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OVERVIEW

We are a gold jewellery Original Brand Manufacturer (“OBM”), focusing on markets in third and lower-tier cities in the PRC. According to Frost & Sullivan, as of the Latest Practicable Date, we were one of the very few with an operation that encompasses key stages of the gold jewellery industry, from raw material sourcing and purification, R&D, product design, manufacturing to retailing through our diversified sales network. In 2023, we were ranked:

- third and fifth by gold processing volume and gold jewellery revenue, respectively, amongst gold jewellery brands in the PRC⁽¹⁾; and
- third in terms of gold jewellery revenue (excluding gold bullion) in third and lower tier cities amongst gold jewellery brands in the PRC⁽²⁾.

Moreover, from 2018 to 2023, we were the only gold jewellery brand in the PRC that had consecutively ranked in the top five of both the “Top Ten Enterprises in Gold Jewellery Processing Volume” and the “Top Ten Enterprises in Gold Jewellery Sales Revenue” by the China Gold Association. With high-purity gold jewellery as our core products, high-growth third and lower tier cities as our market entry points, and leveraging our technical know-how, artisan craftsmanship and advanced production capability, we have built a well-recognized domestic gold jewellery brand, “**梦金园**”.

We were one of the very few major gold jewellery brands in the PRC with an operation that encompasses key stages of the gold jewellery industry, from raw material sourcing and purification, R&D, product design, manufacturing to retailing through our diversified sales network, as of the Latest Practicable Date, according to Frost & Sullivan. With high-purity gold jewellery products as our core products, we have established a diversified sales network, through which we gain insight into market trends, which in turn contributes to product design and development catering to specific consumer demands, forming a positive feedback loop. Under the leadership of our founder, Mr. Wang Zhongshan, whose accolades include being named as the inheritor of PRC’s intangible cultural heritage at provincial level (中國省級非物質文化遺產傳承人), honorable person in the gold and jewellery industry for 30 years (黃金珠寶行業30年風雲人物“功勳人物”稱號), and “Outstanding Contributor to the Jewellery Industry on the 40th Anniversary of the Reform and Opening up” (中國改革開放40周年珠寶行業突出貢獻人物), our operation covers key stages of gold jewellery value chain.

Notes:

⁽¹⁾ According to Frost & Sullivan.

⁽²⁾ According to Frost & Sullivan.

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We believe our growth was achieved through leveraging our ability to deliver gold jewellery with sophisticated craftsmanship that highly resonates with our target consumers. Chinese consumers attach great importance to the quality, design and cultural connotation of jewellery products. Thus, a gold jewellery company’s ability to decipher market trends and launch new products is essential to its growth. Throughout the Track Record Period, we introduced no less than 1,000 new Stock Product Units (“SPUs”) on a monthly basis, which was higher than the monthly average of approximately 500 SPUs of our competitors according to Frost & Sullivan. In addition to our in-house designed products, we also collaborated with well intellectual property owners (“IPs”) including Eight Imperial Handcrafts (燕京八絕), a national intangible cultural heritage and a well-recognized beverage brand to introduce new products. As the gold jewellery market evolves, consumers have more diversified consumption needs and preferences, and would demand products that allow them to express their individuality. Our ability to capture market opportunities arising therefrom promptly and to effectively introduce recent trending products to the market enables us to revamp our product offerings in accordance with market preferences swiftly.

Our operation is enhanced by our past success and continued effort to introduce and/or revamp production equipment that is crucial to our gold jewellery production. We introduced/revamped advanced equipment to enhance our automated process, including robotic arms for accessories flipping (首飾抓取自動翻轉機械手), automated carving machines (自動刻花機), automatic butterfly chain punching machines (自動蝴蝶鏈機), automatic thin wall gold tube necking machine (薄壁金管自動縮口機), and chain loosening machines (鬆鏈機). We also adopted high-precision wax film pouring technique (高精度蠟膜澆) and 3D printing techniques in our production line. This enabled us to carve high precision mold of various forms within hours that otherwise would require days (or longer) to complete when applying the traditional method. Since 2020, we have self-developed approximately 300 production equipment and approximately 3,200 molds. We believe our ability to self-develop advanced production equipment and molds has strengthened our operation and has fortified our position as a leading high-purity gold jewellery OBM.

As a precious metal, gold is frequently valued based on its purity, and gold-purifying capability is essential to gold jewellery manufacturer, according to Frost & Sullivan. Our gold purifying capability allowed us to become a key player in the 999.9 high-purity gold jewellery market. According to Frost & Sullivan, we were ranked first in the 999.9 high-purity gold jewellery market in terms of gold jewellery revenue in 2023 and were amongst the first batch of gold jewellery manufacturers to mass produce 999.9 high-purity gold jewellery with digitalized production. Furthermore, according to Frost & Sullivan, in 2019, we became the first and one of the very few domestic enterprises with scaled production of 18K-gold spring clasps. Our success in navigating the challenges of producing such products effectively alleviated the industry’s over-reliance on foreign manufacturers for the 18K-gold spring clasps. Moreover, as the gold jewellery market expands, the demand for gold spring clasps, which are applied to join two ends of a relevant jewellery products, is also projected to grow at a CAGR of 7.8% between 2023 and 2028 according to Frost & Sullivan. Our groundbreaking achievements in this realm well position us to benefit from the aforementioned market expansion.

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Our ability to consistently introduce quality products that are well-accepted by consumers helped us build a diversified sales network. Our multi-channel sales network includes 2,850 franchise stores operated by 1,670 franchisees, 36 self-operated stores, seven self-operated direct service centers and 17 provincial-dealers located in more than 1,400 county-level areas in over 250 across multiple provinces and municipalities in the PRC, as of June 30, 2024. While we primarily rely on offline sales channels that include our self-operated stores and franchise stores, to capture the opportunities presented by fast-growing online channels, we have also expanded our online sales through e-commerce platforms such as Tmall, JD.com, PinDuoDuo and Vipshop.

Our accomplishment can be demonstrated in the awards we received over the years. Our recent main accolades include being awarded the 2023 China Gold and Jewellery Industry Excellent Full Supply Chain Service Provider (2023中國黃金珠寶行業全產業鏈優秀服務商) and 2023 China Gold and Jewellery Consumer Survey Recommended National Chain Store Brands (中國黃金珠寶消費者調查全國連鎖推薦品牌) by Beijing Gold Economic Development and Research Center and China Gold News. See “— Awards and Recognition” below for further details.

As a gold jewellery brand in the PRC with an operation that encompasses key stages of the gold jewellery industry, from raw material sourcing and purification, R&D, product design, manufacturing to retailing through our diversified sales network, we are well-positioned in the market to benefit from the rapid growth of the gold jewellery market.

OUR COMPETITIVE STRENGTHS

We are a gold jewellery OBM in the PRC, encompassing key stages of the gold jewellery industry

We are a gold jewellery OBM, focusing on markets in third and lower-tier cities in the PRC. According to Frost & Sullivan, as of the Latest Practicable Date, we were one of the very few with an operation that encompasses key stages of the gold jewellery industry, from raw material sourcing and purification, R&D, product design, manufacturing to retailing through our diversified sales network. Our brand embodies an operation that covers the aforementioned key stages of the gold jewellery industry value chain. We are committed to quality control in each stage. According to Frost & Sullivan, from 2018 to 2023, we were the only gold jewellery brand in the PRC that had been consecutively ranked in the top five of both the “Top Ten Enterprises in Gold Jewellery Processing Volume” and the “Top Ten Enterprises in Gold Jewellery Sales Revenue” by the China Gold Association and in 2023, we were ranked:

- third and fifth by gold processing volume and gold jewellery revenue, respectively, amongst gold jewellery brands in the PRC; and
- third in terms of gold jewellery (excluding gold bullion) revenue in third and lower tier cities amongst gold jewellery brands in the PRC.

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Since our inception, we have been committed to nurturing and strengthening an integrated operation that encompasses key stages of the gold jewellery industry, journeying through raw material sourcing and purification, manufacturing and retailing through our diversified sales network. We are committed to quality control in each stage. Such commitment has fortified our strengths, which can be demonstrated in the following:

- In terms of R&D, we made substantial investments. As of the Latest Practicable Date, we held 601 patents in the PRC. According to Frost & Sullivan, such result far exceeded that of the industry average. Our commitment to R&D supported our groundbreaking achievements in gold purification, breaking reliance on overseas imports on 18K-gold spring clasps, success in machinery development and jewellery design. For details, see “— Research and Development”. We also implement strict control over our product design and machinery development processes to mitigate the risk of intellectual property infringement and reduce the likelihood of unauthorized replication or imitation by competitors, thus preserving our distinctiveness and market position.
- In production, during the Track Record Period, we produced substantially all of our products in-house, such proportion has far exceeded the self-production rate amongst our industry peers according to Frost & Sullivan. Our production capability and capacity also allow us to efficiently adjust our production plans according to the consumer demand and market trend. See “Business — Production” for further details. Moreover, we have increased the purity of our mass-produced gold jewellery from 999 to 999.9, and successfully developed products with purity levels of 999.99 and 999.999. Furthermore, our dedication to gold jewellery product design and development enables us to create gold jewellery products that are aesthetically pleasing, aligned with evolving consumer preferences and feasible for mass production. According to Frost & Sullivan, the market size of gold jewellery with purity levels of 999.99 and above in terms of revenue was RMB2.30 billion in 2023, and it is expected to reach RMB3.10 billion in 2028 with a CAGR of 6.2% from 2023 to 2028. The market demand for gold jewellery products with purity levels of 999.99 and 999.999 is expected to grow further due to consumers’ pursuit for quality gold jewellery products given that high-purity gold is valuable and has investment potential. According to Frost & Sullivan, in the long run, the gold price is expected to trend upward, thus making the purchase of high-purity gold a value protection investment. In addition, high-purity gold has good collection value, and some exquisite gold jewellery not only can be worn but also has ornamental and artistic value, which can be used as a family heirloom. Further, according to the same source, processing techniques for high-purity gold are complex, under which more exquisite and detailed jewellery can be produced, thereby satisfying consumers’ requirements for craftsmanship embodied in the gold jewellery products.
- For marketing, to achieve extensive and impactful consumer reach across both online and offline channels, we employ versatile marketing strategies. For instance, during the Track Record Period, we devised successful promotional plans, such as initiating the “One RMB Exchange” promotion. Such marketing strategies not only enhance our brand recognition but also create a positive cycle of interaction between our consumers, our

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franchisees and us. Moreover, we have successfully established a diverse and extensive national multi-channel sales network in the PRC. This diverse and extensive network helps to extend our consumer reach and catalyze our sales and marketing goals.

- For quality control, we incorporate quality assuring/testing machinery to the production line. With our direct involvement in each production stage, commencing with the development of machinery and equipment to the creation of innovative products, we strive to ensure the quality standards are met at every step. For example, through our gold purification and testing processes, we strictly monitor the purity and authenticity of our gold jewellery products, which in turn, reinforces customer confidence.

As a leading OBM brand in the PRC in terms of gold jewellery revenue and gold processing volume in 2023, according to Frost & Sullivan, we are confident that we can capture the opportunities offered by the market growth.

Our R&D capability allows us to realize achievements and pioneer industry standard

Our R&D capability can be demonstrated by (i) our gold purification capability, (ii) innovation in mass production of 18K-gold spring clasps of various metals and specifications and (iii) our ability to set industry gold purity testing standards.

We consider gold purification as fundamental to the production of gold jewellery, as it can enhance the intrinsic value of gold jewellery. To meet the increasingly stringent consumer demand, we have made significant advancements in this area, particularly in the development of our patented technology of “autogenous welding” (無焊料焊接). This technique materially reduced the inclusion of non-gold materials in our production that may reduce purity level of our gold jewellery products and enables us to achieve gold jewellery purity levels of 999.999, which can only be achieved by a few jewellery manufacturers in the PRC, according to Frost & Sullivan. By reducing impurities through the process, we have successfully addressed common issues associated with traditionally welded joints in gold jewellery, such as discoloration, detachment, inadequate color, and wearer allergies.

We have attained significant milestones in course of developing our production capabilities, which can be demonstrated by our independent development and production of jewellery with gold purity level of 999.9 and 999.99, along with the launching of our cutting-edge 3D hard gold and other innovative products. Furthermore, we have developed a cyanide-free process for producing 999.9 high-purity gold. This achievement not only addresses environmental concerns related to conventional cyanide-based methods, but also brings about energy savings and reduced energy consumption.

Apart from gold purification, through our unwavering commitment to innovation, we have successfully overcome technical challenges relating to the production process to mass produce 18K-gold spring clasps. According to Frost & Sullivan, in 2019, we became the first and one of the very few domestic enterprises with scaled production of 18K-gold spring clasps. This accomplishment marks a milestone in the PRC gold jewellery industry as it effectively breaks the reliance on overseas imports of the mid-to-high end 18K-gold spring clasps. Our production capabilities allow

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us to manufacture 18K-gold spring clasps with a minimum outer diameter of 4mm and a remarkable sheet accuracy of +/- 1 micron on a large scale. This achievement addresses the previous industrial limitations and signifies the realization of PRC domestic production. Moreover, as the gold jewellery market expands, the demand for gold spring clasps, which are applied to join two ends of jewellery products, is also projected to grow at a CAGR of 7.8% between 2023 and 2028 according to Frost & Sullivan. We achieved technological breakthrough and realized mass production of spring clasps made of 999 gold, silver, stainless steel and copper and our groundbreaking achievement in this realm well positions us to benefit from the aforementioned market expansion.

Our dedication to R&D extends beyond the innovation with respect to mid-to-high end 18K-gold spring clasps. We have independently developed and manufactured stainless steel jewellery spring clasps. This pioneering accomplishment demonstrates our ability to introduce new jewellery processing technologies to the market.

In terms of contribution to gold purity testing standards, our achievements include:

- Our self-developed testing standard of “Gold Spectrum and Gold Chemistry Standard Sampling” provides an accurate and reliable method for detecting high-purity gold with a gold purity level exceeding 999.95. Our testing results are traceable to national measurement standards, thereby ensuring the highest level of accuracy.
- We have spearheaded the creation of the “High Purity Gold Chemical Analysis Method for the Determination of Impurity Element Content in Ultra-Pure Gold by Glow Discharge Mass Spectrometry” (T/SDAS4-2016), which was recognized as the industry standard for detecting ultra-high purity gold by the Shandong Standardization Association. This achievement sets us apart from competitors and solidifies our position as an industry leader in setting and advancing industry standards, further emphasizing our commitment to promoting standardization and ensuring the quality and consistency of gold jewellery production practices.

Our manufacturing together with our sophisticated craftsmanship lays a solid foundation for our rapid growth

Our ability to mass produce high-purity gold jewellery that embodies traditional craftsmanship has propelled our growth. We can create, adapt and/or calibrate machinery for gold jewellery production that allows us to launch products according to the market trends. Our strength in production is fundamental to our ability to meet customer demands in an efficient manner and a critical part of our operation. We treasure and maintain the intangible cultural heritage production techniques, including the traditional technique of “gold and silver fine crafting” (金銀細工製作技藝) in our production process, and further enhanced our automated and digitized production capacity through attaining production capabilities such as our patented technology of “autogenous welding”, thereby constructing an efficient production chain. Our manufacturing capabilities separates us from our peers and gives us an edge in the growingly competitive market.

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Our leading manufacturing equipment and production technique allow us to breakthrough the limitations of traditional craftsmanship and standardize complicated production procedures. The application of computerized numerical control (CNC) processing centers, high-precision wire electrical discharge machines (精工線切割機), automatic laser welding machines (激光焊接機) and nine-axis engraving machines (九軸刻花精雕機), allows us to further enhance our automated process. Additionally, we widely apply 3D printing in our molding process which allows us to form high precision mold in hours that otherwise would require days (or longer). Our 3D molding process gives us the capacity to mass produce complex gold jewellery products and to reduce the amount of wasted gold in the production process.

We incorporate ICP (Inductively Coupled Plasma) quality assuring/testing machinery to the production line. We have established a gold testing center equipped with ICP (Inductively Coupled Plasma) emission spectrometry, ICP-MS (Inductively Coupled Plasma Mass Spectrometry), and spark direct-reading devices. Unlike the traditional practice of outsourcing testing of gold and other jewellery raw materials, our testing center is located inside our production complex in Changle County, Weifang City, Shandong Province, the PRC. Our self-owned testing center allows us to readily conduct quality control tests on raw materials, work-in-progress inventories, and finished goods. Based on the testing results, our production lines can be adjusted simultaneously to increase production yield rate and reduce wastage. In 2013, we obtained CNAS (China National Accreditation Service for Conformity Assessment) laboratory accreditation for our test center.

Our leading gold purification technology and advanced production facility allow us to purify trade-in gold materials and produce new products in our own production facility. This process enables us to produce new jewellery that aligns with current aesthetic trends while enhancing product quality. By engaging in gold trade-in, we also strengthen our interaction and connection with consumers while diversifying our gold material sources.

We have strong innovative capability and a track record of introducing quality and fashionable products driven by consumer preference

As the gold jewellery market evolves, consumers have more diversified consumption needs and preferences, and would demand products that allow them to express their individuality. Our ability to design and produce products that are well accepted by our target consumers has therefore been crucial to our success.

Adhering to the four principles of lightness (輕), craftsmanship (巧), refinement (精), and aesthetic (美), we provide our customers and consumers with a comprehensive portfolio of gold jewellery products that reflects the latest trends. In particular, we pay close attention to our target customers’ preferences for product types and materials under different scenarios. With our deep understanding in the gold jewellery market and our well-integrated design and production capability, we have been able to continuously innovate and broaden our product portfolio.

We remain dedicated to innovating in both styles and materials used for our products. Throughout the Track Record Period, we introduced no less than 1,000 new SPUs on a monthly basis, which was higher than the average of approximately 500 SPUs of our competitors according

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to Frost & Sullivan. We firmly believe that presenting a constant stream of new jewellery designs and offerings can quickly captivate the interest of jewellery enthusiasts who have a deep appreciation for beauty and fashion.

With the beauty of the Chinese culture and its influence on gold jewellery products engrained in us, we always remain attentive to and seek to capture the market trends and popular elements. As of June 30, 2024, we had a design team comprising approximately 50 designers from design institutions across the nation, which strives to blend the trends into our jewellery in their daily course of work. We seamlessly incorporate modern fashion elements with contemporary Chinese styles into our design, resulting in a harmonious fusion of contemporary fashion and traditional Chinese aesthetics in our jewellery. For example, we have developed new products combining the traditional filigree inlaying techniques with lacquerware carving (漆雕) and golden lacquer (金漆镶嵌) to promote and raise awareness for Chinese intangible cultural heritage handcrafts.

Our diverse product range encompasses not only the esteemed cultural heritage craftsmanship such as the renowned Eight Imperial Handcrafts, a national intangible cultural heritage but also to introduce cross-over merchandise, such as the “Lucky Golden Year (金年大吉)” jewellery series with a widely recognized beverage brand, among others. On top of collaborating with well-known IPs, we also introduced the “Sail with Dreams” jewellery series in honor of China’s space exploration achievements, and it was highly sought after by the younger generation consumers.

Our prowess in product development is also demonstrated through various aspects, including the stiffness, brightness, and delicacy of our high-purity gold jewellery. Typically, gold purity and stiffness are inversely related. However, with our advanced technology on gold purity processing, we have created high-purity gold jewellery that possess the stiffness of not less than 60 HV scale. This demonstrates our ability to overcome conventional limitations.

Furthermore, apart from pursuing gold purity level breakthroughs, we also made progress on jewellery processing technologies and craftsmanship. In 2019, we introduced the “Ultra-thin high precision” bracelet, a series which utilized our high-glossy polishing technology and achieved significant advancements in surface brightness, stiffness and delicacy. This exemplifies our dedication to precision craftsmanship and the production of exquisite jewellery pieces.

We have diverse and extensive national sales channels in the PRC that enables comprehensive consumers outreach

Our ability to produce high-purity gold jewellery products with consistent quality has helped build a diverse and extensive multi-channel sales network in PRC. In turn, this diverse and extensive network helps to enable consumer outreach and allows us to reach our sales and marketing goals.

As of June 30, 2024, our sales channels extended to more than 1,400 county level areas in over 250 cities across multiple provinces and municipalities in the PRC and included:

- 2,850 franchise stores operated by 1,670 franchisees;
- 36 self-operated stores strategically located in various shopping malls;

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- seven self-operated direct service centers and 17 provincial-dealers appointed by us;
- online stores on major e-commerce platforms; and
- mainstream social media platforms, including but not limited to Wechat, Weibo, Tiktok and Xiaohongshu.

Our sales channels are anchored by our franchise network. In 2023, we were ranked third in terms of gold jewellery revenue (excluding gold bullion) in third and lower tier cities amongst gold jewellery brands in the PRC, according to Frost & Sullivan. According to the same source, third and lower tier cities had the highest growth rate in terms of market size from 2018 to 2023. They are projected to continue this rapid growth, whereby the sales growth in third-tier cities amounted to 12.4% from 2018 to 2023 and was projected to grow at a CAGR of 9.4% from 2023 to 2028. While the same for fourth and lower tier cities was 13.0% from 2018 to 2023 and was projected to grow at a CAGR of 9.2% from 2023 to 2028, respectively. We strategically targeted at third and lower tier cities in the PRC as our market entry points, with a vision to expand our market shares in these untapped markets and capitalizing on their significant growth and sustained expansion. Gaining first mover advantage in these markets helped us build market recognition and outpace our competitors. With our coverage and service capabilities, strong reputation, effective cost-control and diversified product portfolio, we have successfully developed our business and established our market position in third and lower tier cities.

Our franchise network played a crucial role in our success. By offering strong branding, quality products, and operational support to our franchisees, we have established a strong franchisees network. During the Track Record Period, our number of franchise stores remained stable. Leveraging our OBM business model and our gold purification capabilities, we supported our franchisees in implementing innovative promotion campaigns such as initiating the industry first “One RMB Exchange” promotion to enhance our brand awareness. Such marketing promotions not only attract consumers but also strengthened our relationship with franchisees and enhance our brand awareness, which is essential for sustainable long-term growth.

In addition, to ensure franchisees can adequately source our products, our self-operated direct service centers and provincial-dealers are responsible for selling our products to franchisees in their respective designated regions and to provide support and services. Such arrangement has been essential for maintaining a solid and loyal franchise network, and our franchise network is a cornerstone to our long-term growth and success. Providing high quality support and services to our franchisees helps to benefit our franchisees by enabling them to achieve higher sales and profitability, in turn benefiting our sales and profitability. We can also ensure their alignment with our brand values and strategic objectives. This approach creates a positive development cycle between ourselves and the provincial-dealers, whereby our provincial-dealers can economically benefit from the onward sales while we gain their expertise in management and/or development of a stronger network of franchisees. Moreover, such arrangement also enables our provincial-dealers to provide diversified products for franchisees’ selection, which is essential for maintaining a strong and loyal franchise network.

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Our extensive sales network is complemented by our online distribution channels through e-commerce platforms and mainstream social media platforms. According to Frost & Sullivan, millennials and Gen Z are becoming the source of growth to the gold jewellery market and such consumers often shop on the internet and social media. Thus, online presence has become increasingly essential to gold jewellery brands. Faced with such market development, we have established major online stores on e-commerce platforms such as T-mall and Taobao. We have also expanded our online business on other mainstream e-commerce platforms such as JD.com, Pinduoduo, Vipshop and etc. in order to seize opportunities in the rapidly developing e-commerce market. For details, see “— Sales and distribution channels”. Revenue from online sales has grown rapidly, increasing from RMB364.5 million in 2022 to RMB750.7 million in 2023, representing a year-on-year growth of approximately 106.0%. For the six months ended June 30, 2024, our revenue derived from online sales further grew to RMB1,318.7 million, representing a period-to-period growth rate of 666.3% when compared to that of RMB172.1 million for the six months ended June 30, 2023. Such increase was primarily attributable to sales of gold bullion for a promotional event of a leading PRC online retailer. Moreover, to further enhance our online presence, we created sales platforms on mainstream social media platforms such as Xiaohongshu, Weibo, and Douyin. The use of these social media platforms allow us to tap into new consumer segments and fortified our brand awareness and reputation amongst such target consumers.

Our multi-channel sales network is diverse and extensive, enabling us to reach a wide range of customers across different regions and demographics, which ultimately strengthens our brand awareness, customer loyalty, and business growth.

Effective and inventive marketing strategies strengthened our brand recognition and deeply connected with our consumers

According to Frost & Sullivan, we were a leading brand in the 999.9 high-purity gold jewellery market in the PRC in 2023. Our high-purity gold jewellery not only demonstrates our leading technical know-how but is also the crux of our marketing strategy. It is an integral part of our brand concept and product design. We understand and appreciate the deeply-rooted belief of Chinese consumer in the authenticity and invaluable nature of high-purity gold jewellery. Our commitment to using only the finest raw materials and our dedication to craftsmanship ensure that our high-purity gold jewellery exceeds the expectations of our customers and consumers in terms of both quality and value.

Our marketing strategy focuses not only on the aesthetic appeal and trendiness of our high-purity gold jewellery products, but also on the cultural and emotional significance that they represent. By prioritizing these values, we gained customer loyalty and enhanced our brand recognition through publicity. Moreover, we are proud of the cultural influence of our brand, which enhanced our established sales network. Our founder, Mr. Wang Zhongshan is recognized for his gold and silver precision production technique and was named as one of the “Fifth Batch of Inheritors of Provincial Intangible Cultural Heritage of Shandong Province” (山東省第五批省級非遺項目傳承人名單) by Shandong Province. Benefiting from our founder’s unique accolades and technical know-how, we incorporate some of the intangible cultural heritage production technique

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to bolster the cultural influence and artistic value of some of our products. Along the way, we also contributed to the promotion of such technique, creating a positive marketing and development cycle.

We regularly organize activities and promotions to increase customer participation, enhance brand exposure, and receive product feedbacks. As an industry pioneer and taking the advantage of our production capabilities, we introduced the “One RMB Exchange” promotion, which takes place annually for a week per store. Through this initiative, we may accept consumer trade-in of their used “Wan Purity” series gold jewellery purchased from us for new pieces of “Wan Purity” series gold jewellery of the same weight or more at a nominal crafting fee of one RMB per traded-in gram of gold with our franchisees or at our self-operated stores, and market gold price of any additional gold purchased and regular crafting fees for additional gold. Accordingly, consumers can enjoy the benefits of purchasing new pieces of gold jewellery while franchisees also benefit from consumer flow during such promotion events. As a result, this also creates a positive cycle that encourages consumers to continue buying from us, thereby increasing brand recognition and customer loyalty.

To achieve extensive and impactful customer reach, we deployed various marketing strategies. Leveraging our established sales network, we pride ourselves on our profound understanding of our target consumers’ preferences, allowing us to develop tailored marketing plans that cater to specific product characteristics and market demands, especially among the millennials and Generation Z. We tapped into the innovative minds of the younger generation by partnering with university advertising festivals and we have also teamed up with renowned IPs such as with various renowned artists to launch various promotional events, as well as to introduce cross-over merchandise, such as the “Master Craftsman Legend (匠傳系列)” jewellery series in collaboration with the “Eight Imperial Handcrafts”, the “Lucky Golden Year” jewellery series with a widely recognized beverage brand. We also introduced “Sail with Dreams” jewellery series in honor of China’s space exploration achievements. These products extended our brand influence and attracted greater attention and participation from our consumers.

We believe our brand awareness has steadily increased and we have fostered a deep emotional connection with our consumers, earning us numerous accolades, including the 2023 China Gold and Jewellery Industry Excellent Full Supply Chain Service Provider (2023中國黃金珠寶行業全產業鏈優秀服務商) and 2023 China Gold and Jewellery Consumer Survey Recommended National Chain Store Brands (中國黃金珠寶消費者調查全國連鎖推薦品牌) by Beijing Gold Economic Development and Research Center and China Gold News. See “Business — Awards and Recognition” below for further details.

Sophisticated management team with valuable industry experience and pioneer vision, encouraging an innovative and pragmatic corporate culture

We have assembled an experienced management team of successful industry veterans led by Mr. Wang Zhongshan, our founder, executive Director and chairman of our Board and Ms. Zhang Xiuqin, our vice chairman and executive Director. Both of them have more than 20 years of experience in the gold jewellery industry.

