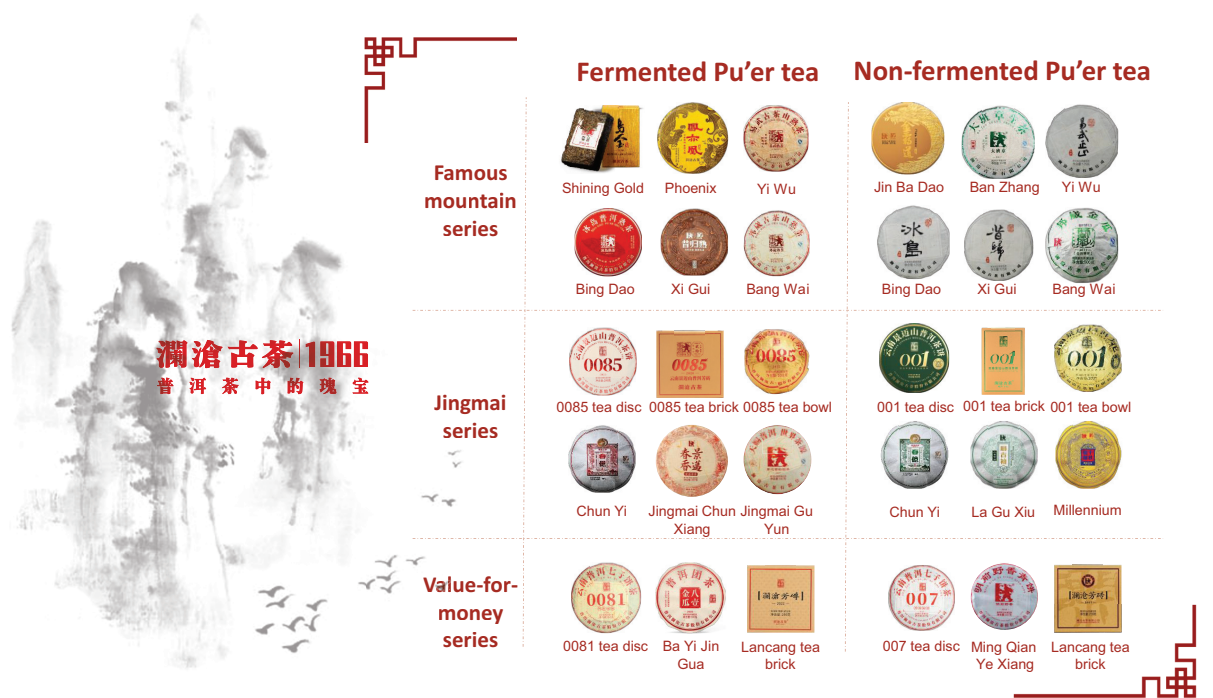
	Year ended December 31,					
	2020		2021		2022	
	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue
<i>(RMB in thousands except for percentages)</i>						
<i>Lan Cang Gu Cha — 1966</i>	299,139	73.8	413,910	74.1	301,379	65.1
— Non-fermented Pu’er tea products	93,232	23.0	190,581	34.1	113,681	24.6
— Fermented Pu’er tea products	205,150	50.6	196,996	35.3	178,453	38.6
— Pu’er tea sets	757	0.2	26,333	4.7	9,245	2.0
<i>Lan Cang Gu Cha — Tea Mama</i>	94,763	23.4	126,715	22.7	144,429	31.2
Other services and products ⁽¹⁾	11,563	2.8	18,052	3.2	17,061	3.7
Total revenue	405,465	100.0	558,677	100.0	462,869	100.0

⁽¹⁾ Primarily including sales of tea wares and tea making utensils and teahouse services.

SUMMARY

Focused on the development, manufacturing and sales of classic Pu’er tea leaf products, 1966 has historically experienced stable and sizable growth, serving as the bedrock of our business. *Tea Mama* was first introduced to the market as a consumer goods product line in 2014. We have capitalized on our rich product development experience in Pu’er tea and applied it to other types of teas, such as black tea, white tea and flavored tea, and creatively employed less traditional but more convenient product forms such as disposable tea cups and tea bags, enriching the product portfolio of *Tea Mama*. We believe that we have laid a solid foundation for the growth of *Tea Mama*, which is expected to become our next source of growth.

To better market different products according to their different features, we further classified our products under three product lines into various product series. During the Track Record Period, 1966 and *Tea Mama* had been our major sources of revenue. The following chart is an illustration of our product matrix.



SUMMARY



We believe the quality of our products is key to our success. The Lancang flavor, which stands for our unique, recognizable and stable flavor feature, is attributable to our ability to source high quality rough tea leaves, our accumulation of unique production techniques and our stringent quality control measures. Harnessing our experience in fermentation and blending, which are the two core manufacturing procedures of Pu'er tea, we have accumulated a wealth of production data and unique production techniques, which allow us to exert delicate control over the flavor of our tea leaf products and ensure stable product quality across different batches of production. Moreover, the vast majority of our tea leaves are sourced from Pu'er, Lincang and Xishuangbanna, the three major production areas of Pu'er tea in Yunnan, and in particular, Jingmai Mountain in Pu'er, which hosts some of the largest, oldest and best-preserved ancient tea tree plantations in the world and is currently nominated to be included in the World Heritage List for the ancient tea tree plantations in the region. According to the F&S Report, we were the largest purchaser of rough tea leaves from ancient tea trees in Jingmai Mountain in terms of procurement volume during the Track Record Period. With years of local presence, we have built strong and stable relationships with over 100 tea leaf cooperatives in the major production areas of Pu'er tea

SUMMARY

in Yunnan. As of December 31, 2022, we had over 3,700 tonnes of rough tea leaves and in-process tea leaves sourced in more than 15 different years stored in our specialized warehouses, which were sourced from tea plantations in major mountains in the three major production areas of Pu’er tea in Yunnan. Underpinned by our strong relationship with suppliers, adequate stock levels and specialized raw material inventory management, we are able to timely respond to constantly evolving market demands and see to the long-term stable production of our products, which may require blending of tea leaves sourced in different years and from different mountains.

We have established a national sales network, consisting of direct sales network and distributor sales network, which covers substantially all provincial administrative divisions across China. As of the Latest Practicable Date, we had 528 offline stores, among which 24 were self-operated stores and 504 were distributor-operated stores. Approximately 70% of our distributors as of December 31, 2022 had been part of our sales network for more than three years. During the Track Record Period and up to the Latest Practicable Date, we had been continuously making efforts on managing and optimizing our distributor sales network and distributors’ overall performance, and at the same time expanded into online sales channels such as stores on e-commerce platforms. In 2022, 11.7% of our total revenue was from sales made through our self-operated online stores.