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Our founder, executive Director and chairman of Board, Mr. Wang Zhongshan, is a well-recognized figure in the gold jewellery industry in the PRC. He has more than 20 years of experience and was recognized as the inheritor of PRC’s intangible cultural heritage at provincial level (中國省級非物質文化遺產傳承人). Mr. Wang has extensive and invaluable knowledge in the gold jewellery industry and has been accredited as honorable person in the gold and jewellery industry for 30 years, and “Outstanding Contributor to the Jewellery Industry on the 40th Anniversary of the Reform and Opening up”. More importantly, he has led our Group to set national standard for the purification and manufacturing of 999.99 gold jewellery, through achieving technological breakthrough to produce gold jewellery products with higher level of fineness, i.e. purity levels of 999.9 and 999.99.

Under the leadership of our experienced management team, we have an innovative and pragmatic corporate culture. We are a firm believer of the notion that innovation is the key to driving the development and progress of enterprises, while practicality is a vital catalyst transforming innovation into tangible results. We also benefit from establishing our production facility in Changle County, Weifang City, Shandong Province, the PRC, a city which we believe has rich jewellery history and profound jewellery crafting tradition. Embracing the local gold jewellery cultural heritage, we were able to establish a reputable gold jewellery brand that is highly competitive.

OUR STRATEGIES

Our mission is to “continuously driving technological innovation and delivering quality aesthetic products and trusted services with exceptional value to consumers” and our vision is “showcasing the beauty of China through forging a world-class gold jewellery brand across an operation that encompasses key stages of the gold jewellery industry, from raw material sourcing and purification, R&D, product design, manufacturing to retailing through our diversified sales network”. To fulfil our mission and realize our vision, we intend to implement the following strategies:

Expand our production capacity through further investment in our production machinery to support our business growth

Our ability to mass-produce gold products with advanced equipment sets us apart from our competitors. We have invested in and revamped our production facilities and introduced digitalized equipment to our production line, including CNC processing centers, high-precision wire electrical discharge machining, nine-axis engraving machines, and automatic laser welding machines. For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, the utilization rate of our production facility was 94.4%, 83.1%, 87.1% and 73.0%, respectively. The lower utilization rate for the six months ended June 30, 2024 primarily resulted from slower sales as our sales volume decreased by approximately 10.4% compared to the six months ended June 30, 2023. Our Directors consider that the production facilities were highly utilized during the Track

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Record Period. Our effective utilization rate has been consistently above 70% since 2021. We believe that upgrading the production facility is necessary as illustrated below:

(1) *Increasing market demand*

According to Frost & Sullivan, sales growth of gold jewellery products in the third-tier cities was at a CAGR of 12.4% from 2018 to 2023 and was projected to grow at a CAGR of 9.4% from 2023 to 2028, while the same for fourth and lower tier cities grew at a CAGR of 13.0% from 2018 to 2023 and was projected to grow at a CAGR of 9.2% between 2023 and 2028, respectively. Additionally, as the gold jewellery market expands, the demand for K-gold spring clasps, which are applied to join two ends of jewellery products, is also projected to grow at a CAGR of 7.8% between 2023 and 2028 according to Frost & Sullivan. In 2023, we established a dedicated production line for K-gold spring clasps to separately track the sales of this product category. Our revenue derived from the sales of K-gold spring clasps amounted to RMB7.7 million for the year ended December 31, 2023, and RMB2.6 million for the six months ended June 30, 2024. Considering these market trends, this necessitates an upgrade in the production facilities.

(2) *Foreseeable increase in number of product types*

We expect to enhance our research and development capabilities and to increase our number of stock product unit from more than 67,000 as of June 30, 2024 to over 74,000 as of December 31, 2025 after establishing the research and development center. With this expansion, there is a clear need to augment production capabilities to accommodate the substantial increase in the variety of products.

We believe that upgrading the production facility is vital due to the projected market demand growth for gold jewellery products and gold spring clasps. Additionally, the anticipated increase in the number of product types necessitates enhanced production capabilities. By upgrading the production facility, we aim to meet market demand, support product diversification, and maintain our competitive position in the industry.

In order to further enhance our supply chain capabilities to support the increasing market demand, we strive to optimize our supply chain through expansion of our production capacity and upgrading our existing production line through automation as follows:

- To elevate our manufacturing capabilities, we plan to upgrade our production facilities for gold jewellery products and mid-to-high end 18K-gold spring clasps located in Changle County, Weifang City, Shandong Province, the PRC. The estimated investment for fixed assets is approximately RMB[REDACTED] million. Our upgrade plan includes: (i) the construction of a major new production workshop and refurbishment of the existing production area to meet the increasing demand for gold jewellery; and (ii) the construction of new staff canteen and staff quarters to improve the overall employee welfare. For further details of our upgrade plan, please refer to the section headed “Future Plan and [REDACTED]”; and

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- We believe we will take advantage of facility upgrade and technological innovation to increase automation level and reduce manual labor in our key manufacturing processes. The investment in integrated and automated infrastructure will enable us to materialize flexible manufacturing capabilities, better satisfy the customized product preferences of consumers and realize fast response to market demand.

We are confident in the viability of our expansion plan, supported by the below factors. According to Frost & Sullivan, the gold jewellery market in first-tier and second-tier cities in the PRC are expected to grow at CAGRs of 8.8% and 9.7% from 2023 to 2028 and reaching RMB123.9 billion and RMB345.3 billion in 2028 respectively, while the market size of gold jewellery in third-tier cities and in fourth and lower tier cities are projected to reach RMB189.5 billion and RMB152.3 billion in 2028, representing a CAGR of 9.4% and 9.2% from 2023 to 2028, respectively. In view of the growing market demand for the gold jewellery products and our high utilization of the existing production facility, we target to enlarge our scale of production, strengthen our production process and further implement automated production infrastructure at our production facility in Weifang, which in turn further enhance our production capacity and efficiency.

With our substantial investment in upgrading of production facility, we are well-positioned to meet customer demand and support our rapid business growth. We anticipate that the increased level of automation in production and the increase in our production capacity would allow us to compete with better product price, and in turn expand our business and engage more franchisees to explore unsaturated markets. Also, we believe that we can fulfil the demand for our products from our franchisees and provincial-dealers, which in turn would strengthen our relationship with them, and at the same time, penetrate into unsaturated markets for an increase in consumer base.

There is no guarantee that any of the expansion projects will proceed as planned. We remain open to investing in additional expansion projects as we continue to expand our business and capitalize on market opportunities.

Approximately [REDACTED] (or HK\$[REDACTED] million/RMB[REDACTED] million) of our [REDACTED] from the [REDACTED] will be used to finance our expansion of our production capabilities by upgrading our existing production facility. For further details, please refer to “Future Plans and [REDACTED]”.

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Further enhance our R&D capabilities through establishing a research and development center to solidify our innovation capacities and competitiveness

Our R&D capabilities is vital for us to remain at the forefront of the market. According to Frost & Sullivan, there will be expectedly more trendy designs and continuous technique enhancement in the gold jewellery market in the PRC. As such, we plan to continue to focus our R&D efforts in perfecting gold processing techniques, machinery required for mass production of gold jewellery and gold jewellery design as follows:

- Introduction of a research and development center at Changle County, Weifang City, Shandong Province, the PRC to serve the functions of material testing, jewellery design, R&D of machinery and technologies in order to advance our jewellery crafting technology and continuously developing new product designs to fill our new gold jewellery product pipelines and a supporting office at Shenzhen City, Guangdong Province, the PRC; and
- Recruitment of 70 R&D talents to enhance our R&D capabilities.

We plan to use our R&D center to make significant contributions to the development and enhancement of gold processing techniques and the machinery required for the mass production of jewellery and related products. We plan to leverage our R&D center to (i) enhance our gold-related technologies, including improving the purity of our gold jewellery products and advancing jewellery processing techniques; (ii) collaborate closely with our manufacturing team to standardize complex production procedures and achieve high precision in the automated mass-production of gold jewelry; and (iii) expand our product portfolio by conducting extensive market research on current jewelry trends and consumer preferences, as well as analyzing regional trends for our customers. These initiatives enable our R&D center to help us reduce costs and increase efficiency. For further details of our R&D activities, please refer to the section “ — Our Research and Development”.

We expect to increase number of stock product units from more than 67,000 as of June 30, 2024 to over 74,000 as of December 31, 2025. Further, in order to bolster our automated gold crafting techniques and product design capabilities, we plan to form collaborations with renown design institutes and designers both in the PRC and overseas for specific projects to diversify service offerings.

Strengthen and expand our distribution channels to further our customer reach and improve customer experience

We believe that maintaining an effective and extensive sales network is crucial to our business success. We also believe that there are still many untapped opportunities in the PRC’s gold jewellery market with a vast number of locations in the PRC where we can set-up new self-operated stores or franchise stores. As of June 30, 2024, we established an offline store network covering over 2,850 franchise stores and 36 self-operated stores. We will continue to expand the breadth and depth of our offline store network through the opening of new franchise stores and self-operated

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stores in existing markets, and expand nation-wide to achieve more effective and in-depth consumer reach. We believe that expanding the number of our offline stores and our consumers reach is vital to improving our brand recognition and market penetration rate.

We intend to further enhance our well-established market position in third and lower tier cities in China. We plan to expand franchise store network across the country, with the majority of these new franchise stores located in regions where we already have a strong competitive advantage, such as Shandong Province, Hubei Province and Henan Province. The strategic placement of these stores leverages our existing market strength and consumer familiarity with our brand, allowing us to efficiently expand our network while maintaining cost-effectiveness. Additionally, to penetrate urban markets and enhance our brand presence in first-tier cities, we are also planning to launch new franchise stores in Beijing and Tianjin. This expansion into first-tier cities is a strategic move targeting affluent consumer segments and expanding our market penetration in high-density areas with significant purchasing power.

To realize the expansion of our offline store network, we also plan to open 33 self-operated stores by December 2027. We will primarily focus our expansion efforts in opening self-operated stores in third and lower tier cities in the PRC where we have relatively strong market position and store density, as we can leverage the brand awareness that we have built up in those cities to accelerate our growth. In selecting the location for opening new stores in these areas, we will carefully consider (1) the economic status of cities and overall development of the regions; (2) factors on consumers including the demographics of regions, consumer consumption habits and preferences and consumer purchasing power; and (3) surrounding environment including traffic conditions, rental situation of nearby shops and positioning of the regions. We also strive to minimize unhealthy competition among stores.

At the same time, we will also be looking to opening self-operated stores in new first-tier and second-tier cities in the PRC where our store density is relatively low. According to Frost & Sullivan, these markets always have a high demand for gold jewellery products, which presents as a significant opportunity for us to expand our presence to new markets and improve our market coverage across the PRC. Further, the expansion into first tier and second tier cities helps to improve our brand exposure in cities where we are less well-known, thus improving our brand awareness and image.

In addition to opening new stores, we also intend to improve the scale and operations of our seven self-operated direct service centers through enlarging the exhibition halls managed by our self-operated direct service centers. We believe that this will increase the inventory of gold jewellery available for sale and therefore motivate franchisees to increase their purchases during exhibition events.

Approximately [REDACTED] (or HK\$[REDACTED] million/RMB[REDACTED] million) of our [REDACTED] from the [REDACTED] will be used to expand and enhance our sales and distribution network. For further details, please refer to “Future Plans and [REDACTED]”.

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Accelerate the development of our digital information platforms and to improve our membership program

We plan to continue to enhance the digitalization of our operations across all aspects of our operations. In particular, we plan to further invest in the development of a centralized operational system over the next few years to enhance our business functions and improve our operating efficiency. Our intended centralized operational system will include our complete proprietary CRM system which provides centralized management over various aspects of our sales and distribution network, and enhanced with client information categorization and analysis, sales personnel check-in and workload management, as well as logistics data management. Currently, we have a CRM system in place that serves as an internal sales data management system to record sales and trade-in transaction details, as well as to capture end consumer information. We intend to enhance the features and expand the capabilities of our CRM system with additional functions and enriched dimensions for recording transaction details to better accommodate our business needs.

Apart from serving as a sales data management system, we plan to develop new features in the upgraded CRM system to cater to other operational needs of franchisees and self-operated stores. For instance, we intend to introduce a new interface on the CRM system enabling users to manage their sales performance. This will entail new features such as setting sales performance targets and utilization rates for key performance indicators by individual staff, along with a new commission management system linked to the sales data inputted. Additionally, with the constant diversification of our product portfolio, we intend to further stratify the labeling of our inventory management system, enabling users of the CRM system to locate relevant products more accurately. With these additional details recorded in the new CRM system, we not only aim to optimize our operational efficiency but also to draw further insights from the more detailed transactional information gathered from franchisees.

On the other hand, we also intend to enhance our existing membership management module in the new CRM system, encompassing more advanced customer support and clientele management functionalities, such as member rewards and the generation of discount codes. We believe these initiatives will help foster customer loyalty.

Furthermore, we aim to explore the synergistic effects between our digitalization of CRM system, our EDM System and our franchise network outreach. For details of our EDM System, see the section headed “Future plans and [REDACTED]”. Data-driven intelligence marketing solutions can be strategized and an integrated digital business ecosystem can be built with the synergies of our CRM system. Our CRM system will be connected to all our online and offline stores, and through various intelligent platforms of our centralized operational system, we will also be able to collect and analyze big data on the sales performance of our distribution channels such as inventory level, sales volume, trends in the sales, and comparisons of sales with historical statistics, as well as feedback from our customers in order to conduct analysis to identify customer preferences and any deficiencies in our sales network. Our sales and marketing team will also be able to analyze the information collected regularly to understand customer preferences with even more granularity and accuracy, allowing us to fine-tune our media reach, optimize our conversion funnel and offer customized promotions. We believe a deeper understanding of our customers’ preferences and

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market trends will drive our ability to effectively engage with customers, make our marketing more efficient, enlarge our customer base, increase the frequency of orders and repeat orders, and ultimately generate more sales.

With the CRM system, we aim to further advance the development of our membership system and grow our membership base through precision marketing and optimized membership benefit program. We will also strengthen our insights into consumers’ behavior to offer the most suitable marketing, customized services, and products, thus increasing members’ activity and loyalty.

Continuously invest in brand building and further improve product innovation and expand product offerings

Our brand is the foundation and cornerstone of our relationship with consumers and we see the [REDACTED] as an opportunity to further enhance our brand awareness domestically and overseas. We are committed to promoting and strengthening our brand “**梦金园**” through various marketing initiatives including placing advertisements on transportation hubs and commercial districts. Furthermore, with an aim to promote our brand to younger generation and in light of the increasing internet penetration rates and the widespread use of smartphones, we intend to increase our online advertising expenditure in order to promote our brands and products online. We also intend to increase the use of online social media platforms such as Xiaohongshu and Douyin and collaborate with popular celebrities and key opinion leaders (KOLs) to leverage on their public image and popularity to further promote our brand and products. Moreover, we plan to continue devising marketing plans during festivals and holidays such as Chinese New Year festival and Qixi (七夕) festival to further elevate our brand recognition and awareness.

We believe that the constant release of new product lines and the maintenance of a rich and diverse product portfolio is vital to improving our brand exposure and brand awareness. We will continue to offer our customers diversified gold jewellery products with appealing designs at affordable prices to capture more market opportunities. In the future, we will continue to invest in the development and launching of other product lines based on trending themes to enrich our product offerings to further promote our brand.

OUR BRAND AND PRODUCT PORTFOLIO

Our brand is “**梦金园**”. We are proud of our capability in producing high-purity gold jewellery. High-purity gold is an integral part of our brand positioning and our jewellery design concept. We focus not only on the aesthetic appeal and trendiness of our gold jewellery products, but also on the cultural and emotional significance that they represent. Our commitment to using only the finest materials and our attention to craftsmanship ensure our gold jewellery continues to meet, if not exceeds, the expectations of our customers in terms of both quality and value. In addition, our gold jewellery and other gold products include jewellery and gold bullion.

Over the years, through our “**梦金园**” brand, we have fostered a deep emotional connection with our consumers, earning us numerous accolades, including being awarded the 2023 China Gold and Jewellery Industry Excellent Full Supply Chain Service Provider (2023中國黃金珠寶行業全產業鏈優秀服務商) and 2023 China Gold and Jewellery Consumer Survey Recommended National

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Chain Store Brands (中國黃金珠寶消費者調查全國連鎖推薦品牌) by Beijing Gold Economic Development and Research Center and China Gold News. See “— Awards and Recognition” below for further details.

During the Track Record Period, we primarily derive our revenue through (i) sales of gold jewellery and other gold products, (ii) sales of K-gold jewellery, diamond inlaying jewellery and other products and (iii) provision of services. The following table sets forth the breakdown of our revenue by product and services during the Track Record Period:

	Year ended December 31,						Six months ended June 30,			
	2021		2022		2023		2023		2024	
	Revenue	Percentage of revenue	Revenue	Percentage of revenue	Revenue	Percentage of revenue	Revenue	Percentage of revenue	Revenue	Percentage of revenue
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Gold jewellery and other gold products	16,457,308	97.5	15,392,835	97.9	19,877,366	98.4	9,137,879	98.1	9,834,885	98.5
K-gold jewellery, diamond inlaying jewellery and other products	296,605	1.8	226,187	1.4	225,513	1.1	127,648	1.4	99,925	1.0
Services	117,087	0.7	105,193	0.7	105,720	0.5	50,686	0.5	44,934	0.5
Total	16,871,000	100.0	15,724,215	100.0	20,208,599	100.0	9,316,213	100.0	9,979,744	100.0

Average unit price of our products

During the Track Record Period, the average unit price of gold jewellery and other gold products (excluding gold bullion) sold by us amounted to RMB2,949.0/unit, RMB3,125.1/unit, RMB3,304.8/unit and RMB2,832.1/unit for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively. The average unit price of gold bullion sold by us for the same year/period amounted to RMB6,780.2/unit, RMB7,151.6/unit, RMB4,316.0/unit and RMB4,935.8/unit, respectively. Additionally, the average unit price of K-gold jewellery, diamond inlaying jewellery and other products sold by us amounted to RMB540.1/unit, RMB595.7/unit, RMB670.9/unit and RMB806.6/unit for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively.

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Our gold jewellery and other gold products


During the Track Record Period, our revenue derived from the sales of gold jewellery and other gold products accounted for 97.5%, 97.9%, 98.4% and 98.5% of our total revenue for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively. We offer a variety of gold jewellery and other gold products, including gold bullion, under different product lines catering for different scenarios one may encounter in daily life, such as for daily wear and sending gold jewellery as gifts under different scenarios. We also offer gold jewellery products under different products lines of different purity levels. Gold jewellery of purity level of 999.9 are also referred to as “Wan Purity” series (萬純系列), and gold jewellery of purity level of 999.99 are referred to as “Yi Purity” series (億純系列).

The following table sets forth the breakdown of sales volume and revenue of our gold products by product type:

	Year ended December 31,						Six months ended June 30,			
	2021		2022		2023		2023		2024	
	Sales volume (kg)	Revenue (RMB'000)	Sales volume (kg)	Revenue (RMB'000)	Sales volume (kg)	Revenue (RMB'000)	Sales volume (kg)	Revenue (RMB'000)	Sales volume (kg)	Revenue (RMB'000)
Gold products of purity level of:										
999.9 (“Wan Purity” series)	40,468.2	13,870,027	39,101.2	13,978,637	43,251.3	17,865,322	21,095.1	8,379,816	13,594.2	6,282,342
999.99	2,139.2	740,332	2,367.0	845,445	2,733.5	1,121,958	1,332.9	526,670	3,988.7	1,957,932
Others	519.6	194,815	306.9	126,570	377.2	178,425	199.2	91,848	697.1	490,795
Gold bullion	4,962.8	1,652,134	1,250.5	442,184	1,704.5	711,661	359.0	139,545	2,308.8	1,103,816
Total	<u>48,089.8</u>	<u>16,457,308</u>	<u>43,025.6</u>	<u>15,392,835</u>	<u>48,066.6</u>	<u>19,877,366</u>	<u>22,986.2</u>	<u>9,137,879</u>	<u>20,588.7</u>	<u>9,834,885</u>

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We set forth below our major product portfolio for our gold jewellery and other gold products:

Gold Jewellery					
Major scenarios	Daily wear			Marriage	Giving birth
Major product lines	Exquisite small ornaments	Ancient style, pray for good luck	Sail with dream	Cherish your love	Praying for good luck for newborn
Theme of the design	Continue to write the legend of the Winter Olympics under ice and snow	Displaying the oriental art of ink in Chinese painting in a square inch of enamel	The exquisite light that soars through the mysterious universe	Mulberry flower to convey the message of to love who you treasure and to cherish what you have	Inherit ancient crafts and preserve inheritance
Product showcase					
Crafting fee range (RMB) for Major product lines	10.5–24	17.5–35	14.5–28	10.5–24	4.5–24

Gold Bullion

Product showcase					
Selling price range	Our selling prices for gold bullion are generally based on the gold market price plus a crafting fee, which is generally lower than the crafting fee for our other gold products, as gold bullion requires less craftsmanship.				

Note: Each product line includes Wan Purity series products that qualify for trade-in under the “One RMB Exchange” program. The price range of the Wan Purity series products is the same as the illustrative selling price range for consumers.

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Below sets forth a few of our signature product lines:



“Master Craftsman Legend series — The Master's Legacy”
(匠傳系列—大師匠傳)



“The Delicates series — Twinkle”
(玲瓏小飾系列—小星動)



The “Ancient prayers for good fortune series — Buddha's blessings”
(祈祥•古法系列—佛佑)



The “Ancient prayers for good fortune series — The Unparalleled Oriental Beauty”
(祈祥•古法系列—國色無雙)



“Master Craftsman Legend series — Luck, Wealth and Golden Fortune”
(匠傳系列—福祿金安)



“The Delicates series — Cute Pets”
(玲瓏小飾系列—萌寵)



The “Ancient prayers for good fortune series — Sign of Fortune”
(祈祥•古法系列—吉兆)



“The Happily Ever After series — Little Fortune”
(喜事臨—小幸福)

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Our K-gold jewellery, diamond inlaying jewellery and other products

During the Track Record Period, our revenue derived from the sales of K-gold jewellery, diamond inlaying jewellery and other products accounted for 1.8%, 1.4%, 1.1% and 1.0% of our total revenue for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively. The following table sets forth our major product portfolio for our K-gold jewellery, diamond inlaying jewellery and other products:

	K-Gold		Diamond		Other accessories and parts	
Scenario	Daily wear	Daily wear		Marriage	Daily wear	
Product line	Star	Minimalism	Chinese Fad	Pure Diamond	Always with you	Little Surprise
Theme of the design	Only have eyes for you (星辰萬千 滿目皆你)	Make it simple (化繁為簡 定義焦點)	Exquisite Craftsmanship, Chinese Characteristics (顯色天工 潮起東方)	High Purity D-E Diamond Sacred gift, precious as you are (高純色D-E純鑽 聖潔之禮·珍貴如你)	Create “1314” diamond ring with D0.13/0.14ct, d0.014/0.013ct (13/14分主鑽+1.4/1.3分副鑽組合 打造1314鑽戒)	Happiness for yourself (給自己的幸福)
Product showcase						
						

OUR BUSINESS MODEL

Our operation weaves together key stages of the gold jewellery industry, commencing with trusted raw material sourcing, and through core operations including raw material purification, brand management, R&D, product design, manufacturing and completing with a diversified sales network, while committing to quality along the way. Our OBM business model allows us to effectively decipher the recent consumer trends through our diversified sales network and to bring such products to market leveraging our independently developed gold purification capability and strong production know-how, effectively elevating our operational efficiency. According to Frost & Sullivan, from 2018 to 2023, we were the only gold jewellery brand in the PRC that had consecutively been ranked in the top five of both the “Top Ten Enterprises in Gold Jewellery Processing Volume” and the “Top Ten Enterprises in Gold Jewellery Sales Revenue” by the China Gold Association. In 2023, we ranked third and fifth by gold processing volume and gold jewellery revenue, respectively, amongst gold jewellery brands in the PRC, according to Frost & Sullivan. We believe our OBM business model enables us to reduce costs, improve efficiency and reliability of our production process and maintain control over our sales channels.

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Our expertise in gold purification enables us to elevate the purity of our mass-produced gold jewellery from 999 to 999.9. We consider gold purification to be fundamental to the production of gold jewellery, as it can upgrade the intrinsic value of gold jewellery and the purity level of gold is a crucial factor in the purchasing decisions of consumers.

Our self-owned production facility, combined with our investment in R&D, allow us to integrate production with sales. This ensures that we can timely meet the demand of our customers and consumers, while providing flexibility in new product offerings. Leveraging such strength, we have successfully established a diverse and extensive national-wide multi-channel sales network in PRC including franchise stores, self-operated stores, and e-commerce platforms. According to Frost & Sullivan, sales growth of gold jewellery products in the third-tier cities was at a CAGR of 12.4% from 2018 to 2023 and was projected to grow at a CAGR of 9.4% from 2023 to 2028, while the same for fourth and lower tier cities grew at a CAGR of 13.0% from 2018 to 2023 and was projected to grow at a CAGR of 9.2% between 2023 and 2028, respectively. Our diverse and extensive sales network extends our consumer outreach and helps to achieve our sales and marketing goals.

Our franchise network

We primarily sell our products to consumers through our offline network comprising of franchise stores and self-operated stores. In addition, we also offer our products to consumers through online sales via e-commerce platforms. We also maintain a third-party product list which our franchisees are permitted to buy and sell third-party produced products under our brand name “**梦金园**”, provided that the products passed the inspection of us or a third-party testing agency designated by us.

As of June 30, 2024, we had established a comprehensive franchise network including 2,850 franchise stores operated by 1,670 franchisees, seven self-operated direct service centers and 17 provincial-dealers. Our other sales channels include 36 self-operated stores, sales to online platforms and online stores on major e-commerce platforms in our consumer network. For further information, see “— franchisees and provincial-dealers management”.

During the Track Record Period, we achieved a high turnover with corresponding net profit margins that were low. Such financial results were primarily attributable to our adoption of franchise distribution model, whereby we maintained low fixed crafting fees when we sell to provincial-dealers and/or franchisees. In turn, our franchisees can benefit from higher profit margins on their subsequent sales to consumers. The increased profit margins not only strengthened our franchisees’ financial standing but also fostered their loyalty, reinforcing the bond between them and us. When franchisees are able to achieve higher profit margins, they are more likely to remain committed to our brand and franchise network. They see the value in continuing their partnership with us and are motivated to actively participate in the growth and success of our franchise network. Our business model, with franchise stores across the PRC, enables rapid expansion in targeted markets. The franchise business model provides an asset-light and cost-effective means of expanding our store network and geographical coverage. According to Frost & Sullivan, our business model of high revenue but a relatively thin net profit margin is not uncommon among

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industry peers who also adopt a franchise distribution strategy. Due to the aforementioned, for the three years ended December 31, 2023 and the six months ended June 30, 2024, our Group operated on a thin net profit margin of 1.3%, 1.1%, 1.2% and 0.5%, respectively.

Net profit margin

During the Track Record Period, our net profit margin remained relatively stable at 1.3%, 1.1%, 1.2% and 0.5% for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively. Our low net profit margin was primarily attributable to our adoption of franchise distribution model, whereby we maintained low fixed crafting fees to our products when we sell to provincial-dealers and franchisees. Such pricing model in turn benefits our franchisees as they are able to sell to consumers at higher margins subsequently.

Our net profit margin remained relatively stable for the three years ended December 31, 2023. We recorded a slightly decreases in our net profit margin from 2021 to 2022 partially due to our distribution and selling expenses increased as we implemented organic growth strategies to expand our market share. For the year ended December 31, 2023, our net profit margin remained stable with a slight increase from 1.1% in 2022 to 1.2% in 2023. Our net profit margin decreased from 1.2% for the year ended December 31, 2023 to 0.5% for the six months ended June 30, 2024 primarily due to an increase in our net realized loss on Au (T+D) contracts and gold loans, which in turn, was a result of a material increase in gold price during the first half of 2024. Our net profit decrease coupled with our revenue growth resulted in a decrease in our net profit margin for the six months ended June 30, 2024 when compared to the corresponding period of 2023.

Gold jewellery products generally have lower margin when compared with other jewellery products, but the lower margin for gold jewellery products does not mean low crafting skills applied when producing such products. Also, due to comparatively stronger market demand for gold jewellery products, they generally have higher inventory turnover.

Net profit margin and our hedging strategies

Our net profit margin fluctuation is subject to gold price fluctuation, among other factors.

To mitigate the potential impact of gold price fluctuations on our business, we utilized gold loans and Au (T+D) for an economic hedge against our gold inventory position. The financial impact of our economic hedge of Au (T+D) and gold loans was reflected under “other gains and losses, net” in our consolidated statements of profit or loss and other comprehensive income during the Track Record Period. However, the appreciation or depreciation in the monetary value of our gold inventories may not necessarily be reflected in our net profit, as gold inventories were stated at the lower of cost and net realizable value in our consolidated statements of financial position. In situations where (i) there is an appreciation of monetary value of gold inventory, or (ii) there is a depreciation of monetary value of gold inventory but the net realizable value is still higher than cost, the inventory value will be calculated by cost and will not affect our net profit; however, under situations where there is a depreciation of monetary value of gold inventory resulting in the net realizable value lower than costs, an impairment loss on inventory will be incurred, thereby affecting our net profit.

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In case of gold price decrease, the depreciation of monetary value of our gold inventory balance is not necessarily reflected as a loss, but we will record a gain on our Au (T+D) contract as we can sell at the previously determined Au (T+D) gold price which is higher than the market gold price. This leads to a gain to be recorded under “other gains and losses, net”.

In case of gold price increase, the appreciation of monetary value of our gold inventory balance is not reflected in our net profit, but we will record a loss on our Au (T+D) contract as we need to sell at the previously determined Au (T+D) gold price which is lower than the market gold price. This leads to a loss to be recorded under “other gains and losses, net”.

To illustrate, when gold price increases, increase in our gold inventory monetary value will not be accounted for as our profit, but we will suffer losses on Au (T+D), adversely impacting our net profit, which leads to a net profit margin decrease.

For further details on how Au (T+D) operates, please see “Business — Our Procurement/Suppliers — Procurement of Gold — (b) Gold Price Exposure Management to Manage Fluctuations of Raw Material Price — Adoption of Au (T+D) contracts”.

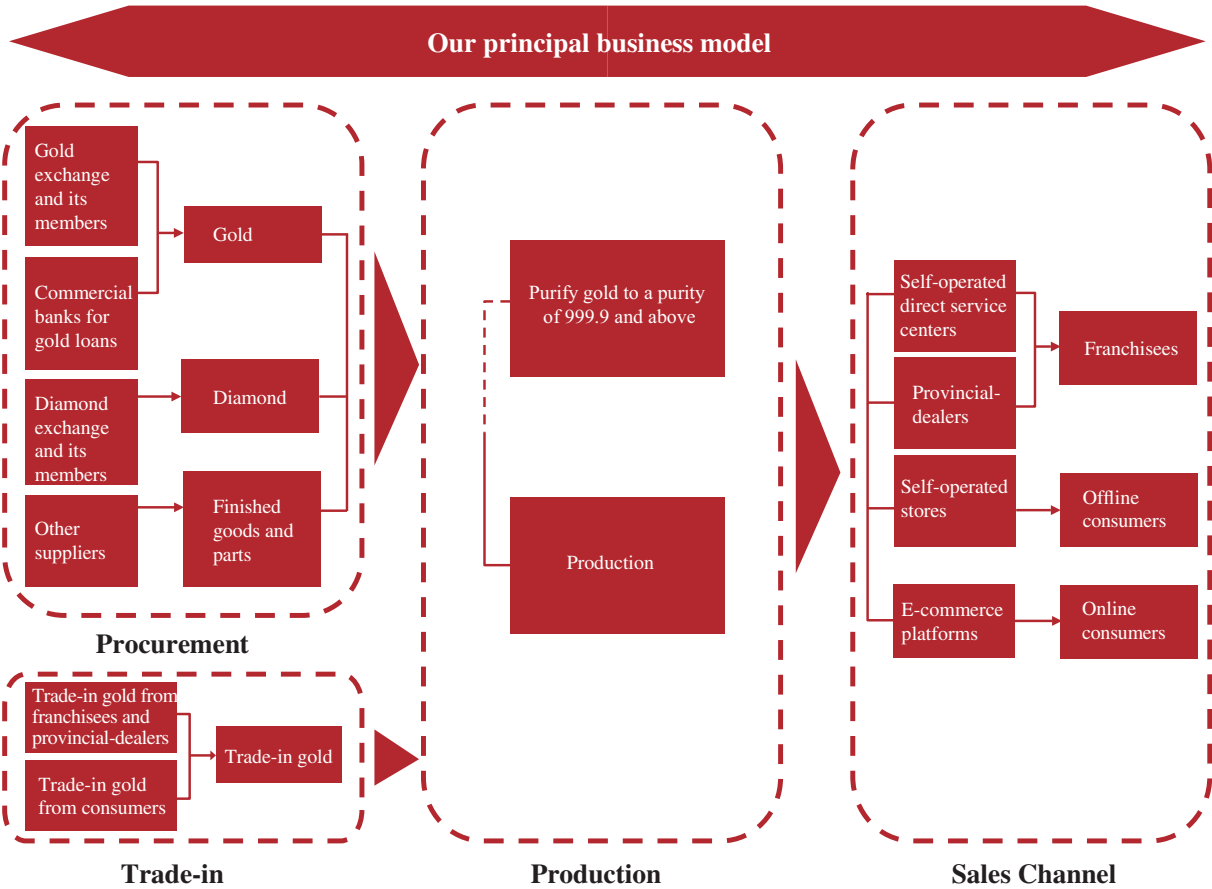
Other factors which may also have an impact on our net profit margin include business activities, product mix and sales channels.

To mitigate the situation of thin profit margins, we intend to continue to increase the proportion of higher-margin products in our product mix by focusing on products that incorporate more sophisticated crafting skills. We will also continue to conduct periodic review of our gold jewellery crafting fees and product mix and make appropriate adjustments from time to time, as they have a direct impact on our gross profit margin. We also believe that with our success in [REDACTED], our brand image would be elevated and we would have the [REDACTED] from the [REDACTED] to further expand our business and with our business expansion, our gross profit margin may improve based on the economies of scale effect.

Furthermore, our Directors are of the view that although our gross profit margin is low, the gross profit amount was still substantial at approximately RMB536.4 million, RMB759.2 million, RMB1,077.5 million and RMB617.5 million for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively.

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Our principal business model and operation workflow are illustrated in the following diagram:



Our Procurement

We specialize in developing and commercializing high-purity gold jewellery products. Our ability to source high-purity gold and other raw materials is essential to our operation and growth. Over the years, we have built a stable supply network for our main raw materials, which primarily include gold and diamond. We attained special membership with the Shanghai Gold Exchange in 2020 after demonstrating satisfactory financial resources, internal controls, and business capabilities. As a special member of the Shanghai Gold Exchange, we are able to purchase gold directly from the officially authenticated source, which reduces the need to purchase gold from third parties. According to Frost & Sullivan, as of October 31, 2023 the Shanghai Gold Exchange had approximately 290 members, out of which approximately 30 companies were special members. Many of the members are banks, financial institutions, gold mining companies, gold products manufacturers and gold traders. To apply for special membership with the Shanghai Gold Exchange, applicants are required to lodge a formal application and the approval process typically takes around 60 working days. The eligibility requirements include that the applicant: (i) be a validly existing entity registered in China, (ii) have net assets of no less than RMB50 million, (iii) have been profitable for each of the last three financial years (prior to application) and (iv) be compliant with relevant laws and regulations of the PRC and have had no material non-compliant incidents during the course of the applicant’s operation in the three years (prior to application). Generally, the review process involves an assessment conducted by the Shanghai Gold Exchange’s

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general manager and final approval by the chairman, unless otherwise specified. The membership of the Shanghai Gold Exchange requires annual renewal through the payment of an annual fee and we will renew our membership in September 2026. The gold we purchase from the Shanghai Gold Exchange is tested and certified, thus reducing any uncertainty about the gold purity/quality that we use as raw materials for our gold jewellery products. We also obtained gold through gold trade-in. For details of our gold trade-in, see “— Gold Trade-in”.

Our Research and Development (R&D)

We have been committed to and have invested substantively in the R&D of the gold processing techniques and the machinery required for the mass production of jewellery and jewellery products.

R&D on technology: We are committed to ensuring the gold purity of our gold jewellery products, advancing jewellery processing techniques, and enhancing production capabilities. According to Frost & Sullivan, as of the Latest Practicable Date, we are one of the few gold jewellery brands that can mass produce gold jewellery of 999.9.

R&D on machinery: Our R&D on machinery allows us to standardize complicated production procedures and achieve high precision automated mass-production of gold jewellery, thus allowing us to be one of the few gold jewellery brands that can independently manufacture and sell gold jewellery products, according to Frost & Sullivan. Over the years, we have revamped imported industry-leading production equipment, including robotic arms for accessories flipping, automated carving machines, automatic butterfly chain punching machines, chain loosening machines, automatic thin wall gold tube necking machine and precisely calibrated these machinery to suit our production needs. These machineries distinguish us from gold jewellery brands that only focus on jewellery design but rely on external manufacturers or imported machinery for production. Backed with R&D capability and self-developed machineries, we can fine-tune our production process, self-improve our product quality and conduct production trial to support our product development department.

R&D on products: Our product portfolio encompasses a wide range of jewellery products, including rings, necklaces, pendants, bangles, earrings, brooches, bracelets, and more. Such comprehensive product portfolio provides our consumers with ample choices for different occasions, such as daily wear, weddings, and gifts for newborns. We innovate to meet current market trends and satisfy the needs of different types of customers. One of the most salient features of our products is that we employ the traditional technique of “gold and silver fine crafting” in our production process, which is an ancient jewellery crafting technique that was recognized as a Chinese intangible cultural heritage in 2008, combining with our patented technology of “autogenous welding”, we are committed to preserve Chinese cultural heritage and to showcase the beauty of traditional craftsmanship through our high quality gold jewellery. With our deep understanding of the gold jewellery market and our well-integrated design and production capability, we have been able to continuously innovate and broaden our jewellery portfolio.

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Our Production and Quality Control

Our ability to mass-produce gold jewellery with advanced equipment in the production phase sets us apart from our competitors. We have invested in and revamped our hardware production facilities and introduced digitalized equipment to our production line. Such production capability allows us to enhance the quality and efficiency of our gold jewellery production through better control of our production process — starting from testing the quality of raw materials used, adopting standardized quality control, and final product sample testing.

With our direct quality control involvement in each stage of production, we can ensure the quality standards are monitored and met at every step along the production chain. For example, we perform gold purity tests starting from the early stage of material sourcing. Our workers perform tests on the content of impurities by spectrometer and electrode brush. Only products passing through our purity standards can proceed to next stage of production. Through our gold purification and stringent testing processes, we strive to ensure the purity and authenticity of our gold jewellery products, which prevents sale of products which do not fulfil our gold purity standards and in turn, instills confidence in our consumers.

Building on our advanced production capabilities, we have achieved technical breakthroughs in carrying out digitalized mass production of gold products of 999.9 purity level. In 2019, we achieved breakthroughs in the production of gold spring clasps and became the first in the PRC to mass produce such products according to Frost & Sullivan.

Our Sales Channel

As of June 30, 2024, we established a sales network with over 2,850 franchise stores operated by 1,670 franchisees, 36 self-operated stores, seven self-operated direct service centers and 17 provincial-dealers, as well as online stores on major e-commerce platforms in our customer network.

We were ranked third in terms of gold jewellery revenue (excluding gold bullion) in third and lower tier cities amongst gold jewellery brands in the PRC in 2023 according to Frost & Sullivan. We believe our sales network positions us well to deepen our market penetration in markets with growth potential.

Our business model of having franchise stores across the PRC allows us to expand rapidly in third and lower tier cities. Our local franchise stores understand local preferences and can adjust product mix and be flexible with their marketing strategies, thereby enhancing consumer shopping experience. We believe that our franchisee network has helped us capture the growth potential of our targeted markets and deepen our market penetration, which is essential for long-term growth.

We believe our ability to provide high-purity gold jewellery products has consistently helped us to build a strong reputable brand. Our branding and reputation, in addition, attracts franchisees to join our franchise network and strengthens consumers’ loyalty, both of which have been the foundation to our strong growth.

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OUR PROCUREMENT/SUPPLIERS

Over the years, we have built a stable supply network for our main raw materials, mainly including gold and diamond. Apart from raw materials, we also procure finished goods and parts from suppliers as needed. The procurement of finished goods and parts constitute a de minimis portion of our total procurement.

According to our internal policy, our procurement department conducts multi-dimensional evaluations on newly selected suppliers, regularly evaluates the qualifications of our suppliers and eliminates unqualified suppliers to ensure all our requirements for external suppliers are met. During the Track Record Period, we did not suffer from shortages in the supply of raw materials from our suppliers and we do not anticipate any supply chain constraints that will materially and adversely affect our results of operations.

The following table sets forth the breakdown of our material costs:

	Year ended December 31,						Six months ended June 30,			
	2021		2022		2023		2023		2024	
	Material costs (RMB'000)	% to total material costs (%)	Material costs (RMB'000)	% to total material costs (%)	Material costs (RMB'000)	% to total material costs (%)	Material costs (RMB'000)	% to total material costs (%)	Material costs (RMB'000)	% to total material costs (%)
	(Unaudited)									
Gold	16,015,563	99.0	14,694,499	99.2	18,812,047	99.5	8,620,254	99.3	9,216,361	99.6
K-gold	67,104	0.4	33,303	0.2	42,245	0.2	25,672	0.3	20,183	0.2
Diamond	93,988	0.6	84,390	0.6	58,248	0.3	38,197	0.4	18,126	0.2
Others	5,937	—	5,016	—	3,671	—	2,706	—	31	—
Total	16,182,592	100.0	14,817,208	100.0	18,916,211	100.0	8,686,829	100.0	9,254,701	100.0

The following tables set forth the breakdowns of (i) the volume; (ii) the average carrying value; (iii) the comparison with PRC market price for our major categories of inventories (gold, k-gold and diamond) during the Track Record Period. We disregard the inclusion of (i) work in progress; (ii) consumables; and (iii) other categories of raw materials such as silver and platinum jewellery due to the insignificant amount of such products/materials.

Materials (including raw materials and consignment processing materials)

Inventory volume

	As of December 31,			As of June 30,
	2021	2022	2023	2024
Gold (kg)	1,621.1	901.5	1,106.7	1,259.4
K-gold (kg)	112.5	151.4	149.0	147.6
Diamond (carat)⁽¹⁾	5,062.4	3,117.1	3,404.7	3,375.4

Note:

(1) For diamond as raw materials, we normally purchase diamonds with carats as the unit of measurement.

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Average carrying value and comparison with the closing gold price of Shanghai Gold Exchange

	As of December 31,						As of June 30,	
	2021		2022		2023		2024	
	Average carrying value	Exchange on the last trading day of the year	Average carrying value	Exchange on the last trading day of the year	Average carrying value	Exchange on the last trading day of the period	Average carrying value	Exchange on the last trading day of the period
Gold (RMB/g)	329.0	-1.8	355.0	-8.2	414.3	-10.2	467.1	-19.5
K-gold (RMB/g)	248.6	N/A	260.6	N/A	245.4	N/A	268.7	N/A
Diamond (RMB/carat)	5,958.0	N/A	5,071.5	N/A	5,104.0	N/A	5,072.2	N/A

Products (including finished goods and goods in transit)

Inventory volume

	As of December 31,			As of June 30,
	2021	2022	2023	2024
Gold products (kg)	3,635.7	3,041.7	3,389.6	2,463.0
K-gold products (kg)	353.0	260.3	344.0	211.5
Diamond inlaying jewellery products (unit)⁽¹⁾	92,837.0	90,146.0	81,113.0	83,338.0

Note:

- (1) For inventory volume of diamond inlaying jewellery products, only number of product units is available, as our finished diamond inlaying jewellery products, which contain diamonds and other precious metals such as gold, are measured and sold by product units instead of the weight of diamond.

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Average carrying value and comparison with the closing gold price of Shanghai Gold Exchange

	As of December 31,				As of June 30,			
	2021		2022		2023		2024	
	Average carrying value	Comparison with the closing gold price of Shanghai Gold Exchange on the last trading day of the year	Average carrying value	Comparison with the closing gold price of Shanghai Gold Exchange on the last trading day of the year	Average carrying value	Comparison with the closing gold price of Shanghai Gold Exchange on the last trading day of the period	Average carrying value	Comparison with the closing gold price of Shanghai Gold Exchange on the last trading day of the period
Gold (RMB/g)	332.6	+1.8	351.2	-12.1	414.0	-10.5	461.4	-25.2
K-gold (RMB/g)	217.2 ⁽¹⁾	N/A	265.6	N/A	271.1	N/A	290.5	N/A
Diamond (RMB/unit)	1,528.6	N/A	1,505.7	N/A	1,238.9	N/A	1,217.0	N/A

Note:

- (1) As of December 31, 2021, certain K-gold jewellery was manufactured for third-party commissioners but not yet delivered to them, which were included in K-gold products. The corresponding inventory balances consist of only staff costs and overheads (raw materials are supplied by commissioners), while their quantities are included in the total quantities of K-gold products, resulting in the lower average carrying value of K-gold products. This does not indicate that the provision for inventories is inadequate or that the accounting policy has not been consistently applied.

In summary, the average carrying value of our gold materials/finished goods were generally lower than the closing gold price on the Shanghai Gold Exchange on the last trading day of the year/period during the Track Record Period. Such results were primarily attributable to the increasing trend in gold prices during the Track Record Period, with gold materials being purchased at a lower unit price than the market price of gold on the last trading day of the relevant year/period. Similarly, for certain years/periods during the Track Record Period, the average carrying value per gram of gold raw materials was higher than that of finished gold jewellery products, because at times when gold price is generally increasing, the gold prices of raw materials would be closer to the market price, which is generally higher than that of finished gold jewellery products as such products contained gold procured from a time when gold price was comparatively lower than the prevailing market price.

As gold prices generally trended upwards since 2022, we suffered material losses from Au (T +D) contracts and gold loans we entered into in 2022, 2023 and the six months ended June 30, 2023 and 2024. Such loss amounted to RMB209.1 million, RMB369.5 million, RMB195.3 million and RMB386.6 million for the years ended December 31, 2022 and 2023 and the six months ended June 30, 2023 and 2024, respectively. At the same time, we benefited from the higher selling price of our products, which were reflected in our gross profits and gross profit margins in the same period. However, as our inventories are measured at the lower of cost and net realizable value, the appreciation of our inventory as of December 31, 2022 and 2023, and June 30, 2023 and 2024 is not reflected in the value of our inventories. Given gold is highly liquid, had we sold all gold inventories (including gold and K-gold materials and finished products) at the closing gold price

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quoted on the Shanghai Gold Exchange on the last trading day of the years ended December 31, 2022 and 2023 and the six months ended June 30, 2023 and 2024 without taking into account the crafting fees we should be able to charge, we would record a gain of RMB52.1 million, RMB77.5 million, RMB60.8 million and RMB132.4 million for the years ended December 31, 2022 and 2023 and the six months ended June 30, 2023 and 2024. Conversely, in 2021, we recorded gains from Au (T+D) contracts and gold loans in the sum of RMB88.6 million due to the decreasing trend in gold price during the year. Meanwhile, our gross profit margin derived from sales of gold products in 2021 was low due to low market price of gold. Had we sold all our gold inventories (including gold and K-gold materials and finished products) at the closing gold price quoted on the Shanghai Gold Exchange on the last trading date of 2021, disregarding the crafting fee we could have charged, we would incur a loss of RMB4.0 million.

Procurement of Gold

During the Track Record Period, all of our gold material was procured from the PRC, and we mainly source our gold through two means, namely (i) gold obtained from the Shanghai Gold Exchange and its members and (ii) obtaining used gold by way of accepting gold trade-in (including franchisee trade-in and consumer trade-in) as a settlement method to offset the amount of gold which our customers purchase from us. For details of gold trade-in, see “— Gold Trade-In”. According to Frost & Sullivan, these are also the two common channels of gold sourcing in the PRC gold jewellery industry.

Gold Procurement Plan

Our procurement team determined the quantity of gold raw materials to be purchased mainly based on the sales volume data prepared by relevant sales personnel. Such data are prepared several times each day, and based on the actual sales volume our procurement team would make gold purchases at the spot price from the Shanghai Gold Exchange several times each day. We do not enter into long-term procurement contracts with the Shanghai Gold Exchange. Also, while our procurement team determined the quantity of gold raw materials to be purchased mainly based on the sales volume data prepared by relevant sales personnel, in accordance to our internal policy, our procurement department is to monitor the gold price on daily basis (amongst other measures), and such measures are to help us procure gold at appropriate prices. For further details on monitoring of gold prices please see “— (a) Gold obtained from the Shanghai Gold Exchange — Monitoring Gold Prices”. During the Track Record Period, gold sourced through direct procurement was generally determined based on the prevailing trading price of the Shanghai Gold Exchange on the relevant trading day or the day for Au (T+D) (i.e. Trade + Delay) settlement. We implemented measures including financing gold procurement through gold loans and entering into Au (T+D) contracts to mitigate the risks associated with fluctuations in gold prices. These measures are carefully assessed based on funds available, our gold inventory position and estimated sales needs. For details of hedging, see “— (b) Gold Price Exposure Management to Manage Fluctuations of Raw Material Price” below.

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The following table sets forth the breakdown of our sources of gold:

	Year ended December 31,						Six months ended June 30,	
	2021		2022		2023		2024	
	Amount of gold obtained (Kg)	% to total amount of gold obtained (%)	Amount of gold obtained (Kg)	% to total amount of gold obtained (%)	Amount of gold obtained (Kg)	% to total amount of gold obtained (%)	Amount of gold obtained (Kg)	% to total amount of gold obtained (%)
Gold obtained from the								
Shanghai Gold Exchange								
• Direct procurement . . .	23,027.1	46.5	23,480.1	55.9	30,325.5	62.0	13,357.8	66.6
• Gold loans obtained from commercial banks	1,795.0	3.6	1,390.0	3.3	1,589.0	3.2	730.0	3.6
Gold trade-in	24,766.4	49.9	17,158.4	40.8	16,987.7	34.8	5,969.5	29.8
Total	49,588.5	100.0	42,028.5	100.0	48,902.2	100.0	20,057.3	100.0

(a) Gold obtained from the Shanghai Gold Exchange

During the Track Record Period, we mainly purchased gold through our own Shanghai Gold Exchange’s corporate account. The Shanghai Gold Exchange is the largest gold exchange in the PRC and directly regulated by the PRC government. The Shanghai Gold Exchange, as the central counterparty, uniformly organizes clearing and settlement for all transactions in the exchange system. We have been a special member of the Shanghai Gold Exchange since 2020, which gave us the right to directly purchase gold material from our special trading account on the Shanghai Gold Exchange. According to the Shanghai Gold Exchange Auction Trading Rules, only members (including special members) are allowed to trade directly on the Shanghai Gold Exchange, whereas non-members can only trade through members and special members. This structure grants members and special members the right to earn fees for facilitating non-members’ trade. Through our membership with the Shanghai Gold Exchange, we achieved a procurement advantage by eliminating our dependence on other members for gold procurement and reducing our cost of sales as we no longer need to pay trade premiums to members of the Shanghai Gold Exchange. Moreover, the gold we procure from the Shanghai Gold Exchange is tested and certified, thus reducing uncertainties on quality of the gold we use for production of our gold jewellery products. During the Track Record Period, we also obtained gold from the Shanghai Gold Exchange through gold loans obtained from commercial banks. For further details, please refer to the section headed “— Gold Loans”.

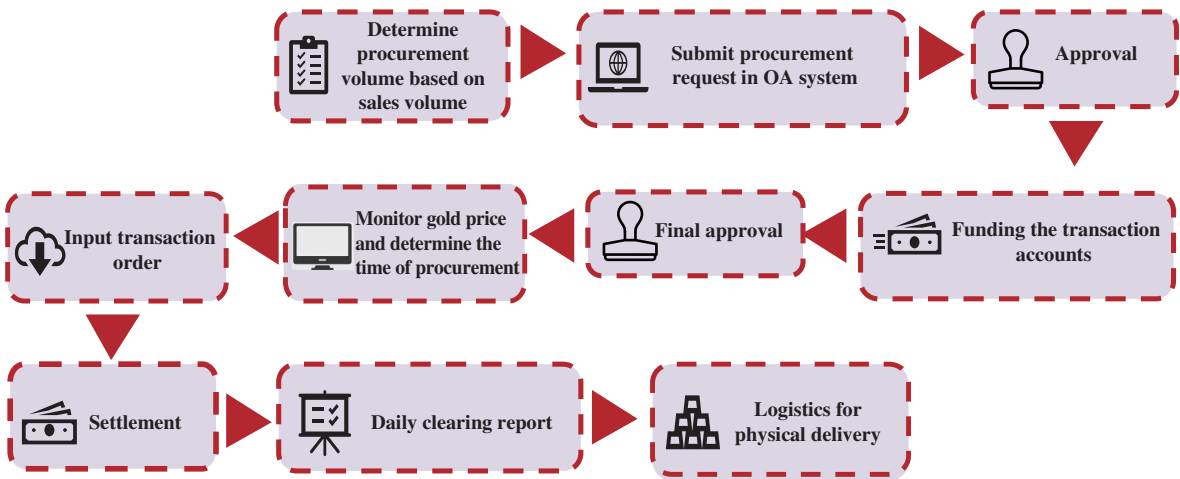
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Monitoring Gold Prices

In accordance to our internal policy, our procurement department monitors the gold price on daily basis and conducts analysis based on various factors including the daily fluctuations in gold prices, order and trading volume of London gold, the difference between spot prices and futures or forward prices of gold, and the fluctuations in the exchange rate of RMB against the US dollar. For details of our gold procurement plan, please see “— Procurement of Gold — Gold Procurement Plan”.

For details of our gold purchase amount from the Shanghai Gold Exchange, see “— Our Top Five Suppliers during the Track Record Period” below.

The following diagram sets forth our internal procedure of direct procurement of gold:



(b) Gold Price Exposure Management to Manage Fluctuations of Raw Material Price

During the Track Record Period, to manage our exposure to changes in gold price, we implemented (i) a “procuring according to sales (以銷定採)” procurement strategy, and (ii) hedging strategies including financing our procurement of gold through gold loans and entering into Au (T +D) contracts on a daily basis. It is our strategy to enter into gold loans and Au (T+D) contracts, i.e. the short position, to substantially cover our inventory balance and the adoption of such hedging strategies allows us to avoid speculating against fluctuations in gold prices and focus on the development of our core operations in gold jewellery manufacturing and sales.

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“Procurement According to Sales (以銷定採)” Procurement Strategy

We implement the strategy of “procuring according to sales (以銷定採)”, whereby we purchase gold materials based on our daily sales volume to manage the potential adverse impact of mismatches between our gold procurement prices and sales prices. This approach allows us to maintain an inventory level by with stable inventory turnover days of 42.7 days, 45.6 days, 36.8 days and 40.8 days as of December 31, 2021, 2022 and 2023 and June 30, 2024, respectively. We do not make gold procurements based on gold price movements alone, and thus, material movements in gold price do not substantially impact our gold inventory. We believe our “procuring according to sales (以銷定採)” strategy helps mitigate the potential adverse impact of mismatches between our gold procurement prices and sales prices.

Economic Hedge of Au (T+D) Contracts and Gold Loans

According to our gold price exposure management strategy, we implemented measures including financing our procurement of gold through gold loans and entering into Au (T+D) contracts on a daily basis to mitigate the risks associated with fluctuations in gold prices. These measures are carefully assessed based on funds available, our gold inventory position and projected sales needs. Our Directors believe that our multi-channel procurement and gold price exposure management strategies, through Au (T+D) contracts and gold loans, are effective in controlling and mitigating risks associated with gold price fluctuations.