Our Products

During the Track Record Period, we marketed our tea leaf products primarily under two product lines, *i.e.*, (1) *1966*, our classic product line focusing on Pu’er tea leaf products that target Pu’er enthusiasts and advanced tea drinkers, and (2) *Tea Mama*, our healthy lifestyle product line with a product portfolio that caters to a broader consumer base. We launched *Iland Tea*, a new product line targeting new middle-class consumers, in July 2022.

Lan Cang Gu Cha — 1966

As a classic product line positioned for Pu’er enthusiasts and advanced tea drinkers, *1966* is a tribute to our roots as our brand history traces back to 1966 in Jingmai Mountain, Yunnan Province. With years of geographic presence in one of the homes to Pu’er tea, we are able to maintain a stable supply of high-quality rough tea leaves and apply a proven set of Pu’er processing techniques to ensure the stable quality of *1966* products. Through *1966*, we have established ourselves as a leading Pu’er tea leaf brand well recognized among Pu’er enthusiasts in China, according to the F&S Report.

Pu’er tea products usually do not have an expiry date, and the longer Pu’er tea is preserved, the better it tastes and the higher value it possesses, according to F&S Report. *1966* offers a wide variety of fermented and non-fermented Pu’er tea leaf products, which can be further classified into three product series, *i.e.*, famous mountain series, Jingmai series and value-for-money series. In 2022, there were 127 Pu’er tea leaf products sold under *1966*. With a rich product portfolio covering a broad spectrum of classic Pu’er tea products, we believe we have built *1966* into a well-rounded classic Pu’er tea product line that is able to cater to Pu’er enthusiasts’ need for drinking, collection and gifting. The suggested retail prices of our major Pu’er tea leaf products produced in 2022 ranged from approximately RMB471 per kilogram to RMB50,420 per kilogram. In 2020, 2021 and 2022, the revenue generated from our *1966* products was RMB299.1 million, RMB413.9 million and RMB301.4 million, respectively, accounting for 73.8%, 74.1% and 65.1% of our total revenue in the same years, respectively. The average selling price range of our major products under *1966* ranged from RMB145 to RMB15,969 per kilogram in 2022, calculated by dividing the total revenue from a given product in 2022 with the total sales volume of such product in same year. The majority of our products under *1966*, which contributed over 75% of our revenue from *1966* in 2022, had an average selling price range from RMB1,000 to RMB5,000 per kilogram in the same year.

SUMMARY

Lan Cang Gu Cha — Tea Mama

With a brand image inspired by our founder, Ms. Du, who is nicknamed “tea mama,” we established *Tea Mama* in 2014 with a mission to bring motherly love and care to our customers. *Tea Mama* embodies tea drinkers’ pursuit of a healthy lifestyle and features a product portfolio that caters to a broader consumer base. Leveraging our profound experience in the Pu’er tea production, *Tea Mama* has successfully expanded its product portfolio into non-Pu’er tea products. In 2022, there were 126 products being sold under *Tea Mama*, covering various types of tea leaves including Pu’er tea, white tea, black tea and flavored tea, with a price range from RMB500 per kilogram to RMB15,800 per kilogram. Such product variety offered by *Tea Mama* allows us to attract more consumers with different tea drinking preferences. In addition, in order to adapt to modern consumers’ fast-paced lifestyle, we present our *Tea Mama* products in different packaging forms, such as tea discs, tea bags and disposable tea cups, which are easily available for drink in their daily life. In 2020, 2021 and 2022, the revenue generated from our *Tea Mama* products was RMB94.8 million, RMB126.7 million and RMB144.4 million, respectively, accounting for 23.4%, 22.7% and 31.2% of our total revenue in the same years, respectively. The average selling price range of our major products under *Tea Mama* ranged from RMB432 to RMB1,165 per kilogram in 2022. The majority of our products under *Tea Mama*, which contributed over 75% of our revenue from *Tea Mama* in 2022, had an average selling price range from RMB500 to RMB2,000 per kilogram in the same year.

Other Services and Products

Other than tea leaf products, we also sold a variety of tea wares and tea making utensils and provided teahouse services to consumers in our stores during the Track Record Period. In 2020, 2021 and 2022, the revenue generated from such sales and services was RMB11.6 million, RMB18.1 million and RMB17.1 million, respectively, accounting for 2.8%, 3.2% and 3.7% of our total revenue in the same years, respectively.

Lan Cang Gu Cha — Iland Tea

With our in-depth industry insights, we believe that we have acutely identified the need among new middle-class consumers for tea products that are both tasty and aesthetically enjoyable and launched *Iland Tea* in July 2022 with suggested retail prices ranging from approximately RMB1,242 per kilogram to RMB4,363 per kilogram. We strive to build *Iland Tea* into a product line that features quality products, fashionable packaging and convenience in drinking.

The following table sets forth a breakdown of our gross profit and gross profit margin by product line for the years indicated.

	Year ended December 31,					
	2020		2021		2022	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
(RMB in thousands except for percentages)						
<i>Lan Cang Gu Cha — 1966</i>	229,406	76.7%	297,018	71.8%	224,938	74.6%
— Non-fermented Pu’er tea products	61,194	65.6%	131,532	69.0%	72,934	64.2%
— Fermented Pu’er tea products	167,622	81.7%	146,646	74.4%	147,060	82.4%
— Pu’er tea sets	590	77.9%	18,840	71.5%	4,944	53.5%
<i>Lan Cang Gu Cha — Tea Mama</i>	53,012	55.9%	65,999	52.1%	75,042	52.0%
Other services and products ⁽¹⁾	3,017	26.1%	5,423	30.0%	5,017	29.4%
Total	285,435	70.4%	368,440	65.9%	304,997	65.9%

⁽¹⁾ Primarily including sales of tea wares and tea making utensils and teahouse services.

SUMMARY

The following table sets forth a breakdown of our sales volume and average selling price per kilogram by product line for the years indicated.