Adoption of Au (T+D) contracts

Au (T+D) is a standardized contract employed by the Shanghai Gold Exchange. It involves the delivery of a predetermined amount of gold at a predetermined price on a specified future date. Investors in Au (T+D) do not buy or sell gold at the current market price. Instead, they need to set a price and quantity (i.e. create a position), and then in case there is a match of orders for the buying and selling of gold, the system will recognize the transaction, inform the buyer and seller and create a binding agreement between the parties accordingly. Au (T+D) transactions operate on a margin system, typically around 5-10%, allowing traders to make purchase of gold on margin and then to defer delivery if desired. According to Frost & Sullivan, the adoption of Au (T+D) is common among gold jewellery manufacturers in PRC.

We typically enter into Au (T+D) contracts on a daily basis as a seller to create a short position and choose for delay settlement on a future date. The contract amount of Au (T+D) is determined with reference to our current day’s sales and procurement volume of gold materials. Au (T+D) contracts are settled on a daily basis. On each trading day of Au (T+D), if the gold price declines, we may experience a loss in the value of the gold jewellery sold, but simultaneously benefit from a realised gain on Au (T+D) contracts. Conversely, if the gold price rises, we may incur a loss on Au (T+D) contracts, but we can sell the gold jewellery at a higher price to realize the increase in gold price. In practice, the Au (T+D) contracts are marked-to-market by receiving from or paying to the counterparty the net gain or loss amount at each market trading date during the contract period with our deposits for margin.

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During the Track Record Period, we did not engage in speculative activities that falls within the definition under HKFRS 9 for gold price exposure management. We employ economic hedges (i.e. derivatives that were used to manage risks but were not subject to hedge accounting treatment) to manage risks arising from gold price fluctuations with the objective to reduce and/or eliminate the effects of market gold price fluctuations. Our hedging instrument was not accounted for under hedge accounting, because (1) for accounting purpose, they do not meet the qualifying criteria for hedge accounting in accordance with HKFRS 9 “Financial Instruments” including at the inception of the hedging relationship there is no formal designation and documentation of the hedging relationship and our risk management objective and strategy for undertaking the hedge, (2) as the formal designation and documentation of hedging relationship are not allowed to be retrospectively adjusted under relevant HKFRSs, adoption of hedge accounting in the middle of the Track Record Period will cause the financial performance to be not comparable throughout the Track Record Period, and (3) many of our [REDACTED] peers does not adopt hedge accounting even if they also utilize similar hedging instrument.

The financial impact of our economic hedge of Au (T+D) and gold loans was reflected under “other gains and losses, net” in our consolidated statements of profit or loss and other comprehensive income during the Track Record Period. However, the appreciation or depreciation in the monetary value of our gold inventories may not necessarily be reflected in our net profit, as gold inventories were stated at the lower of cost and net realizable value in our consolidated statements of financial position. The timing difference between when we recognize the loss on Au (T+D) contracts and when we are able to fully realize the gains from the gold price portion of our sales (due to increase in gold price) may affect our results of operation. Below are examples to illustrate how our results of operations are affected.

Assuming:

- We procure 100 grams of gold at RMB5 per gram on Day 1;
- We enter into an Au (T+D) contract to sell 100 grams of gold at RMB5/gram on Day 2; and
- On Day 2 and Day 3 gold price rises to RMB10/gram.

Scenario One — On Day 2, we sell all 100 grams of gold

- Gross profit on gold price portion of the sales $\text{RMB}(10-5)/\text{gram} * 100 \text{ grams} = \text{RMB}500$.
- We incur a loss of RMB500 on the Au (T+D) contract due to the rise in gold price.
- The gain we received from the gold price portion of our sales is cancelled out by our loss on the Au (T+D) contracts, and thus, the gold price fluctuation has **no effect on our net profit**.

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Scenario Two — On Day 2, we sell 50 grams of gold, and sell the remaining on Day 3

- Day 2: Gross profit on gold price portion of the sales $\text{RMB}(10-5)/\text{gram} * 50 \text{ grams} = \text{RMB}250$.
- Day 2: We incur a loss of RMB500 on the Au (T+D) contract due to the rise in gold price.
- Day 2: **Our net profit would be negatively impacted by RMB250** due to the increase in gold price.
- Day 3: We sell the remaining 50 gram of gold procured on Day 1 and make a profit of RMB250, **which positively impacts our net profit by RMB250 and cancels out the negative impact on our net profit on Day 2.**

While the adoption of seller position in Au (T+D) may negate the benefit from gold price increase, it prevents us from suffering from substantial losses in the event of material decrease in gold price.

Similarly for outstanding gold loans, if the gold price declines, we may experience a loss in the value of the gold jewellery sold, but simultaneously we may benefit from a fair value gain on such gold loans. Conversely, if the gold price rises, we may incur a loss on gold loans, but we can sell the gold jewellery at a higher price to realize the increase in gold price. As a result, the financial impact that comes with changes in the fair value of gold loans is evened out and does not materially impact our financial results adversely.

To ensure that our business is mitigated against the impact of the fluctuations in gold prices, we determine the total amount of Au (T+D) contracts largely based on our inventory level.

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The following table sets forth the inventory and gold lent to customers positions of our Group against the balance of Au (T+D) contracts and gold loans, which we utilized for the purpose of managing the exposure of gold price fluctuation as of the dates indicated:

	As of December 31,			As of June 30,
	2021	2022	2023	2024
	(Kg)	(Kg)	(Kg)	(Kg)
<i>Long position</i>				
Gold inventory	5,256.8	3,943.2	4,496.3	3,722.4
Gold lent to customers ⁽¹⁾	238.6	343.5	464.3	492.9
K-gold inventory ⁽²⁾	465.5	411.7	493.0	359.2
Total balance	5,846.8	4,597.6	5,332.9	4,486.4
<i>Short position</i>				
Instruments for managing gold price fluctuations				
Remaining gold balance of Au (T+D) contracts	4,175.0	3,343.0	4,083.0	3,566.0
Remaining gold balance of gold loans	1,472.0	1,085.0	1,184.0	850.0
Total balance	5,647.0	4,428.0	5,267.0	4,416.0
Net exposure to gold price fluctuation	199.8	169.6	65.9	70.4

Notes:

1. For details, see “— Sales and Distribution Channels — Exhibition halls, gold lending arrangement and logistics arrangement”.
2. For K-gold inventory, we adopted a conversion formula of 1Kg of 18K-gold to 0.755Kg of gold. Such conversion standard was our internal standard of 18K-gold which is higher than the national standard of 75.0 percent of gold content as we built in room for margin of error. Over 80% of our K-gold inventories at the end of each year during the Track Record Period were in 18K-gold.

To maintain the equilibrium on a daily basis, we adjust the volume of our Au (T+D) contracts based on (i) our sales volume reported by relevant sales personnel several times each day, which in turn determines the amount of gold we need to procure (excluding the total amount of traded-in gold for such day), and (ii) the amount of gold borrowed from relevant banks.

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As of December 31, 2021, 2022 and 2023 and June 30, 2024, our Group had a net shortfall of 199.8kg, 169.6kg, 65.9kg and 70.4kg of gold inventory against the gold balances from Au (T+D) and gold loans, which were subject to gold price fluctuations, respectively.

Our Directors believe that our multiple-channels procurement and our gold price exposure management is effective in controlling and mitigating risks associated with fluctuations in gold price.

Accounting Treatment of Au (T+D) Contracts

The relevant accounting treatments of Au (T+D) contracts transactions are set out below:

(1) Day of entering into Au (T+D):

The amount of deposit is locked-up by the Shanghai Gold Exchange according to the deposit ratio (as margin for the margin system).

Debit: pledged/restricted deposits

Credit: Cash and cash equivalents — surplus deposits with Shanghai Gold Exchange

(2) At the end of each day’s trading, the Shanghai Gold Exchange clears the member’s profit and loss, deposit, handling fees and other payments, i.e. transferring of funds to/from the member’s account. Our profit and loss for the day would be the sum of the profit and loss of closed positions and the profit and loss of held positions.

If gains, Debit: Cash and cash equivalents — surplus deposits with Shanghai Gold Exchange

Credit: other gains and losses, net

If Losses, Debit: other gains and losses, net

Credit: pledged/restricted deposits

In case our margin deposit is less than the minimum balance required by the Shanghai Gold Exchange, we should make up for the deposit.

Deferred fees and Transaction fees are recognized as “other gains and losses, net” when incurred.

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Impact of Material Increase in Gold Prices on our Financial Condition and Business Operations

During the six months ended June 30, 2024, gold price trended upwards⁽¹⁾ and we incurred losses on our hedging activities of Au (T+D) contracts and gold loans. Such financial arrangements adversely impacted our net profit and net profit margin. Please see “— SUMMARY OF HISTORICAL FINANCIAL INFORMATION AND SUMMARY OF MAJOR FINANCIAL RATIOS — Selected items in our consolidated statements of profit and loss — Net profit and total comprehensive income”. However, we do not expect the increase in gold prices to have a material adverse effect on our financial conditions and business operations in the long run.

No Material Adverse Impact on our Financial Condition in the Long-run

A material increase in gold prices in the short term led us to incur losses on Au (T+D) contracts and gold loans, as we were obligated to sell at the previously agreed-upon Au (T+D) gold prices, which were lower than the market prices at the time of settlement and thus negatively impacts our financial conditions.

However, such gold price movements are not expected to materially adversely affect our financial results in the long-run because we generally sell our products at a higher price as gold prices increase. Moreover, as gold products are highly liquid, we believe we are generally able to readily realize the aforementioned gains in the long-run, which then offset the losses incurred in the short-run with respect to the Au (T+D) contracts and gold loans. This can be further illustrated and supported by the fact that while the material increase in gold price led to adverse impacts on our net profit and net profit margin for the periods/months in which gold price rapidly increased, such negative effect were generally cancelled out by the end of June 2024, whereby our net profit for the six months ended June 30, 2024 amounted to approximately RMB52.3 million and our net profit margin was 0.5%.

Gold Price Changes and Impact on our Business Operations in the Long-run

The effect of an increase in gold prices on our business operations in the long-run largely depends on consumer sentiment. However, we generally do not expect an increase in gold prices to materially adversely impact our business operations in the long-run for the following reasons:

In general, a moderate increase in gold prices in the long-run supports consumer willingness to purchase gold products, leading to increased sales volumes, which then positively impacts our business operation. This is due to the fact that gold jewellery often not only embodies consumption value but is also considered by many consumers as a valuable investment due to its status as a safe-haven asset. A moderate appreciation in gold price would thus make gold products more appealing to consumers as they are deemed more valuable. According to Frost & Sullivan, at a time when the gold price steadily increases, such as from 2022 to 2023 when the average closing price of Au9999

⁽¹⁾ Gold price rose by approximately 13.7%, with the closing price of Au9999 increasing RMB483.7/g as of January 2, 2024, to RMB549.9/g as of June 28, 2024 (being the last trading day of the Track Record Period), according to the closing gold price quoted on the Shanghai Gold Exchange.

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rose from RMB392.2/g in 2022 to RMB449.9/g in 2023, consumer interest in buying gold jewellery was generally strengthened as evidenced by an 8.0% increase in the consumption volume of gold jewelry in China during the same period.

On the other hand, a sharp short-term increase in gold prices, such as those experienced in March and April 2024, could lead to a reduction in sales volume, which in turn adversely impacts our business operations. This is due to the fact that a material increase in gold price could (i) deter potential consumers from purchasing gold products as gold products may be deemed too pricey, and (ii) cause consumers to divert their demand to alternative products. According to Frost & Sullivan, the rapid increase in gold prices during the six months ended June 30, 2024 adversely impacted the industry as a whole, whereby: (i) the consumption volume of gold jewellery in China for the first six months of 2024 dropped by 20.2% compared to the same period in 2023; and (ii) according to Frost & Sullivan, many of our peers’ revenue decreased in the first six months of 2024 compared to the same period in 2023, with period-to-period decreases ranging from 0.9% to 33.3%. Our sales volume decreased by 10.4% for the six months ended June 30, 2024 when compared to the same period in 2023, which was better than the industry contraction of 20.2% (as aforementioned). At the same time, our revenue for the six months ended June 30, 2024 increased by 7.1% when compared to the corresponding period in 2023, which was also better than many of our industry peers who recorded negative revenue growth that ranged between 0.9% to 33.3% (as aforementioned).

In sum, it is possible that an increase in gold prices may cause our sales volume to decrease due to slower consumer demand for the aforementioned reasons. However, given the gold jewellery is deemed by many to have investment values, we do not expect an increase in gold price to materially adversely impact our business operations in the long-run.

Inventory and Working Capital

To ensure that we acquire gold at competitive market price and in accordance with the demands for our products, our management and procurement staff communicate regularly to estimate our gold procurement amount. We do not make gold procurement based on gold price movements alone. We implement a gold price exposure management strategy known as “procuring according to sales (以銷定採)” to mitigate the impact of the fast-moving gold prices and to manage the potential adverse impact of mismatches between our gold procurement prices and sales prices. This approach allows us to maintain an inventory level by purchasing gold material based on our daily sales volume. We continued to implement the “procuring according to sales (以銷定採)” strategy during the period of material gold price increase, and our inventory was not materially adversely impacted by the aforementioned change in gold price.

At the same time, the material increase in gold price did not materially adversely impact our working capital. This is supported by the fact that our net current asset as of June 30, 2024 only slightly decreased when compared to that of December 31, 2023. Please see “— Summary of Historical Financial Information and Summary of Major Financial Ratios — Selected items of consolidated statements of financial position — Net Current Assets” for further details of changes

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to our net current assets. In addition, our current ratio and quick ratio as of June 30, 2024 remained stable when compared to that of December 31, 2023, which we believe further illustrates that the material increase in gold price did not materially adversely impact our working capital.

Measures to mitigate short-term impact

To mitigate against the adverse impacts of sharp short-term increase of gold prices, we have implemented various measures to strengthen the sales of gold jewellery products so that we can more quickly realize the economic gains derived from selling our products at gold prices higher than the average procurement price as gold prices increase.

Our measures to strengthen sales include (i) launching the “One RMB Exchange” promotion between June and September for our franchisees, (ii) enhancing our promotional activities through online platforms, such as participating in more e-commerce shopping festivals and increasing our marketing efforts for online events, such as the “88 VIP Shopping Day”, the “Double 11 Shopping Festival” (雙十一購物節), and the “Double 12 Shopping Festival” (雙十二購物節) e-commerce events on Tmall, JD.com, and PinDuoDuo, (iii) organizing at least two gold jewellery product exhibitions per month for our franchisees, (iv) holding a large-scale expo for our franchisees to celebrate the 30th anniversary of our Company, where we plan to offer promotions to boost sales volumes, and (v) initiating a promotional event that offers discounts on crafting fees to our franchisees, providing with increased profit margins to franchisees to further incentivize them to enhance sales. We believe such promotional events contributed positively to our financial results for the six months ended June 30, 2024, whereby we recorded a (i) 7.1% growth in revenue, and (ii) 16.9% growth in gross profit and 0.5% increase in gross profit margin, when compared to the corresponding period in 2023. Moreover, for the six months ended June 30, 2024, we recorded a net profit of RMB52.3 million and a net profit margin of 0.5%.

Procurement of Diamond

For diamond procurement, we normally purchase polished diamonds.

During the Track Record Period, we did not enter into any long-term agreements with minimum annual purchase amount for our procurement of diamonds.

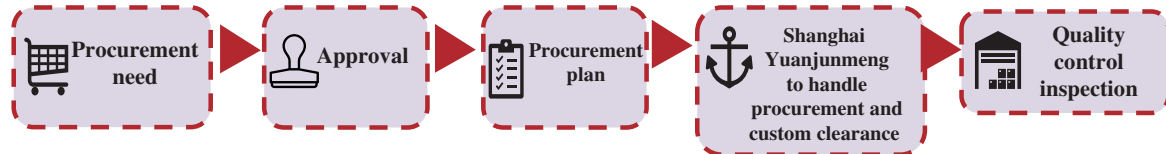
(a) Overseas Procurement

As outlined in the “Measures of the Customs of China on the Supervision of the Shanghai Diamond Exchange” (General Administration of Customs Order No. 152), the Shanghai Diamond Exchange has been designated as a special customs supervision unit authorized by the State Council. Its purpose is to facilitate the import and export of diamonds and streamline diamond trading procedures. Registered members of the Shanghai Diamond Exchange have the privilege of applying for customs clearance directly for diamond trading activities.

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To fulfill our demands for diamond for production needs, we mainly source diamonds from Hong Kong, India and other foreign markets through our indirect wholly-owned subsidiary Shanghai Yuanjunmeng. Shanghai Yuanjunmeng, as a registered member of the Shanghai Diamond Exchange, is eligible for obtaining custom clearance for the diamonds we procured from foreign suppliers.

The procedures of procuring diamond from foreign suppliers are illustrated in the diagram below:



(b) Domestic Procurement

We also procure polished diamonds from domestic companies. Pursuant to the requirements of the “Shanghai Diamond Exchange Trading Rules” (《上海鑽石交易所交易規則》), companies may only enter into diamond trading transactions with other members of the Shanghai Diamond Exchange. Thus, we only purchase diamonds directly from suppliers who are also members of the Shanghai Diamond Exchange. The procedure of diamond procurement in the PRC is set out as follows:



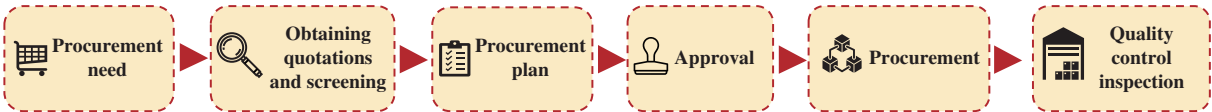
The following table sets forth the geographic distribution of the sources where we procured diamonds from:

	Year ended December 31,						Six months ended	
	2021		2022		2023		June 30,	
	Amount of Diamond procured (Carat)	% to total amount of diamond procured (%)	Amount of Diamond procured (Carat)	% to total amount of diamond procured (%)	Amount of Diamond procured (Carat)	% to total amount of diamond procured (%)	Amount of Diamond procured (Carat)	% to total amount of diamond procured (%)
PRC	359.2	3.6	2,484.3	82.7	843.9	84.6	347.2	100.0
Outside PRC	9,547.9	96.4	520.5	17.3	153.1	15.4	—	—
Total	9,907.1	100.0	3,004.8	100.0	997.0	100.0	347.2	100.0

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Procurement of other auxiliary raw materials

Auxiliary raw materials we purchased mainly include K-gold patching. We do not rely on unique auxiliary materials which may only be sourced from limited supplies for production. We established a sound procurement management system and developed a strict supplier selection system to ensure that the source of purchased materials is legal and of good quality. During the Track Record Period, we did not enter into any long-term agreements for our procurement of other auxiliary raw materials. The specific procurement process for auxiliary raw materials is illustrated in the diagram below:



Our Top Five Suppliers during the Track Record Period

During the Track Record Period, our major suppliers were all gold suppliers and commercial banks who provided gold loans to us. Due to the fact that Shanghai Gold Exchange requires its members to make purchase on its trading platform with cash and on designated registered bank accounts, we sometimes procure gold directly from other fellow members of the Shanghai Gold Exchange, who offer us with more flexible or favorable payment methods and terms. These arrangements effectively diversifies our financing means in procuring gold and help better secure our raw material supply.

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The table below sets out our Group’s five largest suppliers of each of the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, ranked in accordance with the total purchase by our Group during respective year/period:

<u>Rank</u>	<u>Name of Supplier</u>	<u>Principal business and business profile</u>	<u>Products procured/services provided by supplier</u>	<u>Year of commencement of procurement from supplier</u>	<u>Cost paid to the supplier</u> (RMB\$’000) (approximately)	<u>Percentage to our total purchase</u> (%) (approximately)	<u>Settlement Method</u>	<u>Credit term</u> (days)
For the year ended December 31, 2021								
1	Shanghai Gold Exchange	Gold Exchange	Gold bullion	2005	7,585,082 ⁽¹⁾	90.9	Bank transfer	Prepayment
2	Industrial and Commercial Bank of China Limited Changle Branch	Commercial bank ⁽²⁾	Gold loans	2007	143,879	1.7	Settlement in gold	Repay when due
3	China Zheshang Bank Co., Ltd. Weifang Branch	Commercial bank ⁽²⁾	Gold loans	2017	121,409	1.5	Settlement in gold	Repay when due
4	China Minsheng Banking Corp., Ltd. Weifang Branch	Commercial bank ⁽²⁾	Gold loans	2015	120,764	1.5	Settlement in gold	Repay when due
5	Ping An Bank Co., Ltd. Qingdao Maida Road Branch	Commercial bank ⁽²⁾	Gold loans	2013	102,988	1.2	Settlement in gold	Repay when due
Total					8,074,122	96.8		
For the year ended December 31, 2022								
1	Shanghai Gold Exchange	Gold Exchange	Gold bullion	2005	8,050,182 ⁽¹⁾	93.2	Bank transfer	Prepayment
2	Industrial and Commercial Bank of China Limited Changle Branch	Commercial bank ⁽²⁾	Gold loans	2007	194,211	2.3	Settlement in gold	Repay when due
3	China Zheshang Bank Co., Ltd. Weifang Branch	Commercial bank ⁽²⁾	Gold loans	2017	122,490	1.4	Settlement in gold	Repay when due
4	China Minsheng Banking Corp., Ltd. Weifang Branch	Commercial bank ⁽²⁾	Gold loans	2015	106,559	1.2	Settlement in gold	Repay when due
5	Bank of Beijing Co., Ltd. Weifang Branch	Commercial bank ⁽²⁾	Gold loans	2019	55,284	0.6	Settlement in gold	Repay when due
Total					8,528,726	98.8		

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<u>Rank</u>	<u>Name of Supplier</u>	<u>Principal business and business profile</u>	<u>Products procured/services provided by supplier</u>	<u>Year of commencement of procurement from supplier</u>	<u>Cost paid to the supplier</u> (RMB\$'000) (approximately)	<u>Percentage to our total purchase</u> (%) (approximately)	<u>Settlement Method</u>	<u>Credit term</u> (days)
For the year ended December 31, 2023								
1	Shanghai Gold Exchange	Gold Exchange	Gold bullion	2005	11,162,603 ⁽¹⁾	87.6	Bank transfer	Prepayment
2	Yantai Penggang Gold Industry Co., Ltd. (煙台蓬港金業有限公司)	Calendering of non ferrous metals; precious metal smelting, sales of gold and silver products and manufacturing of jewellery	Gold bullion	2023	795,612	6.2	Bank transfer and settlement in banks acceptance bills	Prepayment
3	Industrial and Commercial Bank of China Limited Changle Branch	Commercial bank ⁽²⁾	Gold loans	2007	194,945	1.5	Settlement in gold	Repay when due
4	China Minsheng Banking Corp., Ltd. Weifang Branch	Commercial bank ⁽²⁾	Gold loans	2015	134,435	1.1	Settlement in gold	Repay when due
5	China Zheshang Bank Co., Ltd. Weifang Branch	Commercial bank ⁽²⁾	Gold loans	2017	122,485	1.0	Settlement in gold	Repay when due
Total					12,410,080	97.4		

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Rank	Name of Supplier	Principal business and business profile	Products procured/services provided by supplier	Year of commencement of procurement from supplier	Cost paid to the supplier (RMB\$'000) (approximately)	Percentage to our total purchase (%) (approximately)	Settlement Method	Credit term (days)
For the six months ended June 30, 2024								
1	Shanghai Gold Exchange	Gold Exchange	Gold bullion	2005	5,327,946	83.4	Bank transfer	Prepayment
2	Yantai Penggang Gold Industry Co., Ltd. (煙台蓬港金業有限公司)	Calendering of non ferrous metals; precious metal smelting, sales of gold and silver products and manufacturing of jewellery	Gold bullion	2023	627,439	9.8	Bank transfer and settlement in banks acceptance bills	Prepayment
3	Industrial and Commercial Bank of China Limited Changle Branch	Commercial bank ⁽²⁾	Gold loans	2007	145,859	2.3	Settlement in gold	Repay when due
4	China Minsheng Banking Corp., Ltd. Weifang Branch	Commercial bank ⁽²⁾	Gold loans	2015	134,611	2.1	Settlement in gold	Repay when due
5	Bank of Beijing Co., Ltd. Weifang Branch	Commercial bank ⁽²⁾	Gold loans	2019	66,340	1.0	Settlement in gold	Repay when due
Total:					<u><u>6,302,195</u></u>	<u><u>98.6</u></u>		

Notes:

- (1) The amount included our procurement through fellow member(s) of the Shanghai Gold Exchange.
- (2) Commercial banks are considered as our suppliers because (1) we obtain the right to take delivery of gold from commercial banks although we receive physical gold from the Shanghai Gold Exchange; and (2) Since we gain control of the gold and the manufactured gold jewellery products can be sold to generate economic benefits, with the associated costs reliably measured, we classify such gold as inventory. Purchases made for the return of gold loans are not double-counted as direct purchases from the Shanghai Gold Exchange. For details of our purchase through gold loan contracts, please refer to the section “Business — Gold loans”.

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Procurement Through Fellow Member(s) of the Shanghai Gold Exchange

During the Track Record Period, we procured gold on the Shanghai Gold Exchange through two of its fellow members, namely 中國珠寶首飾進出口股份有限公司(China National Pearl Diamond Gem & Jewellery Imp. & Exp. Corporation, also known as “Sino Gem”) and Yantai Penggang Gold Industry Co., Ltd. (煙台蓬港金業有限公司, “Penggang Gold”).

Sino Gem is a state-owned enterprise primarily engaged in the export/import, production and sales of jewellery products in China. It is listed on the National Equities Exchange and Quotations with stock code: 872775.NQ.

In each of the years/period during the Track Record Period, our procurement of gold on the Shanghai Gold Exchange through Sino Gem amounted to RMB2,716.2 million, RMB932.7 million, RMB1,087.9 million and RMB379.4 million, respectively, and the amount due to it as of December 31, 2021, 2022 and 2023 and June 30, 2024 was nil, nil, nil and nil, respectively.

Penggang Gold is a private company established in the PRC. It primarily engages in calendaring of non-ferrous metals, precious metal smelting, sales of gold and silver products and manufacturing of jewellery.

We did not purchase from Penggang Gold for the years ended December 31, 2021 and 2022, and accordingly, the purchase amount and amount due to Penggang Gold for both years and as of December 31, 2021 and 2022 were nil. As disclosed in the top five suppliers of our Group above, the purchase amount paid to Penggang Gold for the year ended December 31, 2023 and the six months ended June 30, 2024 were RMB795.6 million and RMB627.4 million, whereas the amount due to Penggang Gold as of December 31, 2023 and June 30, 2024 was nil and nil.

The major terms of our procurement from Sino Gem and Penggang Gold are set out as follows:

Procurement arrangement: Sino Gem and Penggang Gold will procure gold bullion for our Company through its membership with Shanghai Gold Exchange. For procurement through Sino Gem, sub-account will be established under Sino Gem’s membership with the Shanghai Gold Exchange. Payment for the procurement of gold bullion shall be made through an account under Sino Gem’s name. Payment by our Company made to such sub-account can only be applied to settle the consideration for gold procurement from Shanghai Gold Exchange. As for procurement from Penggang Gold, the purchase consideration will be settled by bank transfer and settlement in banks acceptance bills.

Term: The term of the procurement arrangement agreement with Sino Gem usually lasts for a year.

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Fees: A handling fee of 0.007% of the total purchase amount will be applied to the gold bullion purchase transactions through Sino Gem. For procurements through Penggang Gold, no fees were charged by Penggang Gold.

When we procure from Sino Gem and Penggang Gold, we could utilize capital from credit lines designated for such purchases, which provide us with greater flexibility in financing our gold procurement. In addition, we believe procuring from Sino Gem and Penggang Gold is beneficial to our business as such arrangement diversifies our gold supply channels.

According to Frost & Sullivan, our procurement arrangement with fellow members of the Shanghai Gold Exchange is common and in line with the industry norm. Our Directors are of the view that given (i) the Group’s procurements from other members of the Shanghai Gold Exchange are permitted by the Shanghai Gold Exchange and are thus legal and valid transactions; (ii) save for the 0.007% handling fee paid to Sino Gem, the Group does not pay a premium to the relevant members of the Shanghai Gold Exchange for gold procurement; (iii) the quality of the gold received and the time required for procurement are comparable to direct procurement from the Shanghai Gold Exchange; and (iv) such members of the Shanghai Gold Exchange may accept more diversified payment methods, the financial, operational and legal risks and costs associated with procuring through fellow members of the Shanghai Gold Exchange are considered manageable, and coupled with the fact that procurement from other members allow us to diversify our source of gold procurement, our Directors consider it is beneficial for our Group to procure gold from other members of the Shanghai Gold Exchange.