	Year ended December 31,					
	2020		2021		2022	
	Sales volume (tonne)	Average selling price per kilogram (RMB)	Sales volume (tonne)	Average selling price per kilogram (RMB)	Sales volume (tonne)	Average selling price per kilogram (RMB)
<i>Lan Cang Gu Cha — 1966</i>	396	756	551	751	440	685
— Non-fermented Pu’er tea products	132	708	173	1,099	156	729
— Fermented Pu’er tea products	264	778	361	546	263	678
— Pu’er tea sets	0	1,765	17	1,595	21	449
<i>Lan Cang Gu Cha — Tea Mama</i>	112	847	141	900	178	813
Total	508	799	692	808	618	722

Our Sales Network

We have a nationwide offline sales network, covering substantially all provincial administrative divisions across China. We engage distributors to distribute our products. In addition, we also sell directly to consumers through our self-operated stores. Since 2020, we have also expanded our sales network into key account channels including hypermarket chains and platform-operated online stores. The following table sets forth a breakdown of revenue contribution from our distributors, direct sale customers and key accounts for the years indicated.

	Year ended December 31,					
	2020		2021		2022	
	RMB	Percentage of total revenue (RMB in thousands except for percentages)	RMB	Percentage of total revenue	RMB	Percentage of total revenue
Sales to distributors	320,443	79.0	448,495	80.3	335,064	72.4
Sales to direct sale customers	84,452	20.8	93,912	16.8	116,276	25.1
— Offline sales to retail customers	33,159	8.2	51,815	9.3	62,042	13.4
— Online sales to retail customers	51,293	12.6	42,097	7.5	54,234	11.7
Sales to key accounts	570	0.2	16,270	2.9	11,529	2.5
Total	405,465	100.0	558,677	100.0	462,869	100.0

We sell our products through both offline channels and online channels. Our offline channels include self-operated stores, distributor-operated stores and hypermarket chains. As of December 31, 2020, 2021 and 2022, we had 17, 26 and 24 self-operated stores and 566, 531 and 508 distributor-operated stores, respectively. The number of our distributor-operated stores experienced decreases during the Track Record Period mainly because we raised the threshold for distributor selection and terminated business relationships with certain distributors whose track record did not meet our enhanced distributor selection criteria. Online channels include our self-operated online stores on major e-commerce platforms in China, where we sell directly to our retail customers through such platforms, and platform-operated online stores as our key account customers in a buyer-seller relationship for the distribution of our products to their retail customers. The e-commerce platforms are responsible for the overall operation of their platform-operated online stores.

We engage distributors to distribute our products. Typically, our distributors sell our products directly to retail customers. Our relationship with distributors is a buyer and seller relationship as distributors acquire ownership of the products we deliver to them, and no return, exchange or refund is allowed except for limited circumstances such as quality defects or damage during transportation. We value our distributors’ business operation

SUMMARY

capabilities and their cooperative relationships with us. As of December 31, 2022, approximately 70% of our distributors had been part of our sales network for more than three years.

The following table sets forth a breakdown of our revenue by geographic location for the years indicated.

	Year ended December 31,					
	2020		2021		2022	
	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue
	<i>(RMB in thousands except for percentages)</i>					
Offline sales	353,602	87.2	515,280	92.2	405,337	87.6
— South China	157,542	38.9	226,761	40.6	188,305	40.7
— East China	53,513	13.2	80,569	14.4	57,727	12.5
— Southwest China	43,745	10.8	66,541	11.9	57,093	12.3
— North China	38,037	9.4	53,039	9.5	44,392	9.6
— Northwest China	28,966	7.1	39,073	7.0	25,664	5.5
— Central China	16,353	4.0	25,614	4.6	18,681	4.0
— Northeast China	14,870	3.7	23,037	4.1	12,873	2.8
— Hong Kong, Macao and Taiwan	576	0.1	646	0.1	601	0.1
Online sales	51,863	12.8	43,397	7.8	57,532	12.4
Total	405,465	100.0	558,677	100.0	462,869	100.0

Raw Materials and Packaging Materials

The principal raw material we use in the production of our products is rough tea leaves, which are used in producing Pu’er tea, black tea, white tea and flavored tea. We take a holistic approach in making purchasing decisions of rough tea leaves. Factors affecting our purchasing decisions include the price, quality and origin of a certain batch of rough tea leaves as well as our long-term product development plan. In 2020, 2021 and 2022, purchase for rough tea leaves amounted to RMB99.9 million, RMB196.9 million and RMB165.1 million, respectively. The purchasing prices of our raw materials fluctuate due to a variety of factors, including supply and demand, our ability to negotiate prices with suppliers, logistics and others. Apart from raw materials, we also need packaging materials, which primarily consist of cardboard and metal packaging materials, to produce our products. In 2020, 2021 and 2022, purchase for packaging materials amounted to RMB16.5 million, RMB49.9 million and RMB37.9 million, respectively. During the Track Record Period, we did not experience any significant shortage of raw material and packaging material supplies, and the raw materials and packaging materials provided by our suppliers did not have any significant quality issues.

Our Suppliers

We primarily purchase raw materials such as rough tea leaves, packaging materials, logistics and transportation services, and processing services from suppliers for our business operations. We do not own any tea leaf plantations or any tea trees, but instead, source rough tea leaves from the tea leaf cooperatives in major Pu’er tea production areas in Yunnan Province, where the soil quality and humidity are well suited to give these tea leaves their freshness and taste. Our suppliers for packaging materials are primarily located in Yunnan Province and Guangdong Province. Our independent third party processing partners primarily provide processing services for our flavored tea products, such as *Little Green Mandarin*, while we are responsible to provide adequate tea leaves and packaging materials. We have maintained long-term and stable business relationships with a large number of tea leaf cooperatives and expect to maintain amicable relationships with them. In 2022, more than 50% of our purchase amount of rough tea leaves were attributable to tea leaf cooperatives with over five years’ business relationship with us, and more than 30% of that were attributable to tea leaf cooperatives with over ten years’ business relationship with us.

SUMMARY

Production Bases

As of the Latest Practicable Date, we had two production bases, both located in Pu’er, Yunnan. Our production base in Lancang is our primary production base, where substantially all tea leaf products under *1966* are manufactured. Our production base in Simao is our secondary production base, which is mostly designed for the production of tea leaf products under *Tea Mama*, including black tea, white tea and flavored tea other than Chenpi Pu’er.

The following table sets forth the details of our production bases for the years indicated.

Production base	Production capacity (tonnes) ⁽¹⁾			Production volume (tonnes) ⁽²⁾			Utilization rate (%) ⁽³⁾		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
Lancang County, Pu’er City (普洱市澜沧縣)	635.1	684.0 ⁽⁴⁾	1,124.2 ⁽⁵⁾	518.7	592.0	1,015.0	81.7	86.5	90.3
Simao District, Pu’er City (普洱市思茅區)	116.8	160.6 ⁽⁶⁾	160.6	22.1	40.9	64.6	18.9	25.4	40.2

- (1) Production capacity is calculated based on the assumption that our production facilities operate 2,920 hours per year.
- (2) During the Track Record Period, the Lancang production base was utilized for the production of tea leaves to be used in our Chenpi Pu’er products, the later production stage of which was outsourced to a third party processing partner. See “—Production Outsourced to Third Parties.” The production of such tea leaves to be used in our Chenpi Pu’er products was not reflected in the production volume of the Lancang production base in the Track Record Period as such tea leaves to be used in Chenpi Pu’er products were not counted as finished goods.
- (3) Utilization rate is calculated by dividing the production volume of a given year by the production capacity of the same year.
- (4) The increase in capacity was the result of our addition of a new production facility in Lancang, which was completed in October 2021 with an annualized theoretical production capacity of 293.6 tonnes per year. The new facility was used for production for approximately two months in 2021, thereby increasing the production capacity of the Lancang production base by 7.7% from 635.1 tonnes in 2020 to 684.0 tonnes in 2021.
- (5) The increase in capacity was primarily due to the capacity increase of the new production facility in Lancang after its ramp-up period.
- (6) The capacity of the Simao production base increased by 37.5% from 116.8 tonnes per year in 2020 to 160.6 tonnes per year in 2021 due to our addition of new production equipment.

COMPETITIVE STRENGTHS

We believe the following competitive strengths have contributed to our success and differentiated us from our competitors: (1) one of the most famous Pu’er tea brands in China with high growth potential; (2) unique production techniques and sound research and development capabilities; (3) unmatched access to high quality raw materials and rich inventory of tea leaves; (4) comprehensive sales network with omni-channel reach; (5) stringent quality requirements and craftsmanship in production; and (6) entrepreneurial management laser-focused on our success in the tea leaf industry.

GROWTH STRATEGIES

We intend to enhance our competitive strengths and pursue the following strategies to expand our business: (1) enhance our inventory management and production capabilities; (2) continue to optimize our national sales network and enhance our sales and servicing capabilities; (3) further expand our business through strategic investments and acquisitions; (4) continue to promote our brand awareness and market visibility through differentiated strategies for different product lines; and (5) upgrade our information technology infrastructure and further strengthen our research and development capabilities.

SUMMARY

RISKS AND CHALLENGES

Our business and [REDACTED] involve certain risks, which are set out in the section headed “Risk Factors” in this document. Some of the major risk factors that we face include: (1) shift in consumer demand, or any unexpected situation with a negative impact on consumer demand; (2) damage to our brand or reputation; (3) deterioration in relationships with distributors; (4) inability to manage our growth; (5) product quality issue; (6) fluctuations in prices and changes in the quality of raw materials; (7) dependence on tea leaf cooperatives for rough tea leaves; (8) inability to source adequate rough tea leaves from tea leaf cooperatives or failure to maintain good relationships with such cooperatives; (9) impact from COVID-19 pandemic; and (10) failure to upgrade our existing products or to launch new products. As different investors may have different interpretations and criteria when determining the significance of a risk, you should carefully read the “Risk Factors” section in its entirety before you decide to invest in our [REDACTED].

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following is a summary of our historical financial information as of and for the years ended December 31, 2020, 2021 and 2022, extracted from the Accountant’s Report set out in Appendix I to this document. The summary below should be read in conjunction with the consolidated financial information in Appendix I, including the accompanying notes and the information set forth in the section headed “Financial Information” in this document. Our consolidated financial information was prepared in accordance with HKFRSs.

Summary of Results of Operations

The following table sets forth a summary of our results of operations for the years indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Year ended December 31,		
	2020	2021	2022
	<i>(RMB in thousands)</i>		
Revenue	405,465	558,677	462,869
Cost of sales	(120,030)	(190,237)	(157,872)
Gross profit	285,435	368,440	304,997
Profit before income tax	140,019	146,282	85,449
Profit for the year	123,032	128,960	70,492
Profit attributable to:			
Owners of the Company	122,882	131,006	72,205
Non-controlling interests	150	(2,046)	(1,713)
Profit for the year	123,032	128,960	70,492

Non-HKFRS Measures

In order to supplement our consolidated financial statements presented in accordance with the HKFRSs, we use adjusted net profit (non-HKFRS measure) as an additional financial measure, which is not required by, or not presented in accordance with HKFRSs. Our adjusted net profit (non-HKFRS measure) represents our profit for the year, adjusted to add back share-based payment expenses and [REDACTED] that we recognized in our consolidated statements of comprehensive income during the Track Record Period less related income tax expenses. Our share-based payment expenses represented the non-cash employee benefit expenses incurred in connection with our employee share scheme, and did not result in cash outflow. Share-based payment expenses are adjusted for as they are non-cash in nature, and were not expected to result in future cash payments. We believe that non-HKFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain items. However, adjusted net profit (non-HKFRS measure) presented by us may not be comparable to the similar financial measure presented by other companies. There are

SUMMARY

limitations to the non-HKFRS measure used as an analytical tool, and you should not consider it in isolation or regard it as a substitute for our results of operation or financial position analysis that is in accordance with HKFRSs.

	Year ended December 31,		
	2020	2021	2022
	<i>(RMB in thousands)</i>		
Profit for the year	123,032	128,960	70,492
Add:			
Share-based payment expenses	—	18,000	—
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Less:			
Income tax expenses in relation to above reconciled items	—	(2,700)	(218)
Adjusted net profit (non-HKFRS measure)	[REDACTED]	[REDACTED]	[REDACTED]

Our total revenue was RMB405.5 million, RMB558.7 million and RMB462.9 million in 2020, 2021 and 2022, respectively. Our revenue increased by 37.8% from RMB405.5 million in 2020 to RMB558.7 million in 2021, primarily as a result of our continued efforts to grow our business, optimize sales channels and launch products that cater to the evolving consumer demand. Our revenue decreased by 17.1% from RMB558.7 million in 2021 to RMB462.9 million in 2022, primarily as a result of the resurgence of COVID-19 across the country in 2022, which caused disruptions to the operation of our stores in the affected regions.