Reliance on Shanghai Gold Exchange for gold procurement

During the Track Record Period, the amount paid to Shanghai Gold Exchange amounted to RMB7,585.1 million, RMB8,050.2 million, RMB11,162.6 million and RMB5,327.9 million for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively, representing 90.9%, 93.2%, 87.6% and 83.4% of our total purchase of the respective year/period. All our purchases from the Shanghai Gold Exchange during the Track Record Period were procurement of gold bullion.

According to Frost & Sullivan, the Shanghai Gold Exchange is the largest gold exchange in the PRC and is directly regulated by the PRC government, purchasing gold from the Shanghai Gold Exchange is an industry norm in the gold jewellery industry. Given the various restrictions on importing gold from overseas, our Directors are of the view that procurement from the Shanghai Gold Exchange is the most reliable source of procurement in the PRC. Furthermore, only members (including special members) of the Shanghai Gold Exchange are allowed to trade directly on the Shanghai Gold Exchange. Our capability to trade on the Shanghai Gold Exchange provides us a competitive advantage, allowing us to access a stable source of gold procurement at market prices as opposed to entities without such status which would be required to procure at higher prices from members of the Shanghai Gold Exchange. Accordingly, our Directors are of the view that our

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reliance on the Shanghai Gold Exchange is reasonable and aligns with the industry practice, and is in the best interest of the Company as a whole to continue purchasing gold from the Shanghai Gold Exchange.

In the event of a disruption in our procurement of gold from the Shanghai Gold Exchange, given that gold is a commonly traded commodity, our Directors are of the view that we can shift to other procurement sources. During the Track Record Period, we not only procured gold directly from the Shanghai Gold Exchange, but also obtained gold through gold trade-in and other suppliers. In particular, by leveraging our gold purification capabilities, gold trade-in remains a viable method of sourcing gold. Hence, in the unlikely event that we require an immediate source of gold, we have the flexibility to increase the percentage of gold obtained through gold trade-in.

Amounts paid to our five largest suppliers of each of the years ended December 31, 2021, 2022 and 2023 and six months ended June 30, 2024 accounted for approximately 96.8%, 98.8%, 97.4% and 98.6% of our total purchase for the respective year/period. None of our Directors, their close associates or any Shareholder (who or which, to the knowledge of our Directors, owns more than 5% of the issued share capital of our Company) had any interest in any of our five largest suppliers of each year/period during the Track Record Period. None of our five largest suppliers were also our customers of each year/period during the Track Record Period.

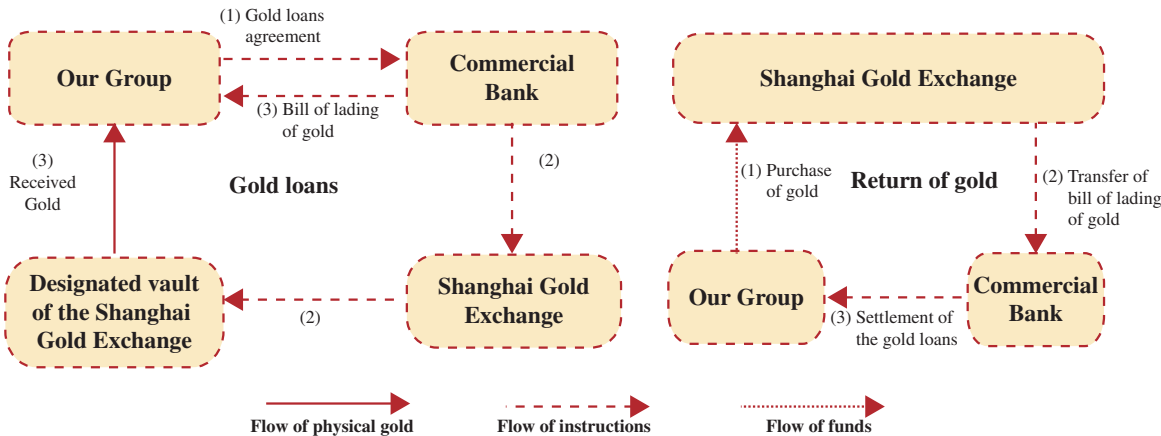
GOLD LOANS

During the Track Record Period, we financed our procurement of gold from the Shanghai Gold Exchange by way of gold loans obtained from commercial banks. Gold loans refer to financial transactions in which we (as lessee) borrow gold from commercial bank (the lessor) for a specified period of time. During the process, we receive physical gold through the membership service system of the Shanghai Gold Exchange (上海黃金交易所的會員服務系統) and we pay the commercial banks an interest on the leased gold. At the end of the loan period, we return the borrowed gold to the commercial banks by delivering contracts of fully paid gold that we purchase from the Shanghai Gold Exchange. We normally adopt gold loans as a means of financing our procurement of gold when we intend to procure gold by way of banking facilities of gold loans. This approach allows us to preserve our cash for working capital and avoid the need for physical gold delivery when returning gold to commercial banks. Our standard practice is to return gold to these banks through the transfer of the bill of lading of gold purchased from Shanghai Gold Exchange, ensuring convenience and efficiency.

While gold loans are not our primary tool for managing risks arising from gold price fluctuations, they can effectively act as an economic hedge against such fluctuations. For instance, once we obtain a gold loan, we effectively create a short position on our gold holding position as we are obligated to return the gold loan at a later date. As an illustration, if the market price of gold decreases when we repay the gold loan, we would earn a profit resulting from the price difference between the borrowing and repaying date, offsetting the loss we suffer due to lower selling price of our products which are based on the market price of gold.

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The following diagram sets forth our gold loans procedure:



GOLD TRADE-IN

Background

Gold, our main raw material, is a scarce resource and at times has a volatile market price. Sufficient source of gold is of utmost importance to our operation and business. To better ensure stable supply and inventory of gold, we also procure gold on an on-going basis through trade-in of used gold from our customers. We collect used gold through gold trade-in from both our franchisees/provincial-dealers and end-consumers. According to Frost & Sullivan, trade-in of gold by consumers for new gold products is a common market practice. According to Frost & Sullivan, sourcing gold through trade-in is common amongst gold jewellery manufacturers and brands, and some of our industry peers have also adopted similar gold trade-in model with franchisees and consumers that are comparable to ours. However, due to the cost associated with gold purification and the fact that many of our industry peers do not have such capability, according to Frost & Sullivan, not all of our industry peers engage in gold trade-in at the level which we conducted gold trade-in during the Track Record Period. Leveraging our gold purification capabilities we are able to efficiently purify gold sourced through trade-in which we then use as raw materials for our new jewellery products.

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Our revenue breakdown by payment methods and trade-in gold during the Track Record Period were as follows:

	As of December 31,						As of June 30,	
	2021		2022		2023		2024	
	Consideration paid by settlement method	Percentage to total revenue	Consideration paid by settlement method	Percentage to total revenue	Consideration paid by settlement method	Percentage to total revenue	Consideration paid by settlement method	Percentage to total revenue
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
Cash	6,448.2	0.0	5,283.5	0.0	8,548.6	0.0	5,776.4	0.1
Bank transfer	8,579,022.4	50.9	9,541,660.7	60.7	12,721,114.7	62.9	6,756,708.0	67.7
Electronic payment	84,897.3	0.5	247,924.1	1.6	640,365.2	3.2	429,071.6	4.3
Trade-in gold	8,188,841.3	48.5	5,894,106.0	37.5	6,806,723.6	33.7	2,760,021.3	27.6
Other non-cash settlement method ^(Note)	11,790.9	0.1	35,240.4	0.2	31,847.0	0.2	28,166.3	0.3
Total	16,871,000.1	100.0	15,724,214.7	100.0	20,208,599.1	100.0	9,979,743.7	100.0

Note: Other non-cash settlement method includes concessionaire expenses for self-operated stores under concession agreements with shopping malls and diamond inlaying product exchange adjustment.

Commercial rationale for conducting gold trade-in

Conducting gold trade-in is beneficial to us in the following ways:

1. Receiving gold from trade-in diversifies our source of gold supplies and helps ensure sufficient access to gold without substantial upfront cash outflow as required when purchasing gold from Shanghai Gold Exchange or other suppliers.
2. In addition, the trade-in arrangements allow us to mitigate the timing difference on gold price between the procurement and selling of gold, as we can align the procurement gold prices and the sales gold prices according to the gold spot price simultaneously so that they are substantially the same, thereby, reducing the potential risks that comes with gold price fluctuations. The trade-in arrangements are also used for reducing our use of gold loans, which is interest bearing.
3. We are able to further garner franchisees, provincial-dealers and consumer loyalty. Our ability to process gold received from gold trade-in and our strong production capability is why we can offer consumer trade-in, and in turn, provincial-dealers offering franchisee trade-in and franchisees offering consumer trade-in. This allows consumers to lower the purchase price of new gold jewellery by exchanging their used gold. They only need to pay for the crafting fees and the price associated with the difference in gold volume

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being traded in. This significantly reduces the cost required to be paid upfront for purchasing new gold jewellery and serves as an incentive for consumers to make repeated purchase from us.

4. Receiving gold from gold trade-in is a recycling measure and matches with the ESG philosophy.
5. With our gold purification know-how, we can reproduce high-purity gold jewellery products with such trade-in gold while ensuring product quality.
6. Apart from normal day to day gold trade-in, we implement promotional activities such as the “One RMB Exchange” promotion, which franchisees may accept consumer trade-in of the “Wan Purity” gold series products previously purchased for new pieces of “Wan Purity” series gold jewellery of the same weight at a nominal crafting fee of one RMB per traded-in gram of gold with our franchisees or at our self-operated stores, and market gold price of any addition of gold purchased and regular crafting fee for additional gold purchased. Accordingly, consumers can enjoy the benefits of purchasing new pieces of gold jewellery while franchisees also benefit from consumer flow during such promotion events. This initiative is designed to enhance brand loyalty and encourage consumers to select us or our franchisees to conduct consumer trade-in. By further incentivizing consumers to select us for consumer trade-in with high-purity gold jewellery purchased from us, we aim to capture their loyalty and foster repeated purchases with our brand in the future. This strategy not only strengthens our consumer base but also promotes ongoing engagement and long-term relationships with our consumers.

Comparison Against Our Peers

According to Frost & Sullivan, the proportions of gold trade-in to total revenue for our peers for the three years ended December 31, 2023 are presented below:

	Year ended December 31,		
	2021	2022	2023
Competitor A	approximately 15%	approximately 15%	approximately 20%
Competitor B	approximately 25%	approximately 20%	approximately 30%
Competitor C	approximately 45%	approximately 45%	approximately 50%
Competitor D	approximately 30%	approximately 30%	approximately 30%
Competitor E ^(Note)	approximately 20%	approximately 25%	approximately 30%
Our Group	47.9%	36.9%	33.1%

Note: Competitor E in the table does not have gold purification capabilities.

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The table sets forth the proportion of trade-in gold as settlement to the overall sales by weight among our industry peers for the three years ended December 31, 2023:

	Year ended December 31,		
	2021	2022	2023
Competitor A	approximately 14%	approximately 12%	approximately 15%
Competitor B	approximately 20%	approximately 18%	approximately 25%
Competitor C	approximately 40%	approximately 40%	approximately 50%
Competitor D	approximately 28%	approximately 25%	approximately 30%
Competitor E	approximately 20%	approximately 20%	approximately 25%
Our Group ^(Note)	51.1%	39.7%	35.2%

Note: The proportion of trade-in gold was calculated by weight of trade-in gold we received (without conversion adjustment for K gold products) divided by our overall sales volume of gold and K-gold products (without conversion adjustment for K gold products) times 100%.

According to Frost & Sullivan, in contrast to our peers, we believe our gold purification capability gives us a comparative advantage, we are fully equipped to conduct gold trade-in transactions. The proportion of our trade-in gold used as settlement to overall sales by weight was higher than our industry peers in 2021, primarily attributable to our purification ability, which enables us to collect a higher proportion of used gold as our production raw materials. After we strengthened our control of trade-in gold in 2022, this figure decreased from 51.1% in 2021 to 39.7% in 2022, and further to 35.2% in 2023. For the six months ended June 30, 2024, the proportion of our trade-in gold used as settlement to overall sales by weight was 28.8%. According to Frost & Sullivan, these proportions were within the range observed among our industry peers, which varied from approximately 12% to 40% in 2022 and from 15% to approximately 50% in 2023.

According to Frost & Sullivan, of all our competitors in the table above, Competitor A is the only industry player whose customers comprise end-consumers only; while all other competitors in the table above sell their products to end-consumers and franchisees and/or provincial-dealers. The proportion of trade-in gold as settlement to the overall sale by weight of Competitor A remained at the lower-end among industry peers throughout the Track Record Period. According to Frost & Sullivan, provincial-dealers and franchisees usually have extra source of obtaining used gold through their retail channels, thereby attributing to higher proportion of trade-in gold as settlement of the gold jewellery manufacturers whose customers comprise both franchisees/provincial-dealers and end-consumers.

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One RMB Exchange Program

Our Revenue and Gross Profit Margin attributable to the “One RMB Exchange” Program

The following table sets forth the revenue, gross profit and gross profit margin we derived from and/or for the “One RMB Exchange” program through different distribution channels for the years ended December 31, 2021, 2022 and 2023^(Note) (excluding the revenue and gross profit we generated from sales of additional gold jewellery sold together with the gold jewellery exchanged for traded-in gold):

	Year ended December 31,								
	2021			2022			2023		
	Revenue	Gross Profit/ (Loss)	Gross profit margin	Revenue	Gross Profit/ (Loss)	Gross profit margin	Revenue	Gross Profit/ (Loss)	Gross profit margin
(RMB'000)	(RMB'000)	(%)	(RMB'000)	(RMB'000)	(%)	(RMB'000)	(RMB'000)	(%)	
Sales to provincial-dealers . . .	914,610	4,305	0.5	872,031	(4,782)	(0.5)	1,031,388	21,519	2.1
Sales to franchise stores	1,962,495	9,172	0.5	2,043,545	15,703	0.8	2,355,117	15,491	0.7
Self-operated stores	44,693	(1,748)	(3.9)	50,244	(712)	(1.4)	60,551	1,614	2.7
Total:	<u>2,921,798</u>	<u>11,729</u>	<u>0.4</u>	<u>2,965,820</u>	<u>10,209</u>	<u>0.3</u>	<u>3,447,056</u>	<u>38,624</u>	<u>1.1</u>

The fluctuation in the gross profit margin for our sales derived from the “One RMB Exchange” program is primarily attributable to the changes in gold prices. As gold price increases, our gross profit margin also increases due to the difference in gold price at the time of procurement of gold as raw materials, during which the gold price is lower, and at the time of sales of the gold jewellery, during which the gold price is higher. The increasing trend of the gross profit margin for our sales derived from the “One RMB Exchange” program was generally in line with that of our overall gross profit margin.

Rationale and Benefits of the “One RMB Exchange” program

Although the gross profit margin for the “One RMB Exchange” program (excluding sales of additional gold jewellery sold during the “One RMB Exchange” program) is relatively lower compared to our overall gross profit margin, the management of our Company considers the launching of the annual “One RMB Exchange” program desirable for the Company as a whole due to (i) the additional sales we may generate from the program, and (ii) the promotional nature of the “One RMB Exchange” program.

Improved performance at our self-operated store level during the “One RMB Exchange” program

Apart from the additional weight of gold purchased (the weight of new product sold minus the weight of trade-in product) as a result of the exchange, when end-consumers visit our self-operated stores during the “One RMB Exchange” program, some of them also purchase additional gold jewellery. The increase in footfall at our self-operated stores during the promotional period extends our reach to end-consumers and offers us more opportunities to promote our products.

Note: Disclosures have been made for the years ended December 31, 2021, 2022 and 2023 only, as information regarding the “One RMB Exchange” program for the year ended December 31, 2024 is not yet available. The “One RMB Exchange” program is generally held in the second half of each year.

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As disclosed in the section headed “History, Development and Corporate Structure — Previous A-Share applications — The First A-Share Application — (1) We believe we have a sound business rationale for our gold trade-in and “One RMB Exchange” activities — CSRC’s concerns in relation to “One RMB Exchange” — Economic benefits to franchisees”, the average monthly sales volume of our “Wan Purity” series products and the average monthly sales revenue we generated from all products in our self-operated stores during the “One RMB Exchange” promotional period were significantly higher than that of our overall monthly average throughout the Track Record Period.

Accordingly, our management is of the view that the increases in both sales volume and sales revenue in our self-operated stores during the promotional period reflected that our “One RMB Exchange” program in fact contributed positively to our financial performance as well as our franchise values.

Based on the financial results of our self-operated stores in connection with the “One RMB Exchange” program and given the largely similar sales and operational model between our self-operated stores and franchise stores, our Directors are of the view that “One RMB Exchange” program is largely beneficial to the Group’s franchisees. Please refer to the section headed “History, Development and Corporate Structure — Previous A-Share applications — The First A-Share Application — (1) We believe we have a sound business rationale for our gold trade-in and “One RMB Exchange” activities — CSRC’s concerns in relation to “One RMB Exchange” — Economic benefits to franchisees” for further details.

Promotion of brand awareness and enhancing customer stickiness

The “One RMB Exchange” program was launched with a view to raise brand awareness and enhance customers stickiness instead of serving as a solely profit-oriented program. Promotional activities often garner attention among consumers and such increased publicity raises brand awareness, which in turn, result in increased customer interest, word-of-mouth recommendations, and long-term benefits for our brand. In addition, with such annual promotional event, we offer economic incentives to customers to buy our “Wan Purity” series products as they may benefit from acquiring gold jewellery with newer designs through our “One RMB Exchange” program in the future. Accordingly, this may serve as a unique competitive edge of our products over our competitors’ products.

In light of the above, the management of our Company is of the view that the launching of the annual “One RMB Exchange” program is desirable for the Company as a whole.

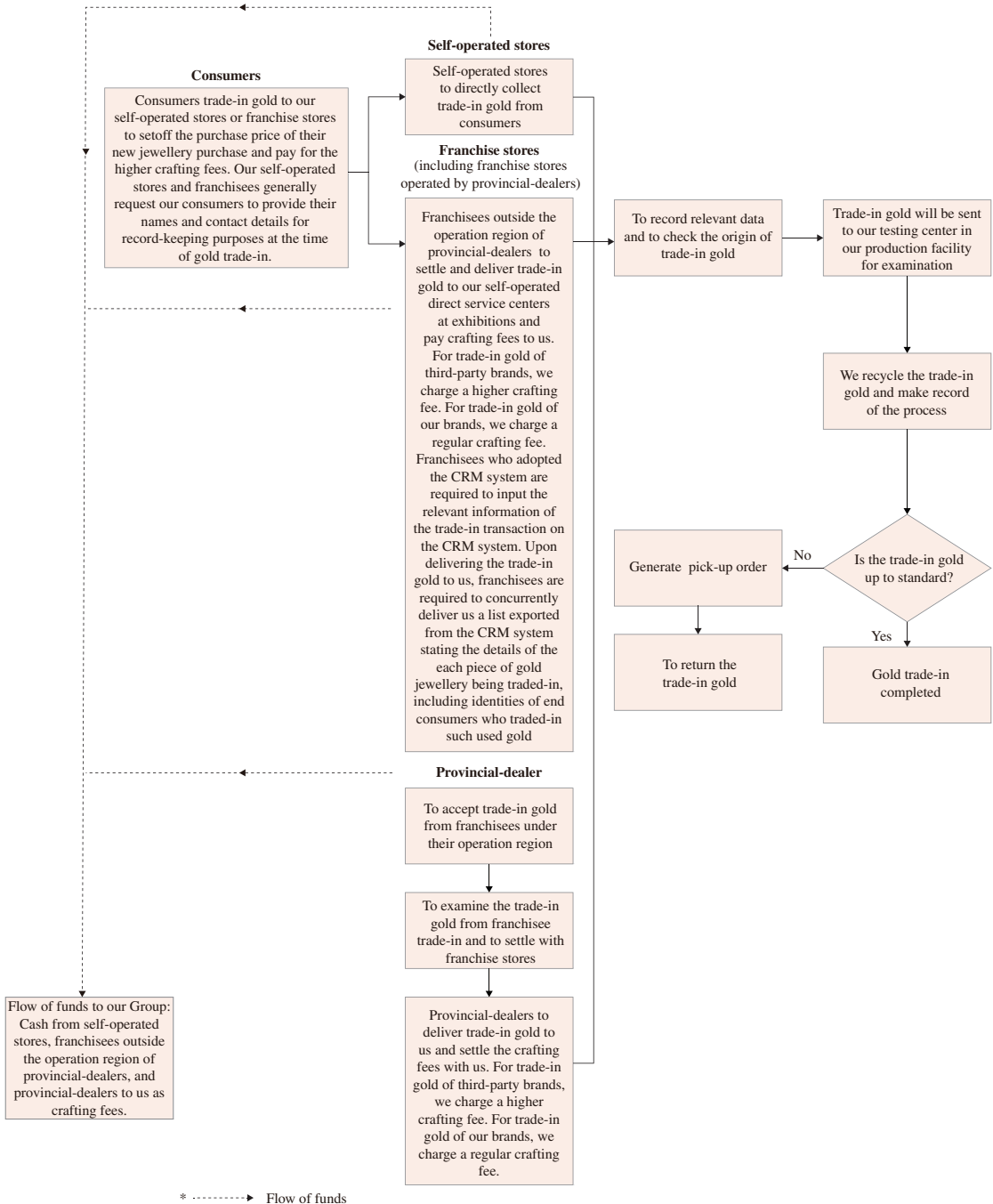
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Gold Trade-in Operation, Inventory and Fund Flow

From time to time, our franchisees receive consumers’ trade-in gold as part of the consideration for the consumers’ purchase. Our franchisees then conduct trade-in with provincial-dealers and our self-operated direct service centers after receiving trade-in gold from their consumers. The aforementioned trade-in gold is then used to offset part of the payment by our franchisees to provincial-dealers and self-operated direct service centers, as the case may be. Subsequently, our provincial-dealers conduct gold trade-in and pay crafting fees to us, while our self-operated direct service centers conduct gold trade-in to offset the gold price component of the products and pay crafting fees directly to our Company, which is an intra-group transaction. We consider gold trade-in a form of non-cash settlement arrangement between our customers and us, rather than a direct purchase of gold from them. Gold jewellery and other gold products constituted substantially all of the used gold received through gold trade-in. K-gold jewellery constituted a de minimis portion of the total amount of used gold we received, and accounted for less than 0.1% of the used gold we received during the Track Record Period. We do not accept trade-ins of diamond-inlaid jewellery or other products.

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The following diagram sets forth the operation and inventory and fund flow of our procedure of gold trade-in:



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For illustration purposes:

Transaction between End Consumer and Franchisees:

- End consumers trade in their used gold products at our franchise stores, at which time end consumers generally pay for the additional weight of the new gold plus the crafting fees for the whole weight of the new products to our franchisees.
- After a careful on-site inspection of the used gold by our franchisees, the relevant end consumers then immediately receive the new gold jewellery. For details of the testing of trade-in gold and our implementation of quality controls, please see “— Gold Trade-in — Testing of trade-in gold.”

Transaction between Franchisees and our Group

- Generally within one week after the receipt and acceptance of the used gold, our franchisees would deliver the trade-in gold to our provincial-dealers or directly to us as settlement of their purchases of new gold products, as applicable, and settle the crafting fees with us.
- After we test the trade-in gold and ensure that the gold traded-in meets our standard, our franchisees would receive the new gold jewellery on the same day.

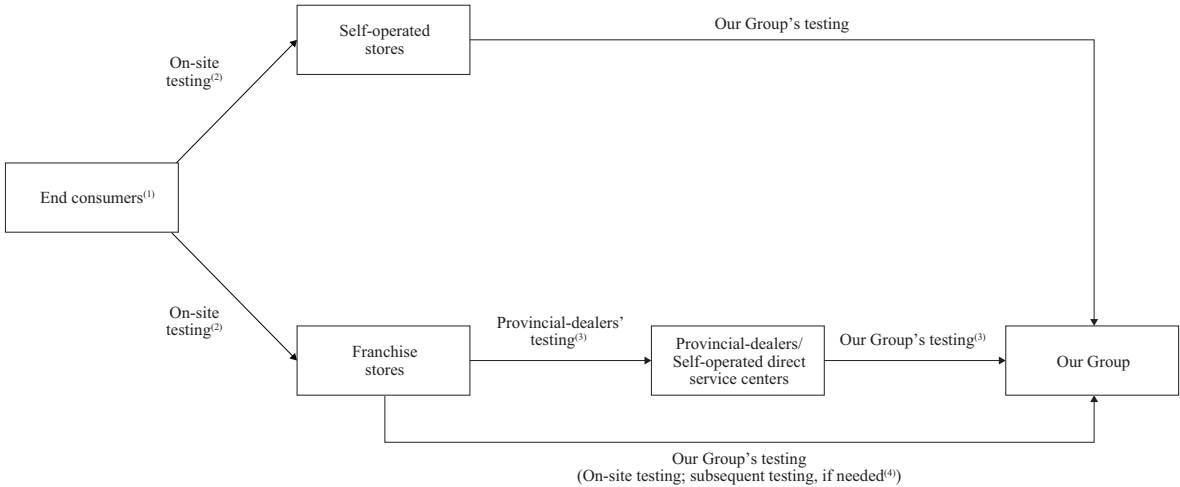
During the Track Record Period, trade-ins in which we are one of the counterparties include: (i) with provincial-dealers and franchisees, and (ii) with consumers (through our self-operated stores). We do not provide cash payments to gold trade-in counterparties, and all gold jewellery acquired through gold trade-in will not be directly re-sold to any provincial-dealers/franchisees and will be sent to our production facilities for refining and production. During the Track Record Period, most of the gold trade-ins for our Group were conducted with provincial-dealers and franchisees and to a lesser extent with consumers through our self-operated stores. Gold trade-in without involving our Group as a counterparty includes gold trade-in (i) between franchisees and provincial-dealers, and (ii) between consumers and franchisees. Please see “— Sales and Distribution Channels — Pricing Policy” for further details on how we determine crafting fees for our products. The number of franchisees who conducted gold trade-in with us were 753, 727, 692 and 729 in each year/period during the Track Record Period and there were 17 provincial-dealers who used gold trade-in to settle with us during the same period. We do not impose any limits or restrictions on the amount of gold trade-in by provincial-dealers and franchisees for the following reasons: (i) trade-in gold is a source of our raw materials, which we then use as raw materials for our gold jewellery products; and (ii) leveraging our gold purification capabilities, we are able to efficiently purify and process gold sourced through trade-ins. During the Track Record Period and as of the Latest Practicable Date, there was no concentration of customers/franchisees who repeatedly conducted gold trade-in.

Apart from the difference in settlement means, our business arrangement with franchisees who conducted gold trade-in with us was the same as that of those which did not conduct gold trade-in with us. We enter into the same franchise agreement with all franchisees, regardless of whether or not they will conduct gold trade-in with us.

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(i) Testing of trade-in gold

We place great importance on the quality of the trade-in gold we receive and implement quality controls to ensure that the trade-in gold meets our standards. The following diagram sets forth the process and examination procedure for gold trade-in among end consumers, franchise network and our Group:



Notes:

- (1) End consumers may trade in products with any entity within our franchise network, not limited to the relevant franchisee from whom the product was originally purchased. In addition, the trade-in procedure is generally uniform across the entire franchise network.
- (2) If the trade-in gold does not meet our standards, it will be rejected by our franchisees and self-operated stores.
- (3) The timing of delivery from franchise stores to provincial-dealers depends on the frequency of pick-ups among them.
- (4) In certain cases, we test the gold purity with hydrostatic weighing method to determine the density and purity of the gold.

Our franchisees and self-operated stores typically conduct on-site testing and examinations of the trade-in gold provided by end consumers. If the trade-in gold does not meet our standards, our franchisees and self-operated stores will directly reject those trade-in gold. We do not release the new gold products to end consumers prior to the completion of the required on-site testing.