In 2020, 2021 and 2022, our cost of sales was RMB120.0 million, RMB190.2 million and RMB157.9 million, respectively, representing 29.6%, 34.1% and 34.1% of our total revenue for the same years, respectively. Our cost of sales increased by 58.5% from RMB120.0 million in 2020 to RMB190.2 million in 2021. Such increase in our cost of sales was primarily due to (1) general growth of our business resulting in the revenue increase and (2) the increase in cost of raw materials mainly attributable to the launch of *Millennium* in 2021, a flagship non-fermented Pu'er tea product made from quality tea leaves sourced from Jingmai Mountain. Our cost of sales decreased by 17.0% from RMB190.2 million in 2021 to RMB157.9 million in 2022. Such decrease in our cost of sales was primarily due to (1) the general decrease in our revenue caused by the negative impacts of COVID-19 in 2022, and (2) the decrease in cost of raw materials as a result of our decreased sales volume in the same year.

In 2020, 2021 and 2022, our gross profit was RMB285.4 million, RMB368.4 million and RMB305.0 million, respectively. During the same years, our gross profit margin was 70.4%, 65.9% and 65.9%, respectively. Our gross profit margin decreased from 70.4% in 2020 to 65.9% in 2021, primarily due to more non-fermented Pu'er tea leaf products launched in 2021, which generally have a lower margin than fermented Pu'er tea leaf products. In 2022, our gross profit margin remained stable at 65.9%.

Our net profit increased from RMB123.0 million in 2020 to RMB129.0 million in 2021 and decreased to RMB70.5 million in 2022, mostly in line with the fluctuation of our gross profit in the relevant years.

SUMMARY

Summary of Consolidated Statements of Financial Position

The following table sets forth a summary of our consolidated statements of financial position as of the dates indicated.

	As of December 31,		
	2020	2021	2022
	<i>(RMB in thousands)</i>		
Total non-current assets	241,520	367,455	463,128
Total current assets	663,307	827,030	947,773
Total current liabilities	146,885	172,249	386,531
Net current assets	516,422	654,781	561,242
Total assets less current liabilities	757,942	1,022,236	1,024,370
Total non-current liabilities	169,643	264,870	225,100
Net assets	588,299	757,366	799,270
Non-controlling interests	2,110	9,311	5,034

The general increase in our total non-current assets from RMB241.5 million as of December 31, 2020 to RMB463.1 million as of December 31, 2022 was primarily due to the increase in our right-of-use assets for the expansion of our business.

The increase in our net current assets from RMB516.4 million as of December 31, 2020 to RMB654.8 million as of December 31, 2021 was in line with our business growth. Our net current assets decreased from RMB654.8 million as of December 31, 2021 to RMB561.2 million as of December 31, 2022, primarily due to (1) the increase in our trade and other payables as we slowed down the settlement for the purchase of rough tea leaves in light of the uncertainties relating to COVID-19, as well as (2) the increase in the current portion of our non-current bank borrowings, which was partially offset by the increase in our inventories.

The general increase in our net assets from RMB588.3 million as of December 31, 2020 to RMB799.3 million as of December 31, 2022 was primarily due to the combined effect of (1) the profit generated and dividends paid in each year during the Track Record Period, (2) capital contributions from non-controlling interests and (3) the shares granted under the employee share scheme. In particular, our net profit was RMB123.0 million, RMB129.0 million and RMB70.5 million in 2020, 2021 and 2022, respectively; we declared dividends to our Shareholders of RMB16.8 million, RMB16.8 million and RMB23.9 million in the same years, respectively; we received capital contributions from non-controlling interests of RMB2.0 million, RMB9.1 million and nil in the same years, respectively; we granted shares under the employee share scheme of nil, RMB48.0 million and nil in the same years, respectively. For details of the employee share scheme, see Note 26(a) to the Accountant’s Report in Appendix I to this document. See also consolidated statements of changes in equity in the Accountant’s Report in Appendix I to this document.

Summary of Consolidated Statements of Cash Flows

The following table sets forth a summary of our cash flows for the years indicated.

	Year ended December 31,		
	2020	2021	2022
	<i>(RMB in thousands)</i>		
Net cash generated from/(used in) operating activities	93,463	(8,984)	39,635
Net cash used in investing activities	(20,946)	(56,193)	(76,816)
Net cash (used in)/generated from financing activities	(59,380)	32,812	(14,338)
Cash and cash equivalents at end of the year	173,911	141,546	90,027

Net cash used in operating activities was RMB9.0 million in 2021, primarily reflected our profit before income tax of RMB146.3 million, income tax paid of RMB34.7 million and net interest paid of RMB8.7 million, as adjusted by certain non-cash and non-operating items, primarily including (1) depreciation of right-of-use assets of RMB22.6 million, (2) share-based payment expenses of RMB18.0 million, (3) depreciation of property, plant and equipment of RMB12.2 million, (3) finance costs of RMB8.7 million, and (4) negative changes in working capital. Adjustments for changes in working capital primarily included

SUMMARY

(1) an increase in inventories of RMB166.2 million and (2) an increase in trade and other receivables of RMB22.2 million, partially offset by an increase in trade and other payables of RMB21.0 million. See “Financial Information—Discussion of Certain Items from the Consolidated Statements of Financial Position—Inventories.”

KEY FINANCIAL RATIOS

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

	As of/for the year ended December 31,		
	2020	2021	2022
Profitability ratios			
Gross profit margin	70.4%	65.9%	65.9%
Net profit margin	30.3%	23.1%	15.2%
Return on equity	23.0%	19.2%	9.1%
Return on total assets	14.7%	12.3%	5.4%
Liquidity ratios			
Current ratio	4.5x	4.8x	2.5x
Gearing ratio	16.2%	17.0%	20.9%

See “Financial Information—Key Financial Ratios” for details.

OUR MARKET OPPORTUNITIES

With the raising health awareness among Chinese consumers, the tea leaf market in China, as a major segment and growth driver of China’s tea market, has experienced steady growth. The total annual production volume of tea leaves in China increased from 2.3 million tonnes in 2016 to 3.1 million tonnes in 2021 at a CAGR of 6.2%, and is expected to reach 4.2 million tonnes in 2026 at a CAGR of 6.3% from 2021 to 2026. The market size of China’s tea leaf market in terms of revenue increased from RMB214.8 billion in 2016 to RMB304.9 billion in 2021 at a CAGR of 7.3%, and is expected to reach RMB408.0 billion in 2026 at a CAGR of 6.0% from 2021 to 2026.

Pu’er tea in China has experienced stable growth, indicating a healthy growth potential. The market size of China’s Pu’er tea market in terms of revenue increased from RMB9.4 billion in 2016 to RMB18.5 billion in 2021 at a CAGR of 14.5%, and is expected to reach RMB31.1 billion in 2026 at a CAGR of 10.9% from 2021 to 2026. Depending on whether rough tea leaves have been artificially fermented, Pu’er tea products can be further classified into fermented and non-fermented Pu’er tea. Fermented Pu’er tea market has been a key growth driver of the Pu’er tea market, and its market size in terms of revenue increased from RMB2.2 billion in 2016 to RMB5.0 billion in 2021 at a CAGR of 17.8%, and is expected to reach RMB9.0 billion in 2026 at a CAGR of 12.5% from 2021 to 2026.

OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, Ms. Du and Ms. Wang, by virtue of their acting-in-concert arrangements, were entitled to control the exercise of 47.96% voting rights at the general meetings of our Company, including (i) 18.07% beneficially owned by Ms. Du directly, (ii) 2.66% and 6.12% beneficially owned by Mr. Shi Yue (石躍) (Ms. Du’s husband) and Ms. Shi Ailing (石艾靈) (Ms. Du’s daughter), respectively, (iii) 13.22% beneficially owned by Ms. Wang directly, and (iv) 7.89% beneficially owned by Guangzhou Tiansu, which is controlled by Ms. Wang as its controlling shareholder. Upon the [REDACTED], Ms. Du and Ms. Wang will be entitled to control the exercise of [REDACTED]% voting rights at the general meetings of our Company, including (i) [REDACTED]% beneficially owned by Ms. Du directly, (ii) [REDACTED]% beneficially owned by Mr. Shi Yue and [REDACTED]% beneficially owned by Ms. Shi Ailing, (iii) [REDACTED]% beneficially owned by Ms. Wang directly, and (iv) [REDACTED]% beneficially owned by Guangzhou Tiansu, assuming [REDACTED] is not exercised. Therefore, Ms. Du and Ms. Wang were our Controlling Shareholders as of the Latest Practicable Date and will continue to be our Controlling Shareholders upon the [REDACTED]. See “History and Corporate Structure — Acting in Concert” for details of the acting-in-concert arrangements between Ms. Du and Ms. Wang.

SUMMARY

CONNECTED TRANSACTIONS

We have entered into certain transactions with persons that will, upon [REDACTED], become our connected persons (as defined under Chapter 14A of the Listing Rules). Accordingly, following [REDACTED], the transactions contemplated thereunder will constitute continuing connected transactions under Chapter 14A of the Listing Rules. See “Connected Transactions” for details of the connected transactions.

[REDACTED] INVESTMENTS

To fund our rapid business expansion and diversify our Shareholder base, since February 2018, our Company have conducted several [REDACTED] investments with reputable institutional and individual investors, such as Gongqingcheng Kaiyi Hengzheng Investment Management Partnership (Limited Partnership) (共青城凱易恆正投資管理合夥企業(有限合夥)), Pingyang Juanquan Xinben Investment Partnership (Limited Partnership) (平陽浚泉信本投資合夥企業(有限合夥)), Pingyang Junquan Shenshi Equity Investment Partnership (平陽浚泉慎始股權投資合夥企業(有限合夥)), Dr. Zheng Wenping (鄭文平) and Mr. Wu Zhize (吳志澤). See “History and Corporate Structure — [REDACTED] Investments” for details of the principal terms of our [REDACTED] Investments and the identity and background of our [REDACTED] Investors.

APPLICATION FOR [REDACTED] ON THE STOCK EXCHANGE

We have applied to [REDACTED] of the Stock Exchange for the grant of the [REDACTED] of, and permission to [REDACTED] in, our H Shares to be issued pursuant to [REDACTED] (including any H Shares which may be issued pursuant to the exercise of [REDACTED]), on the basis that, among other things, we satisfy the profit test under Rule 8.05(1) of the Listing Rules.

[REDACTED]

We expect to incur a total of RMB[REDACTED] million of [REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED] range between HK\$[REDACTED] and HK\$[REDACTED], and assuming that [REDACTED] is not exercised) until the completion of [REDACTED]. We recognized [REDACTED] of RMB[REDACTED] million in our consolidated statement of comprehensive income for the year ended December 31, 2022. We estimate that RMB[REDACTED] million of [REDACTED] will be charged to our consolidated statement of comprehensive income for the year ending December 31, 2023. The remaining RMB[REDACTED] million is directly attributable to the [REDACTED] of our Shares to [REDACTED] and is expected to be deducted from equity.

[REDACTED] include RMB[REDACTED] million of fees for legal advisors and the Reporting Accountant, RMB[REDACTED] million of other fees unrelated to [REDACTED], and RMB[REDACTED] million of [REDACTED] payable to [REDACTED] and transaction fees (including SFC transaction levy, AFRC transaction levy, and Stock Exchange trading fee) in connection with the [REDACTED] under [REDACTED]. The [REDACTED] above represent approximately [REDACTED]% of our gross [REDACTED] from [REDACTED] and are the best estimate as of the Latest Practicable Date and for reference only. The actual amount may differ from this estimate.

SUMMARY

[REDACTED] STATISTICS

All statistics in the following table are based on the fact that (1) [REDACTED] has been completed and [REDACTED] are issued pursuant to [REDACTED]; and (2) [REDACTED] is not exercised.

	Based on an [REDACTED] of HK\$[REDACTED] per [REDACTED]	Based on an [REDACTED] of HK\$[REDACTED] per [REDACTED]
[REDACTED] of our Shares ⁽¹⁾	HK\$[REDACTED] million	HK\$[REDACTED] million
Unaudited [REDACTED] adjusted net tangible asset per Share ⁽²⁾	HK\$[REDACTED]	HK\$[REDACTED]

- (1) The calculation of [REDACTED] is based on [REDACTED] Shares expected to be in issue immediately upon completion of [REDACTED] (assuming [REDACTED] is not exercised).
- (2) The unaudited [REDACTED] per Shares is arrived at after adjusting for the estimated [REDACTED] from [REDACTED] and on the basis that [REDACTED] Shares were in issue assuming that [REDACTED] has been completed on December 31, 2022 but takes no account of any Shares which may be allotted and issued pursuant to the exercise of [REDACTED] or any Shares which may be issued or repurchased by the Company.