The on-site testing and examinations conducted by our franchisees and self-operated stores include (i) checking the identification, brand, warranty certificate and purchase proof of the trade-in gold as a preliminary inspection; (ii) testing the weight and gold purity of the trade-in gold using methods such as visual inspection, and the magnet test; and (iii) if necessary, further testing may involve the melting down the gold or cutting off parts of the trade-in gold. According to Frost & Sullivan, it is common for gold jewellery stores to conduct such on-site testing and examinations of

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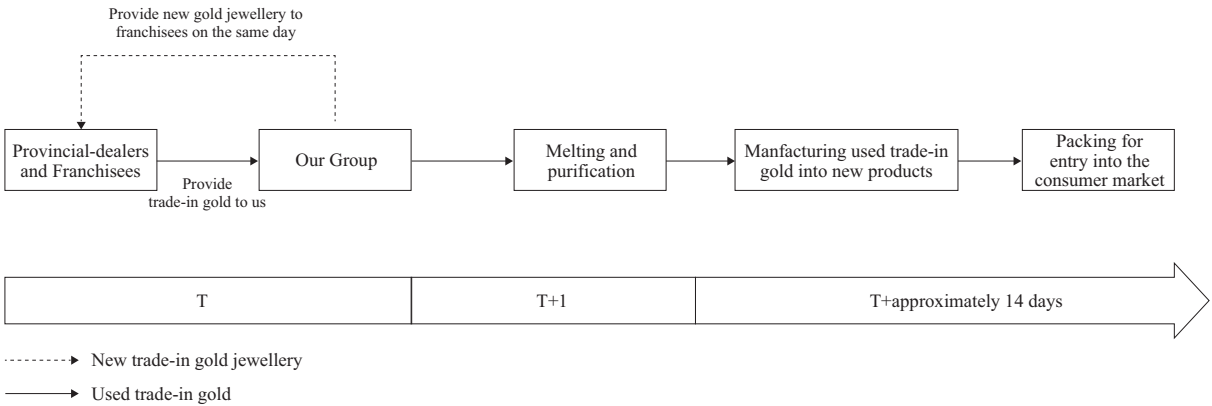
the trade-in gold. After receiving the trade-in gold, our franchisees and self-operated stores enter the relevant gold trade-in information into our CRM system. On a later stage, our provincial-dealers generally follow the same testing procedures as our franchisees and self-operated stores.

When our provincial-dealers and franchisees deliver the trade-in gold to us, we immediately conduct on-site testing and examinations, such as testing the weight and purity level of the trade-in gold. After the relevant testing, we issue a material receive note (來料單) to provincial-dealers and/or franchisees setting out the relevant information of trade-in gold received. In certain cases, we may use the hydrostatic weighing method to test the gold. We reject the trade-in gold directly on the date of delivery if it does not meet our standards. Our provincial-dealers and franchisees are required to review and verify the relevant information of trade-in gold by signing on the material receive note. During the Track Record Period, there was no instance where we had to return used gold to end customers, franchisees and provincial dealers due to quality of used gold received.

We do not accept trade-in gold that does not meet our standards upon on-site checking from our franchise network, and there is thus no returning of trade-in gold to our franchise network. After we accept the trade-in gold, we discount the weight of trade-in gold based on its purity level, and deduct the same amount of weight from that of the new piece of gold jewellery being traded-in for when calculating the gold price component. Franchisees or provincial dealers are required to settle the shortfall in cash or trade-in gold if we find out that the purity level of the trade-in gold is not as high as they claimed during the melting and purifying process.

(ii) Used trade-in gold and new gold jewellery between our franchise network and our Group

The following diagram outlines the different procedures between the used trade-in gold from our provincial-dealers and franchisees to us and the delivery of new gold jewellery to our franchisees.



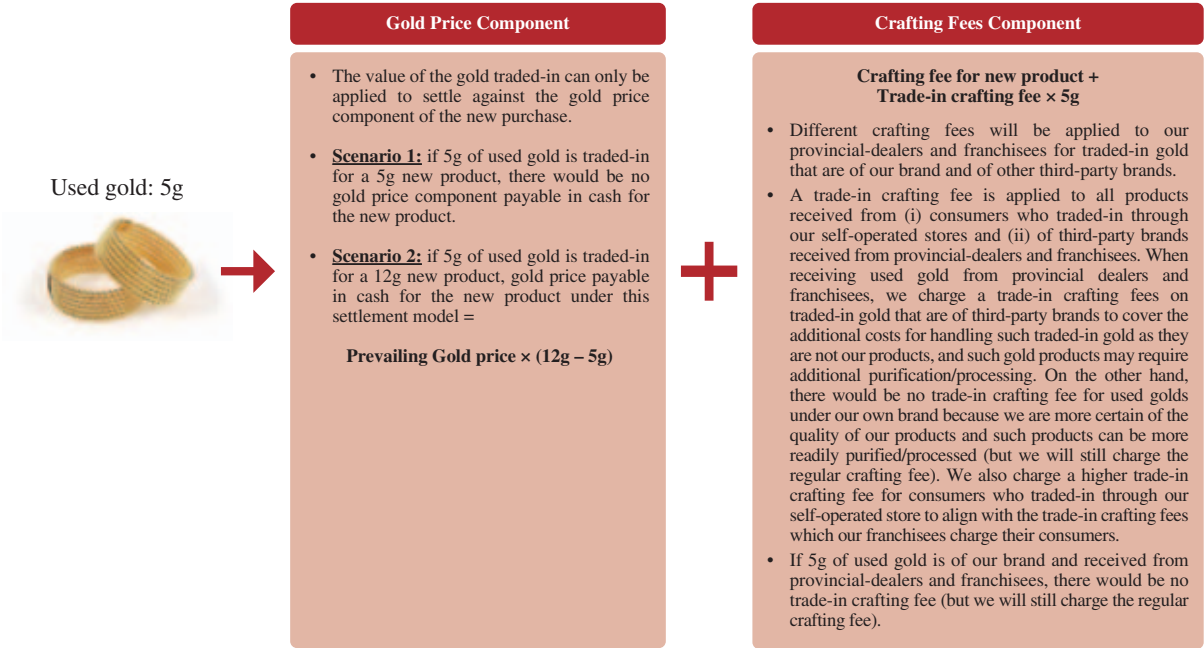
As illustrated in the diagram above, our provincial-dealers and franchisees deliver their used gold to us. After we test it and ensure that the gold traded-in meets our standards, our franchisees receive the new gold jewellery on the same day. Generally, it takes 24 hours for us to melt and purify the gold traded-in in our production facility. Then, it takes approximately 14 days to further process the raw materials into new products.

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Apart from the day-to-day gold trade-in between consumers and our self-operated stores or franchisees, we implemented promotional activities including the “One RMB Exchange” promotion running for up to a week annually, pursuant to which self-operated stores or franchisees may only accept consumer trade-in of our “Wan Purity” gold series products previously purchased for new pieces of “Wan Purity” series at a nominal crafting fee of one RMB per traded-in gram of gold, and full price of any additional weight of gold purchased.

Illustration of Price Charge for Gold Trade-in

The following diagram is for illustrating the price charge components in our regular gold trade-in:



Under the “One RMB Exchange” promotion, consumers have the option to trade-in their “Wan Purity” series of gold for a gold product of the same or heavier weight.

If consumers choose to trade-in their gold for a product of the same weight, they are only required to pay a nominal crafting fee of one RMB per gram of gold they traded in. However, if consumers choose to trade-in for a gold product that is heavier than the original, the process is slightly different. They are still required to pay the nominal crafting fee of one RMB per gram of gold up to the product weight they traded-in. Additionally, they need to pay for the price of the extra gold they purchased, as well as the regular crafting fees for the additional gold.

Our “One RMB Exchange” for “Wan Purity” series products is promotional in nature and it does not follow our normal gold trade-in settlement practices in calculating regular crafting fees. For further details on nominal and regular crafting fees, please refer to “— Business — Sales and Distribution Channels — Pricing Policy.”

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Gold Trade-in with Different Counterparties

During the Track Record Period, the breakdown of the consideration settled by gold trade-in for each counterparty type were as below:

	Year ended December 31,						Six months ended June 30,	
	2021		2022		2023		2024	
	Consideration settled by gold trade-in	Percentage to total revenue	Consideration settled by gold trade-in	Percentage to total revenue	Consideration settled by gold trade-in	Percentage to total revenue	Consideration settled by gold trade-in	Percentage to total revenue
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
Consumers from our self-operated stores	111,028.5	0.7	96,690.5	0.6	114,025.5	0.6	58,937.9	0.6
Franchise stores ^(Note)	5,005,506.0	29.7	3,870,742.1	24.6	4,549,877.9	22.5	2,039,239.9	20.4
Provincial-dealers	<u>3,072,306.8</u>	<u>18.2</u>	<u>1,926,673.4</u>	<u>12.3</u>	<u>2,142,820.2</u>	<u>10.6</u>	<u>661,843.5</u>	<u>6.6</u>
Total	<u>8,188,841.3</u>	<u>48.5</u>	<u>5,894,106.0</u>	<u>37.5</u>	<u>6,806,723.6</u>	<u>33.7</u>	<u>2,760,021.3</u>	<u>27.7</u>

Note: The consideration settled by gold trade-in included that from franchise stores which ceased operation during the relevant year/period.

Our franchise stores may conduct gold trade-in with the Group through provincial-dealers or directly with our Group in our self-operated direct service centres. Most of the franchisees under provincial-dealers will only conduct gold trade-in through provincial-dealers. On the other hand, such franchisees usually only conduct gold trade-in with us when they purchase directly from us in limited circumstances, including cases where a franchisee owns more than one franchise store located in different regions or when franchisees make special direct purchase requests which were pre-approved by us. The total number of franchisees who conducted gold trade-in with us directly during the Track Record Period (including those that ceased operation during the relevant year) was 753, 727, 692 and 729 for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively.

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The following table sets forth (i) number of franchise stores procuring through our self-operated direct service centers and (ii) the proportion of franchise stores who conducted gold trade-in with us under our self-operated direct service centers:

	Year ended December 31,			Six months
	2021	2022	2023	ended June 30, 2024
Franchise stores procuring through our self-operated direct service centers^(Note)				
• Number of stores under our self-operated direct service centers	1,312	1,346	1,434	1,375
• Number of stores that had conducted gold trade-in with our Group	1,212	1,256	1,310	1,268
• Proportion of stores that have conducted gold trade-in out of the number of stores under our self-operated direct service centers (%)	92.4%	93.3%	91.4%	92.2%

Note: Franchise stores that ended operation during the relevant year/period were included.

The number of franchise stores under our self-operated direct service centers that conducted gold trade-in with the Group directly (including those that ceased operation during the relevant year/period) were 1,212, 1,256, 1,310 and 1,268 for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively, which accounted for 92.4%, 93.3%, 91.4% and 92.2% of the total number of franchise stores under our self-operated service centers during the relevant year/period.

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	Year ended December 31,			Six months ended June 30,
	2021	2022	2023	2024
Franchisees procuring through our self-operated direct service centers^(Note)				
• Number of franchisees under our self-operated direct service centers	661	650	654	643
• Number of franchisees that had conducted gold trade-in with our Group	619	606	604	557
• Proportion of franchisees that have conducted gold trade-in out of the number of franchisees under our self-operated direct service centers (%)	93.6%	93.2%	92.4%	86.6%

Note: Franchisees that ended operation during the relevant year/period were included.

The number of franchisees under our self-operated direct service centers that conducted gold trade-in with the Group directly (including those that ceased operation during the relevant year/period) was 619, 606, 604 and 557 for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively, which accounted for 93.6%, 93.2%, 92.4% and 86.6% of the total number of franchisees under our self-operated service centers during the relevant year/period.

We had 17 provincial-dealers during the Track Record Period and all of our provincial-dealers conducted gold trade-in with us during each year/period of the Track Record Period. As of December 31, 2021, 2022 and 2023 and June 30, 2024, there were 1,091, 1,087, 1,074 and 1,057 franchisees under our provincial-dealers, respectively. During the Track Record Period, 135, 122, 90 and 172 of the franchisees under provincial-dealers conducted gold trade-in with us directly.^(Note)

Note: For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, out of all franchisees who have conducted gold trade-in with us, we have one, one, two and nil franchisees who were under both our self-operated direct service centers and provincial-dealers, respectively. Such overlaps were primarily due to the fact that some franchise stores operated by the relevant franchisees were located in areas covered by provincial-dealers while some of them were located in the areas covered by our self-operated direct service centers.

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During the Track Record Period, a larger proportion of our sales to franchisees were settled with used gold as compared to our sales to end consumers through our self-operated stores, as a result of combining factors, including store locations, operational history and local market presence.

The following table sets forth (i) the proportion of gold trade-in amount to total sales revenue and (ii) the number of stores for each of the self-operated stores and franchisees by store location during the Track Record Period:

	Year ended December 31,									Six months ended June 30,						
	2021			2022			2023			2024						
	Number of stores (Note 1)	Sales amount settled by used gold (Note 2)	Total sales revenue (Note 2)	Proportion of sales settled by used gold (%)	Number of stores (Note 1)	Sales amount settled by used gold (Note 2)	Total sales revenue (Note 2)	Proportion of sales settled by used gold (%)	Number of stores (Note 1)	Sales amount settled by used gold (Note 2)	Total sales revenue (Note 2)	Proportion of sales settled by used gold (%)	Number of stores (Note 1)	Sales amount settled by used gold (Note 2)	Total sales revenue (Note 2)	Proportion of sales settled by used gold (%)
	(RMB'000)	(RMB'000)	(%)		(RMB'000)	(RMB'000)	(%)		(RMB'000)	(RMB'000)	(%)		(RMB'000)	(RMB'000)	(%)	
Franchise stores operated by franchisees																
• Shopping mall/department store . . .	763	1,771,100.2	3,436,716.0	51.5%	802	1,479,476.3	3,790,355.6	39.0%	914	1,840,615.5	5,170,360.9	35.6%	948	924,889.1	2,533,035.4	36.5%
• Elsewhere	1,917	3,234,405.8	5,972,509.4	54.2%	1,941	2,391,265.8	5,838,786.3	41.0%	1,903	2,709,262.4	7,103,416.0	38.1%	1,902	1,114,350.8	3,221,967.5	34.6%
Self-operated store																
• Shopping mall/department store . . .	30	82,968.9	289,017.8	28.7%	29	75,169.6	289,442.4	26.0%	32	91,874.1	328,446.5	28.0%	33	49,735.3	168,855.2	29.5%
• Elsewhere	1	28,059.6	67,128.5	41.8%	3	21,520.9	77,045.4	27.9%	3	22,151.4	83,769.0	26.4%	3	9,202.6	31,252.8	29.4%

Notes:

1. The number of store only take into account of franchise stores under both our self-operated direct service centers and provincial-dealers that were still in operation as of December 31, 2021, 2022 and 2023 and June 30, 2024.
2. The sales amount settled by used gold and total sales revenue included sales to franchise stores who conducted gold trade-in and transactions with us directly, and included the sales to franchise stores that ceased operation during the relevant year/period.

The proportion of sales settled by used gold may be affected by store location, and the stores located in department stores or shopping malls generally received lower proportion of used gold. The proportion of sales settled by used gold at our self-operated stores located in shopping mall/department store was evidently lower than self-operated stores located elsewhere in 2021. This was mainly due to the fact that department stores or shopping malls may prefer or even require that stores within their premises settle sales of goods in cash, rather than accepting in-kind settlements. However, such difference was not as apparent in 2022 and 2023 as one out of three of our self-operated stores that were not in shopping mall/department store recorded decrease in proportion of sales settled by used gold in 2022 and 2023. Our management is of the view that as the relevant self-operated store was located in a neighbourhood with many stores that bought used gold from end-consumers in cash, with increasingly keen competition for used gold in its vicinity driven by the increase in gold price in 2022 and 2023, a decreasing number of end-consumers opt for trading-in gold at such store, which may not be representative for all self-operated stores and franchisees. In addition, used gold as a percentage of sales revenue for relevant year/period for the franchisees’

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stores in department stores or shopping malls were generally lower than that for the franchisees’ stores located elsewhere. Such results further supports that store location is one of the major factors that led to the difference in the proportion of sales settled with used gold.

In addition to difference in store location, the higher proportion of sales settled with used gold for our sales to provincial dealers and franchisees was also due to our provincial-dealers and franchisees having broader access to traded-in gold through their own retail channels. Many of our provincial-dealers and franchisees are established jewellery wholesalers in their respective regions, and thus can acquire more traded-in gold from their customers, leveraging their strong market positions. For example, as we do not enter into exclusivity agreements with provincial dealers and franchisees, some of our franchisees may operate other gold jewellery stores under their own or third party brands, which enabled them to get access to a broader range of end consumers and received used gold of third party brand from such consumers. Also, some of our franchisees operate multiple franchise stores, which enables them to reach a larger group of end consumers due to their geographical coverage. During the Track Record Period, sales amount settled by used gold of third-party brands as a percentage of total sales revenue derived from our franchisees amounted to 22.1%, 9.8%, 8.4% and 11.1%, while the comparable figures for our provincial-dealers were 29.8%, 9.5%, 6.2% and 10.5%, which were both generally higher than the comparable figures for our self-operated stores of 7.1%, 7.7%, 7.6% and 6.7%. We believe the aforementioned is an example which illustrates that our provincial-dealers and franchisees have greater access to used gold. Commencing in mid-2022, we implemented stricter control on accepting traded-in gold which resulted in a decrease in used gold from third-party brands as a percentage of total gold traded-in. Consequently, the proportion of sales settled by traded-in gold at franchise stores has gradually become more aligned with that of our self-operated stores.

Moreover, during the Track Record Period, there was a general positive correlation between the number of years that a store had been in operation and the proportion of sales that such store settled with used gold. We believe such correlation resulted from the larger customer base that a store attracts with time, and with the larger customer base, a store can typically acquire more traded-in gold from their customers. The correlation was generally reflected in both our self-operated stores and our franchise stores. As many of our franchise stores have been established longer than our self-operated stores, the proportion of sales settled with used gold at our franchise stores was generally higher than that of our self-operated stores.

For the used gold received through gold trade-in, we recognize the revenue and inventory by multiplying the weight of trade-in gold with the real-time price of Au9999 on the Shanghai Gold Exchange on the day the gold is traded-in. If the subsequent real-time gold price movement exceeds RMB0.5 per gram, we will adjust the subsequent transaction price of gold accordingly. If the gold trade-in occurs on a day when Au9999 is not traded, we will refer to the closing price of Au9999 on the Shanghai Gold Exchange and spot gold on overseas exchanges on the previous trading day to determine the price to be used. The prices of gold traded-in are not discounted.

We did not make any provision for gold trade-in during the Track Record Period because there was no unavoidable obligation for us to accept used material.

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For sale of gold products, we allow consumers (from our self-operated stores), franchisees and provincial-dealers to trade-in gold products as settlement for gold component of the transaction price. For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, used gold as part of the consideration paid from franchisees and provincial-dealers amounted to RMB8,077.8 million, RMB5,797.4 million, RMB6,692.7 million and RMB2,701.1 million, respectively, representing 49.1%, 37.7%, 33.7% and 27.5% of our total revenue generated from the sale of gold jewellery and other gold products and 47.9%, 36.9%, 33.1% and 27.1% of our total revenue for the respective year/period. We implemented higher standard of quality control and stricter selection criteria for accepting traded-in gold, which is reflected in (i) the increase in our gold procurement directly from the Shanghai Gold Exchange, as gold procured through the Shanghai Gold Exchange is generally quality assured; and (ii) a stricter quality control and more careful acceptance of traded-in gold from third-party brands, which resulted in a decrease in used gold from third-party brands as a percentage of total gold traded-in.

In addition, used gold as part of consideration paid received from consumers at our self-operated stores amounted to RMB111.0 million, RMB96.7 million, RMB114.0 million and RMB58.9 million for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively, representing 0.7%, 0.6%, 0.6% and 0.6% of our total revenue generated from the sale of gold jewellery and other gold products and 0.7%, 0.6%, 0.6% and 0.6% of the total revenue for the respective year/period.

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, used gold from third-party brands amounted to RMB3,702.7 million, RMB1,468.2 million, RMB1,468.8 million and RMB911.2 million respectively, while used gold from our brand amounted to RMB4,486.1 million, RMB4,425.9 million, RMB5,337.9 million and RMB1,848.8 million, respectively. As a percentage of total gold traded-in, used gold from third-party brands constituted 45.2%, 24.9%, 21.6% and 33.0%, respectively, while used gold from our brand constituted 54.8%, 75.1%, 78.4% and 67.0%, respectively. The percentage of used gold from third-party brand generally decreased during the Track Record Period because we implemented higher standard of quality control and stricter selection criteria for accepting traded-in gold, which is reflected in (i) the increase in our gold procurement directly from the Shanghai Gold Exchange, as gold procured through the Shanghai Gold Exchange is generally quality assured; (ii) a stricter quality control and more careful acceptance of traded-in gold from third-party brands; and (iii) higher crafting fees for used gold from third-party brands. There was a slight decrease in the percentage of used gold from our brand to all used gold received for the six months ended June 30, 2024 when compared to that for the year ended December 31, 2023. Such result is mainly due to the fact that our “One RMB Exchange” program is generally held in the second half of the year, during which we usually receive more used gold of our brand. For further details of crafting fees charged during our “One RMB Exchange” program, please refer to the section headed “Business — Our customers — Average and price range of crafting fees according to different source.”

For details of the accounting treatment in relation to gold trade-in, see notes 4 and 43 of “Appendix I — Accountants’ Report — Non-cash consideration”.

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Accounting treatment of gold trade-in

In a gold trade-in transaction, we recognize the actual selling price of the new products as revenue based on almost the real-time price of Au9999 on the Shanghai Gold Exchange plus crafting fee, and the cost of gold sold based on the cost of the new products. The non-cash consideration received (trade-in gold) was recognized as inventories based on the weight of trade-in gold and the real-time price of Au9999 on the Shanghai Gold Exchange. Cash consideration is based on the actual selling price multiplied by the weight difference between the new products and trade-in gold plus crafting fee.

For illustration purpose only, assuming a franchisee/provincial-dealers purchased 100 grams of “Wan Purity” series gold jewellery from us and used 40 grams of used “Wan Purity” series gold jewellery collected from end consumers as part of the purchase consideration. The real-time selling price of the “Wan Purity” series gold jewellery was RMB339 per gram (excluding crafting fee), and the crafting fee for the transaction is RMB11.3 per gram. VAT was charged at 13%. The cost of the “Wan Purity” series gold jewellery sold is RMB290 per gram.

Below are the relevant accounting entries:

	<i>RMB</i>
<i>Debit:</i>	
Cash/Trade receivables	339×60+11.3×(60+40)=21,470
Raw materials — gold materials	339×40/(1+13%)=12,000
<i>Credit:</i>	
Revenue	(339+11.3)×100/(1+13%)=31,000
Other payables — VAT payable (output tax)	339×60×13%/(1+13%)+11.3×(60+40)×13%/(1+13%)=2,470
 <i>Debit:</i>	
Cost of sales	(290×100)=29,000
<i>Credit:</i>	
Inventory — Finished goods	29,000

The accounting treatment of gold trade-in between our Group and franchisees/provincial-dealers is the same as the treatment between our Group and consumers from our self-operated stores.

The accounting treatment of “One RMB Exchange” is listed below:

a. *“One RMB Exchange” between our Group and franchisees/provincial-dealers*

There is no difference in accounting treatment of trade-in transactions of our group with franchisees and with provincial-dealers, other than the different charge rate of crafting fee per gram for the trade-in settlement portion.

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b. “One RMB Exchange” between our Group and consumers from our self-operated stores

For illustration purpose only, assuming a customer purchased 10 grams of “Wan Purity” series gold jewellery from one of our self-operated stores during the “One RMB Exchange” promotion and used 6 grams of used “Wan Purity” series gold jewellery as part of the purchase consideration. The real-time selling price of the “Wan Purity” series gold jewellery on transaction date was RMB350 per gram. (excluding crafting fee). The crafting fee for trade-in settlement portion of the purchase is RMB1 per gram. The crafting fee for the cash settlement portion of the purchase is RMB40 per gram. VAT was charged at 13%. The cost of the “Wan Purity” series gold jewellery sold is RMB290 per gram.

Below are the relevant accounting entries:

RMB

Debit:

Cash	350×4+1×6+40×4=1,566.00
Raw materials — gold materials	350×6/(1+13%)=1,858.41

Credit:

Revenue	(350×10+40×4+1×6)/(1+13%)=3,244.25
Other payables — VAT payable (output tax)	350×4×13%/(1+13%)+(1×6+40×4)×13%/(1+13%)= 180.16

Debit:

Cost of sales	(290×10)=2,900.00
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Credit:

Inventory — Finished goods	2,900.00
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The relevant sales of gold trade-in were recognized on a gross basis based on the below reasons:

- (i) Our business covers all stages of the jewellery industry value chain, from raw material sourcing and purification, R&D, product design, manufacturing, distribution to retailing. We make decisions independently on the various stages above, not under the instruction or engaged by the provincial-dealers/franchisees or customers who provides trade-in golds. We obtain the control of the trade-in golds and mix the trade-in golds with other gold materials in the production process. We produce and sell jewellery products, not provide processing services, to our customers;
- (ii) we bear the inventory risk of the new products and trade-in gold, like fluctuations in the gold price, outdated styles and slow sales for new products and lost for trade-in gold;
- (iii) we has discretion in establishing the price for the new products;

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- (iv) the trade-in transaction has commercial substance and the risk, timing or amount of the cash flows is different between the products sold and the trade-in gold;
- (v) due to the special nature of gold, we consider gold trade-in as a form of payment which is as good as cash payment.

In conclusion, except for the form of consideration, there’s no difference between this arrangement and an arrangement in which customers make a cash payment. According to Hong Kong Financial Reporting Standards, we account for trade-in gold as non-cash consideration received from the customer and recognize the sales on a gross basis.

We noticed from the published financial information of relevant peer public companies that they also apply the same accounting treatment as us regarding trade-in transactions.

Potential impact if we substantially reduce or cease to conduct gold trade-in

In the event of a material reduction or cessation of gold trade-in activities, the potential impacts on our procurement and our sales and marketing are as below:

For procurement, we may not be able to collect used gold as raw materials from gold trade-in. However, given our special membership status of the Shanghai Gold Exchange, our Directors believe our procurement would not be materially impacted.

For our sales and marketing, it has been one of our competitive strengths to offer gold trade-in services to our provincial-dealers and franchisees, and consumers at our self-operated stores. Our gold trade-in services offered to franchisees empower franchisees to offer gold trade-in to consumers through their franchise stores. Potential impacts may include losing a competitive strength to maintain loyalty of our franchisees and consumers from both franchise and self operated stores and affecting our brand image of being capable of offering gold trade-in services in the market. According to Frost & Sullivan, it is common for gold jewellery stores to accept gold trade-in from consumers. If we do not accept trade-in gold from our provincial-dealers and franchisees, they may have to find other counterparties with purifying capabilities to accept used gold from their consumers. This may increase the burden on our provincial-dealers and franchisees and in turn, may adversely affect our relationship with them.

Our PRC Legal Advisor has confirmed that the Anti-Money Laundering Law, the “Notice of the Ministry of Finance and the State Administration of Taxation on the Collection of Value-Added Tax on Gold, Silver Jewellery and Other Goods” and related laws and regulations in force do not prohibit or restrict the retail industry from carrying out gold trade-in. Given that we have a proper commercial rationale to conduct gold trade-in, we have no plan to completely cease gold trade-in activities.