FUTURE PLANS AND [REDACTED]

We estimate the [REDACTED] of [REDACTED] which we will receive, assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of [REDACTED] range stated in this document), will be approximately HK\$[REDACTED] million, after deduction of [REDACTED] and [REDACTED] and other estimated expenses in connection with [REDACTED] assuming [REDACTED] is not exercised. We intend to use the [REDACTED] for the following purposes: (1) approximately [REDACTED]%, or HK\$[REDACTED] million for building modernized logistics and warehousing centers and new production facilities and upgrading our current production facilities; (2) approximately [REDACTED]%, or HK\$[REDACTED] million for sales channel building; (3) approximately [REDACTED]%, or HK\$[REDACTED] million for brand building and product marketing; (4) approximately [REDACTED]%, or HK\$[REDACTED] million for strategic investments in and acquisitions of business opportunities in the tea industry; (5) approximately [REDACTED]%, or HK\$[REDACTED] million for upgrading our information technology infrastructure and further strengthening our research and development capabilities; and (6) approximately [REDACTED]%, or HK\$[REDACTED] million for working capital and other general corporate purposes.

See “Future Plans and [REDACTED]” for further information relating to our Future Plans and [REDACTED] from [REDACTED], including the adjustment on the allocation of the [REDACTED] in the event that [REDACTED] is fixed at a higher or lower level compared to the midpoint of the estimated [REDACTED] range.

DIVIDENDS

According to the Articles of Association and applicable laws and regulations, our profit distribution proposal is formulated by our Board, and upon approval by the Board and the Board of Supervisors, it is submitted to a Shareholders’ general meeting for consideration where it must be passed by Shareholders representing more than half of the voting rights of the Shareholders who attend the general meeting. Our Board will declare dividends, if any, in RMB with respect to the H Shares on a per Share basis and will pay such dividends in Hong Kong dollars. All of our Shareholders have equal rights to distributable profits, and our profits will be distributed on a pro-rata basis.

SUMMARY

Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the discretion of our Board. Both current and new Shareholders are entitled to our accumulated retained earnings prior to [REDACTED], subject to compliance with our Articles of Association and relevant regulatory requirements.

During the Track Record Period, we declared dividends to our Shareholders of RMB16.8 million, RMB16.8 million and RMB23.9 million in 2020, 2021 and 2022, respectively, in light of our cumulative business growth. All of such dividends declared during the Track Record Period had been fully settled by bank transfer to our Shareholders as of December 31, 2022. See also Note 13 to the Accountant’s Report in Appendix I to this document.

RECENT DEVELOPMENTS

COVID-19 Outbreak and Effects on Our Business

The outbreak of COVID-19 that began in late 2019 has materially and adversely affected the global economy. In response to the pandemic, the Chinese government implemented travel restrictions and social distancing measures from time to time during the past three years. While the pandemic came under control in China from the second quarter of 2020, there was a significant rise in COVID-19 cases, including the COVID-19 Delta and Omicron variant cases, in various cities in China in 2022. The local governments of the affected cities had then reinstated certain COVID-related measures, including travel restrictions, quarantine policy and stay-at-home orders. For example, infections in Shanghai forced the Chinese government to impose a general quarantine on the city for two months, and Guangdong Province experienced multiple outbreaks that significantly reduced traffic in offline stores. In December 2022, the Chinese government eased its strict COVID-19 restrictions, representing a significant shift from the zero-COVID policy that China had maintained for the past three years. Since such policy changes, China has experienced a surge in COVID-19 infections across the country.

Our Directors have carried out a holistic review of the impact of the COVID-19 on our operations and confirmed that as of the Latest Practicable Date, COVID-19 has, or may have, the following impacts on our business.

Throughout 2022, multiple outbreaks of new variants of COVID-19 across China repeatedly caused disruptions to the operation of our stores in the affected regions, including temporary store closures, reduced operating hours, reduced offline customer traffic and canceled tea tasting sessions as a result of pandemic control measures in public places to contain the spread of viruses. We were forced to wage certain marketing campaigns online instead of offline or even abandon the planned marketing campaigns. For example, we were forced to abandon our plans for *Journey Home* (回家之旅) and *Yangcheng Golden Autumn* (羊城金秋) in 2022 due to lack of feasibility. Our results of operations for 2022 were negatively affected by the resurgence of COVID-19 in China, primarily due to (1) disruption in our business operations, such as disrupted offline store operations in affected regions and cancellation of certain offline campaigns, and (2) consumer pessimism in light of the pandemic which suppressed the demand for our products. More specifically, our revenue decreased by 17.1% from RMB558.7 million in 2021 to RMB462.9 million in 2022. Our net profit decreased by 45.3% from RMB129.0 million in 2021 to RMB70.5 million in 2022. The average purchasing amount per distributor from us decreased by 21.9% from RMB0.85 million in 2021 to RMB0.66 million in 2022.

In 2022, the resurgence of COVID-19 had slowed down and created hurdles for our overall expansion plan. In terms of our offline sales network expansion, we have taken a more cautious approach and plan to continue to take such approach until the complete alleviation of the current surge of COVID-19 infections that began in December 2022. The number of our self-operated stores and distributor-operated stores decreased slightly from 26 and 531 as of December 31, 2021 to 24 and 508 as of December 31, 2022, respectively. Since the Chinese government’s pandemic-related policy shifts, all of our stores had resumed normal business operations as of the Latest Practicable Date. We have not observed significant impact that COVID-19 outbreaks have had on our supply chain or any

SUMMARY

abrupt decline in utilization rates of our production plants as Yunnan Province, where all of our production plants and most of our suppliers are located, was less affected by the outbreaks. Our logistics and transportation service providers in certain provinces in China have been affected by COVID-19 outbreaks, especially the surge after the pandemic-related policy shifts. For example, delivery of our products in affected cities, such as Xi’an, Guangzhou and Shanghai, were affected. While we were not subject to any claim due to delays in deliveries of our products as of the Latest Practicable Date, disrupted transportation experienced by our logistics and transportation service providers reduced the sales volume of our products and slowed down our expansion in certain affected provinces to certain extent. As of the Latest Practicable Date, most of our employees had recovered once or more from COVID-19 infections.

Given that the recent relaxation of the strict pandemic control measures, we believe that while COVID-19 outbreaks have affected and may continue to affect our short-term growth, we do not expect such outbreaks to have a material adverse effect on our long-term overall business and financial performance. In response to COVID-19 outbreaks, we have proactively taken measures to mitigate its potential impacts on us and our distributors, including adjusting our product launching plan, increasing spending on marketing and advertising, and providing more support to our offline stores. In spite of the impact from the COVID-19 pandemic, our management remains optimistic over the growth of our business as we continue to execute our growth strategies, such as building up our e-commerce operation team and adding a new logistics and e-commerce center in Foshan. Moreover, we continued to attract talents to join our company. The total number of employees increased from 693 as of December 31, 2021 to 870 as of the Latest Practicable Date.