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Gold Trade-in & Anti-Money Laundering Law

Our PRC Legal Advisor is of the view that, pursuant to the Anti-Money Laundering Law of the People’s Republic of China (“**Anti-Money Laundering Law**”) and the relevant laws and regulations currently in force in the PRC, there is no prohibition or restriction to the retail industry from carrying out gold trade-in business. According to the Article 2 of the Anti-Money Laundering Law, “Anti-Money Laundering referred to in this Law refers to the act of taking relevant measures in accordance with the provisions of this Law to prevent money laundering activities that disguise and conceal the source and nature of proceeds from crimes and their proceeds of drug crimes, organisational crimes of a triad nature, crimes of terrorist activities, smuggling crimes, embezzlement and bribery, sabotage of the financial management order, and crimes of financial fraud by various means”. According to Article 35 of the Anti-Money Laundering Law, “the scope of the special non-financial institutions subject to the performance of the duties of anti-money laundering, their performance of the duties of anti-money laundering and the specific measures for their supervision and management shall be formulated by the competent administrative authority of anti-money laundering under the State Council jointly with the relevant departments of the State Council”. We are not regarded as precious metals trading venues, but our business encompasses precious metals spot trading on established venues, along with retail trading of precious metals conducted within such venues. According to the Notice of the People’s Bank of China on Strengthening Anti-Money Laundering and Counter-Terrorist Financing Work of Precious Metals Trading Venues (《中國人民銀行關於加強貴金屬交易場所反洗錢和反恐怖融資工作的通知》) (Yin Fa [2017] No. 218), precious metals trading venues engaged in the business or providing services involving spot trading of precious metals, as well as precious metals dealers engaging in the trading of precious metals in their venues, shall actively fulfil their obligations to anti-money laundering and counter-terrorist financing, and trading venues and dealers shall take the necessary monitoring measures to monitor the lists of terrorist organisations and persons engaged in terrorist activities, etc. published by the competent state authorities, and shall not establish business relationships with or provide any form of service to any entities, organisations or individuals on the lists, and shall, in accordance with the law, immediately take measures to freeze funds or other assets related to the terrorist organisations and persons, etc., and report to the local public security organs, state security organs and branches of the People’s Bank of China in a timely manner in accordance with relevant provisions. Trading venues and dealers shall, in principle, adopt non-cash methods when providing services or conducting business.

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As of June 30, 2024, 2,653 franchise stores operated by 1,550 franchisees, accounting for approximately 92.8% of all our franchisees, had installed and were using our CRM system to record sales from gold trade-in. According to our internal control policy on gold trade-in management, we encourage franchisees to use our CRM system to record sales for gold trade-in. We did not make it compulsory for franchisees to use CRM system mainly because (i) some franchisees have adopted similar management systems to which they are accustomed, offering the same or similar functions as our CRM system; and (ii) certain smaller-scale franchisees may find it costly to adopt the CRM system while we monitor their sales through onsite visits given the size of their operations. Through our CRM system, we can monitor transactions conducted by our franchisees, including the volume, frequency and types of sales/transactions. Having immediate access to such information allows us to more effectively identify any irregular or abnormal transactions that may be suspicious of being money laundering activities. In the event that such franchisee’s transaction frequency or per transaction amount materially deviates from the previous month or period, we can readily access such information and take necessary actions, including but not limited to investigating whether such transactions might be related to money laundering activities and, if necessary, reporting to the relevant authorities. For illustration purposes only, consider a scenario in which a franchisee typically conducts around 100 transactions per month, with an average of RMB10,000 per transaction. Should there be a significant deviation, such as conducting 200 transactions in a single month with an average of RMB20,000 per transaction, it would raise concerns and lead to an internal investigation. We charge franchisees who do not adopt our CRM system a higher crafting fee. We also have internal control policy in combating money laundering, which specifies as follows:

- **identify customers:** establish a customer risk level management system according to the characteristics of customers, and consider factors such as region, business, industry to identify the risk level of customers, and strengthen the management of high-risk customers.
- **strict upfront measures for high-risk customers:** When establishing relevant business relationships with high-risk customers, we shall strictly implement real-name record system, conduct procedures on customer due diligence and understand their business operations. High-risk customer’s identity, transaction records and all other relevant information shall be collected for investigating suspicious transaction and for investigating and dealing with money laundering cases and must be kept strictly confidential and shall not be disclosed to any unrelated bodies or individuals.
- **special management:** for customers, business relationships or transactions which possess characteristics of money laundering or terrorist financing, we shall take appropriate measures such as in-depth investigation, interviews, and access to relevant materials, to understand the customers and the purpose and nature of the transactions, and to understand the natural persons who actually control the customers and their transactions.

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- **large amount and abnormal transactions:** we pay particular attention to large and abnormal transactions that include, but are not limited to, the following:
 - If the customers’ name is the same or similar to the list of terrorist organizations, terrorists and criminal suspects issued by judicial authorities, law enforcement agencies, regulatory authorities, and the United Nations Security Council;
 - Institutional customers that frequently have transactions of more than RMB200,000 or foreign exchange equivalent of more than USD20,000^(Note) or individual customers that frequently have transactions of more than RMB100,000 or foreign exchange equivalent of more than USD10,000^(Note); and
 - The frequency, amount or time of the customer’s transaction are obviously inconsistent with the business they operate.

If the large amount or abnormal transactions are determined to be related to money laundering, terrorist financing and other illegal and criminal activities, or it cannot be ruled out otherwise, we shall report the transactions to the Group’s anti-money laundering officers within six working days of the transaction. The anti-money laundering officers shall submit suspicious transaction report to the China Anti-Money Laundering Monitoring and Analysis Center within four working days.

Our gold trade-in business does not involve foreign exchange transactions.

There have been no suspicious Anti-Money Laundering transactions reported internally or to the China Anti-Money Laundering Monitoring and Analysis Center during Track Record Period, and we have not been subject to any fines, administrative penalties or other sanctions, or received any enquiries, notices or warning from any relevant regulatory authorities in relation to violations of the Anti-Money Laundering Law and foreign exchange laws and regulations during the Track Record Period.

Based on the aforementioned, our PRC Legal Advisor holds the view that the risk of us being subject to material punishment for violating the Anti-Money Laundering Law and foreign exchange laws and regulations in the PRC for our gold trade-in is low.

Our Directors consider the risk of utilizing our gold trade-in service as a method of money laundering is remote given that customers can only trade-in gold for gold jewellery. We do not pay cash to (i) provincial-dealers and franchisees who trade-in gold with us or (ii) consumers who trade-in gold through our self-operated stores with us.

Our aforementioned arrangement is in line with our commercial interest and market practice. Frost & Sullivan has further confirmed that there were no material unusual features regarding our gold trade-in practice when compared with other major industry players.

Note: Such foreign exchange transactions are primarily conducted through Hong Kong Mokingran.

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In terms of our accounting treatment, gold trade-in is considered as non-cash settlement and our revenue recognition. The critical accounting judgment includes the consideration of:

1. Our Group receives used gold products from franchisees, provincial-dealers and consumers to be used in manufacturing new gold products.
2. There is no obligation or commitment for our Group to accept the used gold products.
3. Except for the form of consideration, there’s no difference between this arrangement and an arrangement in which customers makes a cash payment.
4. Our Directors apply judgment to assess whether or not we obtain control of customer-provided materials. After careful analysis of all relevant fact and circumstances, it is concluded that our Group obtain control of the used gold products.
5. As a result, the value of the non-cash consideration is included in the transaction price.
6. Our Group estimates the fair value of the non-cash consideration by reference to the real-time trading price of the Shanghai Gold Exchange on the relevant trading day.

Five largest gold trade-in parties for our franchise network during the Track Record Period

The table below sets out our Group’s five largest trade-in parties of each year/period of our franchise network during the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, ranked in accordance with the trade-in amount by our Group during the respective year/period:

Rank	Name	Principal business and business profile	Products provided	Year of commencement of business relationship with our Group	Trade-in amount	Percentage to our total trade-in amount from franchisees and provincial-dealers	Settlement Method	Credit term (day)s
					(RMB\$’000) (approximately)	(%) (approximately)		
For the year ended December 31, 2021								
1	Provincial-dealer A	Provincial-dealer	Trade-in gold	Since 2014	470,161	5.8	Settlement in gold	Payment on spot
2	Provincial-dealer C	Provincial-dealer	Trade-in gold	Since 2012	399,095	4.9	Settlement in gold	Payment on spot
3	Provincial-dealer B	Provincial-dealer	Trade-in gold	Since 2012	332,761	4.1	Settlement in gold	Payment on spot
4	Provincial-dealer D	Provincial-dealer	Trade-in gold	Since 2019	275,465	3.4	Settlement in gold	Payment on spot
5	Provincial-dealer E	Provincial-dealer	Trade-in gold	Since 2019	269,739	3.3	Settlement in gold	Payment on spot

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Rank	Name	Principal business and business profile	Products provided	Year of commencement of business relationship with our Group	Trade-in amount	Percentage to our total trade-in amount from franchisees and provincial-dealers	Settlement Method	Credit term (days)
					(RMB\$'000) (approximately)	(%) (approximately)		
For the year ended December 31, 2022								
1	Provincial-dealer C	Provincial-dealer	Trade-in gold	Since 2012	428,193	7.4	Settlement in gold	Payment on spot
2	Franchisee F	Franchisee	Trade-in gold	Since 2012	285,555	4.9	Settlement in gold	Payment on spot
3	Provincial-dealer B	Provincial-dealer	Trade-in gold	Since 2012	228,057	3.9	Settlement in gold	Payment on spot
4	Provincial-dealer A	Provincial-dealer	Trade-in gold	Since 2014	160,418	2.8	Settlement in gold	Payment on spot
5	Provincial-dealer D	Provincial-dealer	Trade-in gold	Since 2019	158,133	2.7	Settlement in gold	Payment on spot
For the year ended December 31, 2023								
1	Provincial-dealer C	Provincial-dealer	Trade-in gold	Since 2012	548,277	8.2	Settlement in gold	Payment on spot
2	Franchisee F	Franchisee	Trade-in gold	Since 2012	396,415	5.9	Settlement in gold	Payment on spot
3	Provincial-dealer B	Provincial-dealer	Trade-in gold	Since 2012	244,551	3.7	Settlement in gold	Payment on spot
4	Provincial-dealer A	Provincial-dealer	Trade-in gold	Since 2014	190,323	2.8	Settlement in gold	Payment on spot
5	Provincial-dealer E	Provincial-dealer	Trade-in gold	Since 2019	163,747	2.4	Settlement in gold	Payment on spot
For the six months ended June 30, 2024								
1	Provincial-dealer C	Provincial-dealer	Trade-in gold	Since 2012	209,430	7.8	Settlement in gold	Payment on spot
2	Franchisee F	Franchisee	Trade-in gold	Since 2012	138,607	5.1	Settlement in gold	Payment on spot
3	Provincial-dealer B	Provincial-dealer	Trade-in gold	Since 2012	81,255	3.0	Settlement in gold	Payment on spot
4	Provincial-dealer E	Provincial-dealer	Trade-in gold	Since 2019	74,046	2.7	Settlement in gold	Payment on spot
5	Franchisee G	Franchisee	Trade-in gold	Since 2011	64,471	2.4	Settlement in gold	Payment on spot

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Overlapping of franchise stores as customers and our gold trade-in parties

Due to our business model on accepting gold trade-in as a settlement method, naturally some of our customers are also our gold trade-in parties. The following table sets out quantitative disclosures on our total sales to and purchases from our franchise stores, who purchased gold jewellery from us as customers and also acted as our gold trade-in parties during the Track Record Period:

Sales to all overlapping franchisee customers and gold trade-in parties

	<u>Year ended December 31,</u>			<u>Six months</u>
	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>ended June 30,</u>
				<u>2024</u>
Sales revenue				
(RMB million)	14,508	14,438	18,363	7,752
As a percentage to total				
revenue (%)	86	92	91	78
Gross profit				
(RMB million)	481	587	845	461
Gross profit margin (%) . . .	3.3	4.1	4.6	5.9

The gross profit margin from overlapping franchisee customers and gold trade-in parties during the Track Record Period was 3.3%, 4.1%, 4.6% and 6.2% for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively.

Gold purchases and gold trade-in from overlapping franchisee customers and gold trade-in parties

	<u>Year ended December 31,</u>			<u>Six months</u>
	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>ended June 30,</u>
				<u>2024</u>
Gold trade-in amount (RMB				
million)	8,078	5,797	6,693	2,701
As a percentage to total gold				
purchase and gold trade-in				
from franchisees and				
provincial-dealers (%) . . .	49	40	34	30

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The table below sets out the details of our major gold trade-in parties in our franchise network during the Track Record Period:

Provincial-dealer A

	Year ended December 31,			Six months ended June 30,
	2021	2022	2023	2024
Sales (RMB'000)	648,100	593,341	689,177	133,394
As a percentage to total revenue (%)	3.8	3.8	3.4	1.3
Gold trade-in (RMB'000)	470,161	160,418	190,323	60,152
As a percentage to total amount of gold trade-in from franchisees and provincial-dealers (%) .	5.8	2.8	2.8	2.2
Gross profit (RMB'000)	5,740	20,174	30,092	12,488
Gross profit margin (%)	0.9	3.4	4.4	9.4

Provincial-dealer A’s ultimate beneficial owner commenced business relationship with us since 2012. Provincial-dealer A is a company established in the PRC in 2021 with a registered share capital of RMB1.0 million and is principally engaged in retail and wholesale of jewellery. Prior to the establishment of Provincial-dealer A, we conducted business with its ultimate beneficial owner directly and/or other entities controlled by him/her. Provincial-dealer A’s ultimate controller is a merchant specializing in jewellery business and an Independent Third Party. To the best of our Directors’ knowledge, it has no connection with our former employees. As of June 30, 2024, it was our provincial-dealer in Wenzhou.

The gross profit margin of the transactions between our Group and Provincial-dealer A for the year ended December 31, 2021 was lower primarily because (i) the difference in product mix sold to Provincial-dealer A (in particular we had low sales of our diamond inlaying jewellery products which carried a higher margin to Provincial-dealer A); and (ii) Provincial-dealer A purchased and traded-in more gold jewellery products from us when the gold price was higher, while the crafting fees we charged were stable.

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, the proportions of sales settled by traded-in gold by Provincial-dealer A were 72.5%, 27.0%, 27.6% and 45.1%, respectively. In 2021, 49.1% of our total revenue generated from sales of gold jewellery and other gold products was settled by used gold. The same proportion for Provincial-dealer A was higher because it had more access to used gold of third-party brands and 60% of the used gold traded-in by Provincial-dealer A was of third-party brands. With more access to used

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gold from customers through its sales network, Provincial-dealer A may settle more of its sales with a higher volume of used gold it collected, thereby contributing to a higher proportion of sales settled by traded-in gold. The proportion of sales settled by traded-in gold by Provincial-dealer A declined to 27.0% and 27.6% in 2022 and 2023, respectively, which was primarily due to the fact that we adopted stricter quality control and more careful acceptance of traded-in gold from third-party brands in 2022, which resulted in a decrease in volume of used gold from third-party brands received from Provincial-dealer A. In 2022, we began to adopt the CRM system across our franchise network, through which we may monitor the information of used gold we received through gold trade-in. For further details of the internal control policies adopted in 2022 in relation to the quality control of trade-in gold, please refer to the section headed “History, Development and Corporate Structure — Previous A-Share Applications — The First A-Share Application — CSRC’s concerns in relation to “One RMB Exchange” — Internal Control Measures.” In addition, we charge higher crafting fees for sales settled by trade-in gold from third-party brands, for further details of the crafting fees we charge, please refer to the section headed “Business — Our Customer — Pricing policy.”

For the six months ended June 30, 2024, the proportion of sales settled by traded-in gold by Provincial-dealer A increased to 45.1%, as a result of a temporary suspension of business by Provincial-dealer A in January 2024 due to its personal reason. As the sales of gold jewellery products usually increase before Chinese New Year, the temporary cessation in business by Provincial-dealer A resulted in a decrease in its total sales for the six months ended June 30, 2024. Following the temporary cessation of business, Provincial-dealer A resumed operations in February 2024. While the temporary cessation in business in the first quarter of 2024 led to a decrease in total sales for Provincial-dealer A during the first half of 2024, the change in the volume of used gold received by Provincial-dealer A in the first half of 2024 was comparatively marginal when compared to that of the decrease in sales for the corresponding period due to (i) the stable source of used gold stemming from the solid franchisee base by Provincial-dealer A and (ii) the increase in willingness to conduct gold trade-in in general due to the increase in gold price in the first half of 2024. Accordingly, the proportion of sales settled by traded-in gold by Provincial-dealer A increased during the six months ended June 30, 2024.

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Provincial-dealer B

	Year ended December 31,			Six months ended June 30,
	2021	2022	2023	2024
Sales (RMB'000)	669,332	646,569	858,207	356,897
As a percentage to total revenue (%)	4.0	4.1	4.2	3.6
Gold trade-in (RMB'000)	332,761	228,057	244,551	81,255
As a percentage to total gold trade-in from franchisees and provincial-dealers (%) .	4.1	3.9	3.7	3.0
Gross profit (RMB'000)	13,033	25,084	39,616	31,723
Gross profit margin (%)	1.9	3.9	4.6	8.9

Provincial-dealer B’s ultimate beneficial owner commenced business relationship with us since 2012. Provincial-dealer B is a company established in the PRC in 2016 with a registered share capital of RMB5.0 million and is principally engaged in the wholesale of jewellery and art pieces. Prior to the establishment of Provincial-dealer B, we conducted business with its ultimate beneficial owner directly and/or other entities controlled by him/her. Provincial-dealer B’s ultimate beneficial owner is a merchant specializing in jewellery business and an Independent Third Party. To the best of our Directors’ knowledge, it has no connection with our former employees. As of June 30, 2024, it was our provincial-dealer in Taiyuan.

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, the proportions of sales settled by traded-in gold by Provincial-dealer B were 49.7%, 35.3%, 28.5% and 22.8%, respectively which are generally in line with the proportion of settlement by trade-in gold by provincial-dealers and franchisees of 49.1%, 37.7%, 33.7% and 27.5% out of our total revenue generated from the sales of gold jewellery and other gold products for respective year/period.

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Provincial-dealer C

	Year ended December 31,			Six months ended June 30,
	2021	2022	2023	2024
Sales (RMB'000)	641,756	792,556	1,026,117	428,313
As a percentage to total revenue (%)	3.8	5.0	5.1	4.3
Gold trade-in (RMB'000)	399,095	428,193	548,277	209,430
As a percentage to total gold trade-in from franchisees and provincial-dealers (%) .	4.9	7.4	8.2	7.8
Gross profit (RMB'000)	13,755	30,881	49,478	31,887
Gross profit margin (%)	2.1	3.9	4.8	7.4

Provincial-dealer C’s ultimate beneficial owner commenced business relationship with us since 2012. Provincial-dealer C is a company established in the PRC in 2017 with a registered share capital of RMB1.0 million and is principally engaged in the retail and wholesale of gold and silver accessories, jewellery and art pieces. Prior to the establishment of Provincial-dealer C, we conducted business with its ultimate beneficial owner directly and/or other entities controlled by him/her. Its ultimate beneficial owner is a jewellery merchant and an Independent Third Party. To the best of our Directors’ knowledge, it has no connection with our former employees. As of June 30, 2024, it was our provincial-dealer in Harbin.

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, the proportions of sales settled by traded-in gold by Provincial-dealer C were 62.2%, 54.0%, 53.4% and 48.9%, respectively. The proportion of sales settled by traded-in gold by Provincial-dealer C slightly decreased from 62.2% in 2021 to 54.0% in 2022 as we applied more stringent requirements in accepting used gold, and such proportion remained stable at 53.4% for 2023 and 48.9% for the six months ended June 30, 2024.

The proportion of sales settled by traded-in gold by Provincial-dealer C was generally higher than that of the Group as it has been operating in Harbin Province for more than 10 years and has established a solid customer base in the area which it operates. Accordingly, the Directors believe that Provincial-dealer C has access to a more used gold and therefore settled sales with higher proportion of traded-in gold.

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Provincial-dealer D

	Year ended December 31,			Six months ended June 30,
	2021	2022	2023	2024
Sales (RMB'000)	322,395	294,102	343,777	128,485
As a percentage to total revenue (%)	1.9	1.9	1.7	1.3
Gold trade-in (RMB'000)	275,465	158,133	129,314	34,771
As a percentage to total gold trade-in from franchisees and provincial-dealers (%) .	3.4	2.7	1.9	1.3
Gross profit (RMB'000)	4,605	9,468	14,409	7,628
Gross profit margin (%)	1.4	3.2	4.2	5.9

Provincial-dealer D's ultimate beneficial owner commenced business relationship with us since 2019. Provincial-dealer D is a company established in the PRC in 2022 with a registered share capital of RMB2.0 million, and is principally engaged in the business of sales of gold and silver products and wholesale of art pieces. In 2023, provincial-dealer D primarily conducted business in Hunan Province. Prior to the establishment of Provincial-dealer D, we conducted business with its ultimate beneficial owner directly and/or other entities controlled by him/her. Its ultimate controller is a jewellery merchant and an Independent Third Party. To the best of our Directors' knowledge, it has no connection with our former employees.

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, the proportions of sales settled by traded-in gold by Provincial-dealer D were 85.4%, 53.8%, 37.6% and 27.1%, respectively. The proportion of sales settled by traded-in gold by Provincial-dealer D demonstrated a declining trend during the Track Record Period.

The proportion of sales settled by traded-in gold by Provincial-dealer D in 2021 was higher than that of the overall trade-in proportion of the Group as a whole. This was largely due to (i) approximately 56.5% of the used gold traded-in by Provincial-dealer D in 2021 consisted of third-party brand gold products, with more access to used gold from customers through its sales network, Provincial-dealer D may settle more of its sales with a higher volume of used gold it collected, thereby attributing to a higher proportion of sales settled by traded-in gold; and (ii) Provincial-dealer D and us launched a promotional event within its region to promote the sales of gold products of purity level of 999.99, which we offered discount of crafting fees to Provincial-dealer D for trading-in used gold products of our own brand for our gold products of purity level of 999.99 with the intention to encourage end consumers to trade in used gold for such products in that region, which, in turn, led to the increase in the proportion of sales settled by traded-in gold by Provincial-dealer D. Accordingly, the proportion of sales settled by traded-in gold by Provincial-dealer D in 2021 was higher than usual.

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Following the introduction of stricter quality control measures for used gold collected from customers in 2022, the percentage of sales settled through traded-in gold by Provincial-dealer D decreased since 2022. Save for 2021, such proportion was generally in line with the overall proportion of settlement by trade-in gold by provincial-dealers and franchisees out of our total revenue generated from the sales of gold jewellery and other gold products, which amounted to 49.1%, 37.7%, 33.7% and 27.5% for respective year/period. The Directors believe that such decline was primarily attributable to our Group’s heightened scrutiny over the quality of used gold we collect since 2022.

Provincial-dealer E

	<u>Year ended December 31,</u>			<u>Six months</u>
	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>ended June 30,</u>
				<u>2024</u>
Sales (RMB’000)	339,719	365,907	454,507	213,430
As a percentage to total revenue (%)	2.0	2.3	2.2	2.1
Gold trade-in (RMB’000)	269,739	152,855	163,747	74,046
As a percentage to total gold trade-in from franchisees and provincial-dealers (%)	3.3	2.6	2.4	2.7
Gross profit (RMB’000)	7,742	14,810	21,159	18,546
Gross profit margin (%)	2.3	4.0	4.7	8.7

Provincial-dealer E is our provincial-dealer since 2019. It was established in the PRC in 2005 with a registered share capital of RMB3.0 million. It is principally engaged in trading of jewellery and accessories, art pieces, construction raw materials and other sundry supplies. Its ultimate controller is a merchant and an Independent Third Party. To the best of our Directors’ knowledge, it has no connection with our former employees. As of June 30, 2024, it was our provincial-dealer in Kunming.

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, the proportions of sales settled by traded-in gold by Provincial-dealer E were 79.4%, 41.8%, 36.0% and 34.7%, respectively.

The proportion of sales settled by traded-in gold by Provincial-dealer E in 2021 was higher than the overall trade-in proportion of the Group as a whole. This was largely due to the fact that (i) approximately 62.4% of the used gold traded-in by Provincial-dealer E in 2021 were of third-party brand, with more access to used gold of third-party brands from customers through its sales network, Provincial-dealer E may settle more of its sales with a higher volume of used gold it

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collected, leading to a higher proportion of sales settled through traded-in gold and (ii) Provincial-dealer E launched a promotional campaign with our Group in its region to promote the sales of gold products with a purity level of 999.99 in 2021, which we offered discount of crafting fees to Provincial-dealer E for trading-in used gold products of our own brand for our gold products of purity level of 999.99 with the intention to encourage end consumers to trade in used gold for such products in that region, which, in turn, led to the increase in the proportion of sales settled by traded-in gold by Provincial-dealer E. As a result, the percentage of sales settled with traded-in gold by Provincial-dealer E in 2021 was above the usual level.

Save for that in 2021, the proportion of sales settled by traded-in gold by Provincial-dealer E was generally in line with the overall proportion of settlement by traded-in gold by provincial-dealers and franchisees out of our total revenue generated from the sales of gold jewellery and other gold products, which amounted to 49.1%, 37.7%, 33.7% and 27.5% for the respective year/period.

Franchisee F

	Year ended December 31,			Six months ended June 30,
	2021	2022	2023	2024
Sales (RMB'000)	354,965	460,502	605,901	204,236
As a percentage to total revenue (%)	2.1	2.9	3.0	2.0
Gold trade-in (RMB'000)	263,571	285,555	396,415	138,607
As a percentage to total gold trade-in from franchisees and provincial-dealers (%) .	3.3	4.9	5.9	5.1
Gross profit (RMB'000)	11,734	14,899	24,314	5,013
Gross profit margin (%)	3.3	3.2	4.0	2.5

We commenced business relationship with the ultimate beneficial owner of Franchisee F since 2012. Franchisee F is a sole proprietorship established in 2018 which primarily engages in retail of jewellery products, and pieces and cosmetics, gold trade-in, and the production and maintenance of jewellery and accessories. Prior to the establishment of Franchisee F, we conducted business with its sole proprietor directly and/or other entities controlled by him/her. The sole proprietor of Franchisee F is an individual jewellery merchant and an Independent Third Party. To the best of our Directors' knowledge, it has no connection with our former employees. As of June 30, 2024, Franchisee F operated 20 franchise stores in total, including 13 franchise stores in Jilin, six franchise stores in Inner Mongolia and one franchise store in Heilongjiang.

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For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, the proportions of sales settled by gold trade-in by Franchisee F were 74.3%, 62.0%, 65.4% and 67.9%, respectively. The proportion of sales settled by gold trade-in by Franchisee F decreased from 74.3% in 2021 to 62.0% in 2022 due to our raised standard in accepting used gold in 2022, and such proportion remained stable at 65.4% for 2023 and 67.9% for the six months ended June 30, 2024.

The Directors believe that the proportion of sales settled by gold trade-in by Franchisee F was generally higher than the overall gold trade-in proportion of the Group as it has been operating several franchise stores in different provinces, and has built a strong customer base with a wider geographical coverage, thereby having access to more used gold from its customers and therefore settled sales with higher proportion of traded-in-gold.

Franchisee G

	For the year ended December 31,			For the six months ended
	2021	2022	2023	June 30, 2024
Sales (RMB'000)	153,828	136,436	168,283	97,835
As a percentage to total revenue (%)	0.9	0.9	0.8	1.0
Gold trade-in (RMB'000)	96,718	86,049	106,340	64,471
As a percentage to total gold trade-in from franchisees and provincial- dealers (%)	1.2	1.5	1.6	2.4
Gross profit (RMB'000)	3,285	4,756	5,270	2,855
Gross profit margin (%)	2.1	3.5	3.1	2.9

We commenced business relationship with the ultimate beneficial owner of Franchisee G since 2011. Franchisee G is a sole proprietorship established in 2020 and it primarily engages in the retail of jewellery and accessories. Prior to the establishment of Franchisee G, we conducted business with its sole proprietor directly and/or other entities controlled by him/her. The sole proprietor of Franchisee G is a jewellery merchant and an Independent Third Party. To the best of our Directors' knowledge, it has no connection with our former employees. As of June 30, 2024, Franchisee G operated nine franchise stores in Shandong province.

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Our sales to and our gold trade-in from these major overlapping customer and major gold trade-in parties were (i) entered into after the due consideration taking into account the prevailing market gold price at the relevant times, (ii) conducted in the ordinary course of business under normal commercial terms and on an arm’s length basis, and (iii) our gold trade-in policy applies to all our customers to request for gold trade-in settlement to offset part of their purchase price.