The actual impact caused by the COVID-19 pandemic will depend on its subsequent development. We cannot be entirely certain as to when the COVID-19 pandemic will be fully contained, and its impact will be completely alleviated. There remain significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic, considering the severe global situation and occasional regional resurgence of COVID-19 cases in certain areas in China. We are closely monitoring the development of the COVID-19 pandemic and continuously evaluating any potential impact on our business operations. See “Risk Factors—Risks Relating to Our Business—The outbreak of COVID-19 adversely affected, and may continue to affect, the demand for our products and our business operations.”

Regulatory Developments

Regulations on Overseas [REDACTED], Cybersecurity Review and Data Security

On December 28, 2021, the Cyberspace Administration of China (the “CAC”) and several other PRC authorities jointly issued the Cybersecurity Review Measures (網絡安全審查辦法), which became effective on February 15, 2022. The Cybersecurity Review Measures provides that a critical information infrastructure operator purchasing network products and services, and platform operators carrying out data processing activities that affect or may affect national security, must apply for cybersecurity review. The Cybersecurity Review Measures also provides that a platform operator with more than one million users’ personal information aiming to [REDACTED] abroad must apply for cybersecurity review. On November 14, 2021, the CAC published Regulations on Cyber Data Security Management (Draft for Comments) (網絡數據安全管理條例(徵求意見稿)) (the “Draft Regulations on Cyber Data Security Management”) for public comments, which applies to activities relating to the use of networks to carry out data processing activities in China.

SUMMARY

Our Directors and our PRC Legal Advisor are of the view that the Cybersecurity Review Measures and the Draft Regulations on Cyber Data Security Management, if implemented in current form, will not have material adverse effects on our business operations or the proposed [REDACTED] on the following basis:

- (1) We have implemented comprehensive measures to ensure user privacy and data security and to comply with applicable cybersecurity and data privacy laws and regulations. See “Business—Data Privacy and Protection”;
- (2) During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material investigation, inquiry or sanction in relation to cybersecurity, data privacy or cybersecurity review from the CAC, the CSRC or any other relevant government authorities;
- (3) During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material fines or other material penalties due to non-compliance with cybersecurity or data privacy laws or regulations;
- (4) As advised by our PRC Legal Advisor, we had not been involved in any activities that might give rise to national security risks based on the factors set out in Article 10 of the Cybersecurity Review Measures during the Track Record Period and up to the Latest Practicable Date; and
- (5) As advised by our PRC Legal Advisor and subject to any further official guidance and implementation rules relating to the Cybersecurity Review Measures, Article 7 of the Cybersecurity Review Measures requires a cybersecurity review for internet platform operators possessing personal information of over one million users and pursuing a foreign [REDACTED] (國外[REDACTED]).

As of the Latest Practicable Date, we had not received any notice or determination from relevant PRC authorities identifying us as a critical information infrastructure operator. However, as of the Latest Practicable Date, the scope of critical information infrastructure operators and the scope of network products or services or data processing activities that affect or may affect national security remain unclear and are subject to interpretation by relevant government authorities. The Draft Regulations on Cyber Data Security Management was released for public comment only and its final version and effective date may be subject to change and uncertainty. We cannot preclude the possibility that new regulations or rules in the future may impose additional compliance requirements on us. See “Risk Factors—Risks Relating to Our Business—We may be subject to additional cybersecurity review or inspection by government authorities.”

If the Draft Regulations on Cyber Data Security Management was to be implemented in its current form, based on the foregoing and the analysis of provisions of the Cybersecurity Review Measures and the Draft Regulations on Cyber Data Security Management by our PRC Legal Advisor, our Directors and our PRC Legal Advisor do not foresee any material impediments for us to comply with the Cybersecurity Review Measures and the Draft Regulations on Cyber Data Security Management in all material aspects, since we have implemented internal policies, procedures and measures to ensure our compliance practice. We will closely monitor the legislative and regulatory development in connection with cybersecurity and data protection, including the Draft Regulations on Cyber Data Security Management and the interpretation or implementation rules of laws and regulations of cybersecurity and data protection, and we will adjust and enhance our data practices in a timely manner to ensure compliance once relevant regulations come into effect.

SUMMARY

Regulations on Live Streaming

On June 8, 2022, the National Radio and Television Administration of China (the “NRTA”) and the Ministry of Culture and Tourism of China issued the Code of Conduct for Streamers (網絡主播行為規範) (the “Code of Conduct”), which stipulates, among others, that: (1) for live streaming content that requires a high level of professional skills (such as medical and health care, finance, law and education), streamers shall obtain the corresponding practice qualifications and report the practice qualifications to the live streaming platforms, and the live streaming platforms should review and record the relevant qualifications; (2) during live streaming sessions, streamers shall not behave extravagantly or waste food, flaunt luxury goods, jewelry and other assets, or display sexually suggestive and provocative content; and (3) live streaming platforms shall establish comprehensive internal policies to manage their streamers, covering various aspects of operations, from recruitment, training, daily management, performance evaluation to violation record management, and shall provide incentives to streamers who display positive qualities and abide by the Code of Conduct, and reprimand and discipline streamers who have violated the Code of Conduct, and ban the account of streamers who have repeatedly violated the Code of Conduct or applicable rules and regulations.

Our Directors and our PRC Legal Advisor are of the view that the Code of Conduct has not caused and will not cause material adverse effects on our business operations on the following basis:

- (1) We hold live streaming sessions for the purposes of marketing and selling our products online. As advised by our PRC Legal Advisor, our employees who stream online for such purposes are not required to possess any practice qualifications as such live streaming sessions do not require a high level of professional skills; and
- (2) We require our employees who stream online for marketing and selling our products to adhere to a positive and healthy streaming style and to oppose undesirable behaviors, such as money worship, waste of food and flaunting of extravagant lifestyle, in order to comply with the requirement stipulated under the Code of Conduct.

No Material Adverse Change

Our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or [REDACTED] position since December 31, 2022 (being the date on which the latest audited consolidated financial information of our Group was prepared) and there is no event since December 31, 2022 which would materially affect the information shown in our consolidated financial statements included in the Accountant’s Report in Appendix I to this document.