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, the proportions of sales settled by traded-in gold by Franchisee G has remained stable at 62.9%, 63.1%, 63.2% and 65.9%, respectively. There was a slight increase in the proportion of sales settled by traded-in gold by Franchisee G during the six months ended June 30, 2024 as it held the “One RMB Exchange” program in June 2024, which was a promotional event encouraging end consumers to conduct gold trade-in.

The Directors believe that the proportion of sales settled by gold trade-in by Franchisee G was generally higher than the overall gold trade-in proportion of the Group as it has been running several franchise stores and has developed a robust customer base, enabling Franchisee G to reach a larger group of end consumers, thus accessing and receiving more used gold. Accordingly, the proportion of sales settled by traded-in gold by Franchisee G has consistently been higher than the overall gold trade-in proportion of our Group as a whole.

RESEARCH AND DEVELOPMENT

We are committed to and have invested in the research and development of the gold processing techniques, the machinery required for the mass production of gold jewellery and jewellery designs. Backed by our solid research and development, we can independently mass-produce substantially all of our products.

As of June 30, 2024, our research and development department comprises approximately 100 members with average experience of approximately seven years in Company and led by Mr. Wang Zhongshan, our executive Director, our founder and chairman of our Board. Our R&D policy is to work closely and proactively with our sales and marketing department and production department to enhance our understanding of and ability to respond to consumers’ preferences while maintaining our cost of production at acceptable levels. We are constantly striving to enrich our research and development capabilities to stay at the forefront of the industry and we did not change our R&D policy in the last five years.

We made substantial investments in intellectual property and as of the Latest Practicable Date, we held 601 patents in the PRC. According to Frost & Sullivan, such number of patents held have exceeded the industry average, demonstrating our commitment to R&D on areas of gold purification technologies, machinery development and jewellery design.

We also implement strict control over our jewellery design and machinery development processes to mitigate the risk of intellectual property infringement and reduce the likelihood of unauthorized replication or imitation by competitors, thus preserving our distinctiveness and market position.

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Our Research and Development Emphasis

Our research and development centers around three key focuses: the (1) technology R&D; (2) machinery R&D; and (3) product R&D. The following table sets forth a summary of the three focuses of our research and development:

R&D Center					
Technology R&D	Machinery R&D	Product R&D			
<p>With our collaboration with strategic R&D parties, we continue to challenge the benchmark of gold purity.</p> <p>We have successfully developed series of products with gold purity of 999.9, 999.99 and 999.999.</p>	<p>We have been and continue to be committed to the automation and digitalized construction of gold jewellery processing.</p> <p>We have successfully developed equipment such as automatic beading machines, automatic welding machines, and automatic engraving machines, covering multiple product processes.</p>	<table border="1"> <tr> <td>Exhibition type</td> <td>Signature type</td> <td>Regular type</td> </tr> </table> <p>Our Jewellery design covers exhibition, signature and regular types, which are for products exhibition, for brand promotion and for daily wearing respectively.</p> <p>Our R&D team takes “people, regions, timeliness, and individual preferences” as the core design concept, emphasizing the harmonious coexistence of jewellery and people.</p>	Exhibition type	Signature type	Regular type
Exhibition type	Signature type	Regular type			

(a) R&D on technology

Our team of research and development personnel in high-precision technology is dedicated to improving our gold purification ability, optimizing jewellery processing technology, and enhancing production capabilities.

To further modernize our production process, we actively introduce new processing equipment, tools, molds, and other advanced technology. This ensures that we remain at the forefront of the industry and continue to provide customers with the highest quality products.

Our technology is developed based on the actual needs of our production.

- Firstly, we focus on improving gold purity to maintain our leading position in producing 999.9 high-purity gold jewellery in the industry.
- Secondly, while maintaining gold purity, we explore low-cost, high-efficiency, and high-quality processing technology to provide customers with value-for-money products.
- Thirdly, we proactively develop new production technology that emphasizes the “lightness (輕), craftsmanship (巧), refinement (精), and aesthetic (美)” of our products.

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In addition, by way of R&D, we achieved significant technical breakthrough in the production of high-purity gold jewellery products, including:

- We successfully developed an industry-leading cyanide-free process for producing 999.9 high purity gold, which prioritizes environmental protection and energy efficiency.
- We have adopted our patented technology of “autogenous welding” into our production process. This innovative technique allows us to achieve gold jewellery purity levels of up to 999.999. By minimizing the introduction of impurities during the welding process, we have improved quality issues include discoloration, detachment and wearer allergies. Our Directors are of the view that our technology fills a significant gap in the field of laser and electron beam welding for gold jewellery.
- According to Frost & Sullivan, in 2019, we became the first and one of the very few domestic enterprises with scaled production of 18K-gold spring clasps. Our efforts have resulted in the replacement of imported components with domestically produced ones, effectively reversing the prevailing industry trend of relying on overseas imports for mid-to-high end jewellery spring clasps in PRC, according to Frost & Sullivan.
- We have dedicated efforts in gold purity testing standards. For example, we have developed the “Gold Spectrum and Gold Chemical Standard Sampling,” applicable to the detection of high-purity gold with a gold content above 999.95. We have also taken the lead in the drafting of the “High Purity Gold Chemical Analysis Method for the Determination of Impurity Element Content in Ultra-Pure Gold by Glow Discharge Mass Spectrometry” (T/SDAS4-2016), which serves as a testing method for ultra-pure gold in the entire industry.

(b) *R&D on machinery*

Our R&D on machinery allows us to standardize complicated production procedures and achieve high precision automated mass-production of gold jewellery, thus allowing us to be one of the few gold jewellery brands that can independently manufacture and sell gold jewellery products, according to Frost & Sullivan. Our production facilities are equipped with advanced equipment, such as ICP color monitoring equipment, automated bracelet buckle processing equipment, thread knitting machines, CNC automated engraving machines, 3D metrology machine, and digitalized processing center. Our patented machinery include hydrangea engraving machine, hammer chain machine, machine tool for processing patterns on the surface of decorative chains, fully automatic four-axis engraving machine.

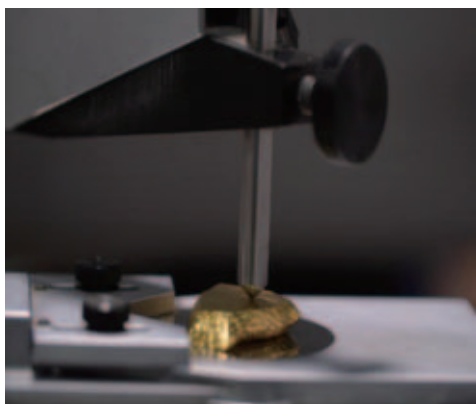
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To produce high-quality gold jewellery products with precision and efficiency, we have introduced/revamped imported industry-leading production equipment, including robotic arms for accessories flipping, automated carving machines, automatic butterfly chain punching machines, chain loosening machines, and automatic thin wall gold tube necking machine, and precisely calibrated these machinery to suit our production need. As a result of our R&D on machinery, we have developed approximately 300 sets of self-developed production equipment since 2020. Our proprietary equipment, combined with our use of 3D printing technology, CNC precision carving technology and high precision gold crafting techniques, have significantly improved the mechanization and automation of our production process.

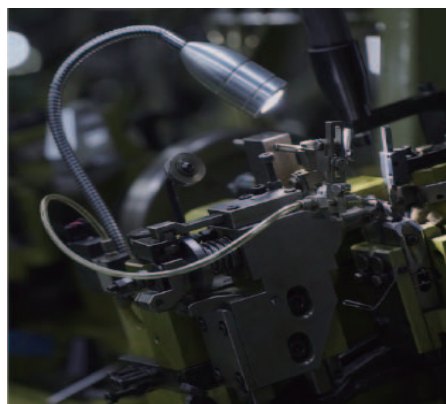
We believe our achievement in advancing our production machinery distinguishes us from gold jewellery brands which only focus on jewellery design but relies on gold external manufacturers or imported machinery for production. At the same time, backed with our solid research and development and proprietary machinery, we can actively fine tune our production process, self-improve our product quality, and provide production trial support to our jewellery design department.

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Photos: Our various production equipment



ICP color monitoring equipment



Automated bracelet buckle processing equipment



Thread knitting machines



CNC automated engraving machines



Three-dimensional metrology machine



Digitalized processing center

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(c) *R&D on products*

Our product portfolio encompasses a wide range of fine jewellery products, including rings, necklaces, pendants, bangles, earrings, brooches, bracelets, and more. This diverse range provides our customers with ample choices for different occasions, such as daily wear, weddings, and gifts for newborns.

We innovate to meet current market trends and satisfy the needs of different types of customers. Our design team creates hundreds of new jewellery designs every year. One of the most salient features of our products is that we employ the traditional technique of “gold and silver fine crafting” (金銀細工製作技藝) in our production process, which is an ancient jewellery crafting technique that was recognized as a Chinese intangible cultural heritage in 2008, combining with our patented technology of “autogenous welding” (無焊料焊接), we are committed to preserve Chinese cultural heritage and to showcase the beauty of traditional craftsmanship through our high quality gold jewellery.

With our broad online and offline sales channels and product portfolio, we can reach different customer segments and further penetrate the consumer markets. Our jewellery designers have participated in multiple jewellery design exhibitions, winning gold and silver awards in domestic competitions and other honors. We have attained some key recognitions as below:

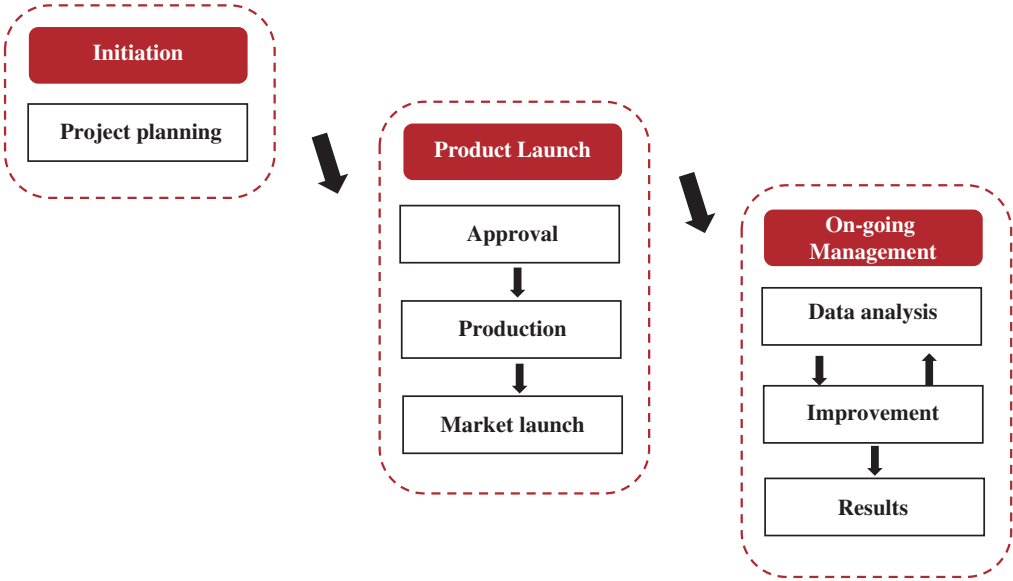
- in 2013, our gold jewellery crafting technique was shortlisted in the “Third Batch of Provincial Intangible Cultural Heritage of Shandong Province” (山東省第三批省級非物質文化遺產代表性項目名錄);
- in 2018, our founder Mr. Wang was named as one of the “Fifth Batch of Inheritors of Provincial Intangible Cultural Heritage of Shandong Province” (山東省第五批省級非遺項目傳承人名單) with the gold and silver fine crafting techniques;
- in 2022, we launched the “Five ‘9’s high purity gold product line” (五九億純金系列產品) finely crafted by our gold and silver fine crafting techniques”, which was subsequently recognized as one of the “Shandong handcrafts 100” (山東手造優選100); and
- in 2023, we collaborated with the Beijing Eight Imperial Handcrafts Association (北京燕京八絕協會), Beijing Eight Imperial Handcrafts Museum (北京燕京八絕博物館) and the inheritor of the Eight Imperial Handcrafts (燕京八絕傳承人) to develop new products combining the traditional filigree inlaying techniques with lacquerware carving (漆雕) and golden lacquer (金漆鑲嵌) to promote and raise awareness for Chinese intangible cultural heritage handcrafts.



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Equipped with such valued knowledge and engineered by our well-integrated design and production capability, we have been able to continuously innovate and broaden our jewellery portfolio. We continuously introduce new gold jewellery that emphasizes on the “lightness (輕), craftsmanship (巧), refinement (精), and aesthetic (美)” of our jewellery.

The following sets forth our procedures in jewellery design:



For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, our research and development expenses were RMB10.7 million, RMB13.5 million, RMB17.5 million and RMB11.3 million, respectively. Our research and development expenditure primarily includes staff costs of our R&D staff and consumables.

PRODUCTION

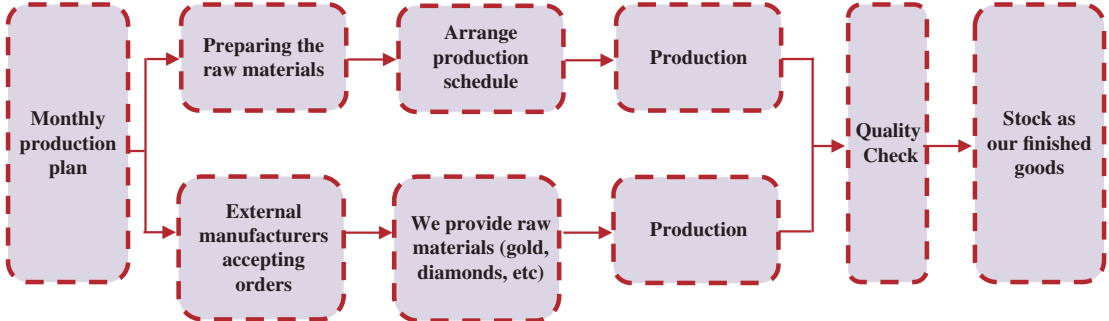
It had been our corporate strategy since our establishment to differentiate ourselves from other gold jewellery brands by possessing the ability to mass-produce with advanced equipment in the production phase. During the Track Record Period, we manufactured substantially all of our products sold, which far exceeds the self-production rate amongst our industry peers according to Frost & Sullivan.

We have invested in our hardware production facilities and introduced digitalized equipment to our production line, including CNC processing centers, high-precision wire electrical discharge machining, nine-axis engraving machines, and automatic laser welding machines. Such production capacity allows us to enhance the quality and efficiency of our gold jewellery production through better control of our production process from identifying the quality of raw materials used, adopting standardized quality control, and final product sample testing.

We place great emphasis on innovation and optimization in our production process and are committed to refining the technology utilized in mechanical processing, automation, and purification of raw materials, as well as mold-making. To achieve this goal, we have developed production lines that incorporate some of our self-developed patented production equipment with the aim of improving the efficiency, cost-effectiveness, and quality of our products.

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We adopt a production model in which we conduct purification and processing at our own self-owned production facility. However, for certain jewellery products which we believe is not commercial for us to produce on our own, we outsource the production to external manufacturers. During the Track Record Period, the cost of sales incurred for products produced by external manufacturers constitute a de minimis amount of our total cost of sales. According to Frost & Sullivan, during the Track Record Period, our self-production rate far exceeds that of our industry peers, which was approximately 20% during the same period. Our production process is summarized as below:



Production in our self-owned production facility

We emphasize on retaining our own in-house production capabilities and for better protecting our proprietary production know-how. Unlike competitors who rely on outsourcing the core production and crafting of gold jewellery to external parties, we maintain a competitive strength by fully controlling and executing the entire production process in-house. Such dedication gives us quality control over our finished goods, better keeping of proprietary production know-how and allows us to timely meet the demands of our customers. For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, our self-production rates for gold products were 96.8%, 97.8%, 89.9%, and 92.8%, respectively. During the same periods, our self-production rates for K-gold products were 92.3%, 92.8%, 99.8%, and 98.5%, respectively.

Our strength in production capability is fundamental to our ability to meet customer demands in an efficient matter. We treasure and maintain the intangible cultural heritage production techniques, that include the traditional technique of “gold and silver fine crafting” (金銀細工製作技藝) in our production process, which is an ancient jewellery crafting technique that was recognized as a Chinese intangible cultural heritage in 2008 and further enhanced our automated and digitized production capacity, including our patented technology of “autogenous welding”. In turn, we have constructed an efficient production chain, that is in close collaboration with our design team. We believe our manufacturing separates us from our peers and gives us an edge in a rather competitive market.

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Our production proportion breakdown and the economic benefit of production in our self-operated facilities

The following table sets forth the comparison of our costs incurred for production of gold products and K-gold products in our self-operated production facilities and through entrusting external OEMs during the Track Record Period:

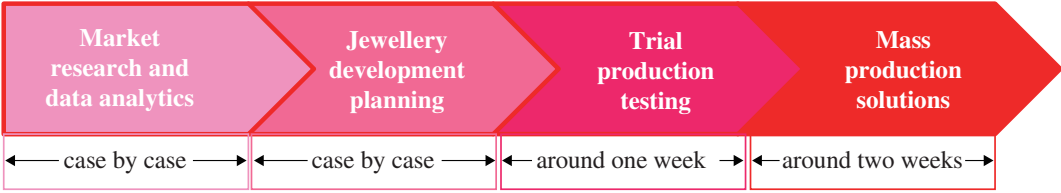
	Year ended December 31,									Six months ended June 30,		
	2021			2022			2023			2024		
	Weight of gold jewellery processed (kg)	Cost incurred (RMB'000)	Average cost per gram of gold jewellery processed (RMB/g)	Weight of gold jewellery processed (kg)	Cost incurred (RMB'000)	Average cost per gram of gold jewellery processed (RMB/g)	Weight of gold jewellery processed (kg)	Cost incurred (RMB'000)	Average cost per gram of gold jewellery processed (RMB/g)	Weight of gold jewellery processed (kg)	Cost incurred (RMB'000)	Average cost per gram of gold jewellery processed (RMB/g)
Gold products												
• Our self-operated production facilities	47,189.8	70,461	1.49	41,566.3	71,602	1.72	43,558.4	80,474	1.85	18,242.4	37,689	2.07
• External OEMs	1,544.9	10,813	7.00	933.1	6,291	6.74	4,919.4	35,277	7.17	1,411.3	10,126	7.17
K-gold products												
• Our self-operated production facilities	2,700.3	21,763	8.06	2,231.7	25,190	11.29	2,621.2	45,305	17.28	784.4	16,173	20.62
• External OEMs	225.8	4,841	21.46	174.1	3,519	20.22	5.1	127	24.64	11.8	305	25.83

The average costs per finished goods of production of gold jewellery in our self-operated production facilities were significantly lower than that of entrusting external OEMs. During the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, the average costs of production of gold products in our self-operated production facilities when compared to that of entrusting external OEMs were RMB5.5, RMB5.0, RMB5.3 and RMB5.1 cheaper per gram of gold jewellery processed; and the average costs of production of K-gold products in our self-operated production facilities when compared to that of entrusting external OEMs were RMB13.4, RMB8.9, RMB7.4 and RMB3.5 cheaper per gram of gold jewellery processed. Accordingly, with such costs difference, it is more economical for us to produce gold jewellery and K-gold products in our self-operated facilities, which offers us competitive advantages over competitors who outsource production to external OEMs. While our self-production volume increased in 2023, our self-production rate declined primarily due to the demands of our national franchisee sales conference held in 2023, which led to increased subcontracted production to fulfill the event’s product demand.

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(a) *Integration of design and production*

Our product development process is summarized as follows:



Market research and data analytics:

Our designers and technical personnel conduct market research through visiting our self-operated stores, franchise stores, and reaching out to our consumers. We also monitor the global fashion trend of gold and jewellery products and analyze customer satisfaction with our product quality while gathering feedback from customers.

Jewellery development planning:

Our jewellery development strategies are rooted in market research and data analytics, which provide us with valuable insights and ideas. To understand consumers’ preference across our various sales channels, we collect and analyze consumer data, including sales volumes and geographical distribution of local sales. This approach ensures that our jewellery meet the evolving needs and preferences of our customers while also reflecting the recent trends in the industry. Our design team collaborates closely with our production team, aiming to ensure that the final jewellery designs are not only aesthetically pleasing but also feasible for mass production.

Trial production testing:

Our production team conducts trial production testing for our new products. We initiate the process by analyzing and determining the production method and techniques to be employed. For jewellery casting, the preferred approach is to utilize 3D modeling for the trial production phase. Depending on the specific requirements, other production methods such as laser cutting, CNC, wire drawing with CNC, or engraving may be employed. These different methods and techniques are chosen based on the product design and desired outcome. We continuously refine the key parameters of our machine tools used in the production process and solve the problems and technical barriers encountered during the trial production process.

Mass production solutions:

Our production team then carries the experience gained in the trial production testing phase and develop it into new product mass production solutions. Our research and development department on machinery takes the lead in modifying and refurbishing our existing mechanical equipment to meet with the production need for our evolving new products.

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(b) *Purification of raw materials and high precision testing*

The production of high purity gold jewellery requires comprehensive capacity including procurement, refining, and gold purity-testing capabilities.

- In terms of procurement:
 - we are a special member of the Shanghai Gold Exchange and may directly purchase gold materials from the Shanghai Gold Exchange, thereby ensuring the quality of raw materials procured for production.
- In terms of gold purification:
 - we have developed our self-owned production facility currently with an annual gold purification capacity of approximately 30 tons.
 - Through an integrated production layout, we are capable of carrying our jewellery production processes using gold with purity levels of 999.9 to 999.99 refined by ourselves as raw materials.
 - We possess three invention patents for gold refinery, which can be applied for purified gold to 999.999 purity level.
- In terms of gold purity testing capabilities:
 - we have advanced testing equipment such as ICP (Inductively Coupled Plasma) emission spectrometry, ICP-MS (Inductively Coupled Plasma Mass Spectrometry), and spark direct-reading devices.
 - We have also drafted the “High-purity Gold Chemical Analysis Methods for Determination of Impurity Element Content in Ultra-Pure Gold by Glow Discharge Mass Spectrometry” (《高純金化學分析方法雜質元素含量的測定輝光放電質譜法》) (T/SDAS4-2016), which provides the testing basis for detection of gold purity level in ultra-high purity gold.
 - Through these self-developed technologies, we are able to constantly monitor the quality and gold purity level of our gold jewellery products, which in turn, equips us with the appropriate technologies to ensure strict quality control over our gold jewellery.

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(c) *Production facilities and mold development and production*

We have an advanced production facilities capable of automated crafting, and we utilize cutting-edge technology to achieve multi-dimensional product innovation. The application of 3D printing technology on mold development enables us to quickly respond to the personalized needs of the market, solve the problems that conventional technology cannot break through, and create a flexible supply chain. The introduction of CNC (雕刻技術) machineries to the production process enables us to process complex surfaces of fine jewellery that are difficult to process using conventional methods. In addition, with our advanced technology on hard gold processing, we had created high-purity hard gold jewellery that possess the stiffness of not less than 60 HV scale.

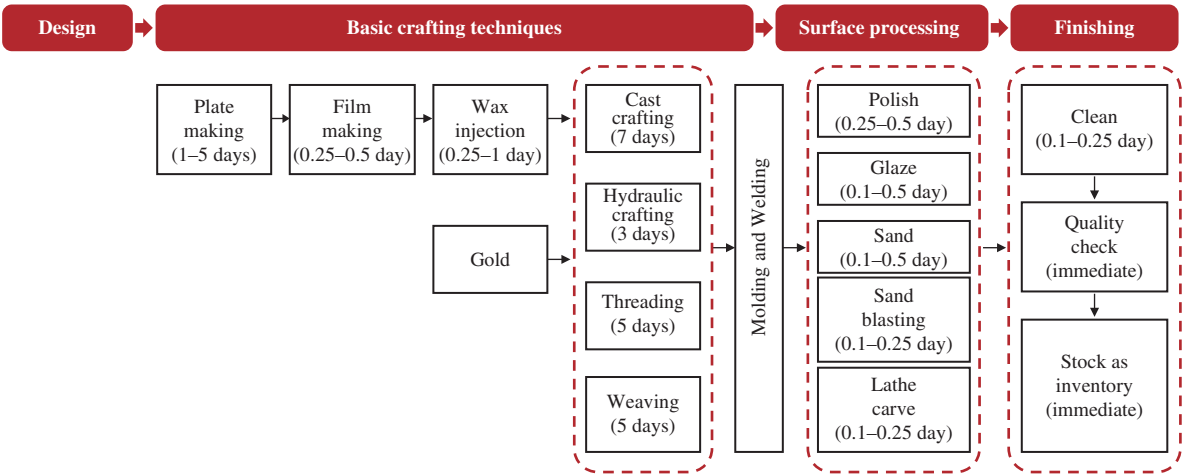
We possess advanced automated production equipment and techniques in a modern and digitalized production chain for the production of high-quality gold jewellery. Through independent operation and patent transfer, we believe we have further advanced the gold jewellery industry by introducing mass-produced yet delicate gold jewellery.

For instance, the production of gold jewellery and bracelet components requires high levels of mass production capacities in terms of available molds and existing production equipment. Due to the high precision requirements of gold jewellery and bracelet components, ordinary molds often fall short of meeting the criteria in terms of purity. However, we possess the ability to produce high-precision molds using industrial 3D printers and other technologies. This allows us to shorten the time required for mold-making to a few hours, which could have taken a few days when using a traditional mold-making production model.

We have also effectively improved production efficiency and precision in our jewellery craftsmanship. For example, high-precision wax films produced by 3D printing can be cast into jewellery for direct polishing, forming part of the final product. This speeds up our production time, in particular for gold jewellery with complex structure and helps us meet the efficiency requirements for and minimize raw material waste during the mass production.

BUSINESS

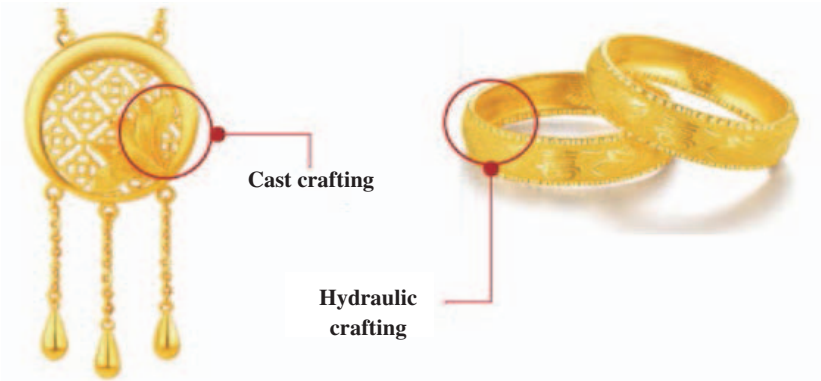
The production process of our major products is summarized and illustrated in the diagram below:



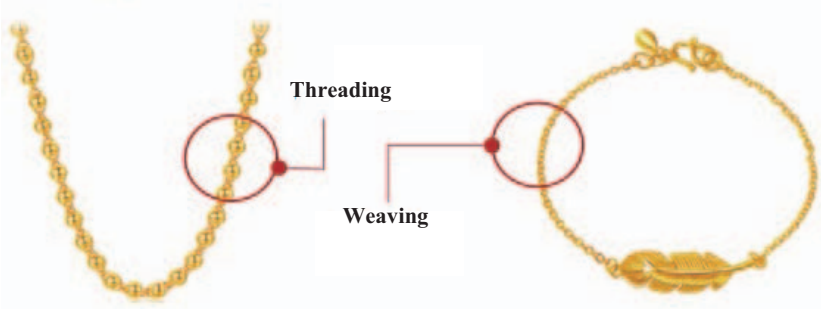
i. *Processing of gold and K-gold jewellery*

The major production processes of gold and K-gold jewellery are largely similar, with slight differences in production process depending on the jewellery type. The processing of gold and K-gold jewellery mainly includes four basic procedures : cast crafting (澆鑄), hydraulic crafting (油壓), threading (抽絲), and weaving (機織). Based on specific design requirements of the final jewellery, different surface treatments will be applied to the semi-finished jewellery and will be stored and shipped.

The four major processing types can be manifested in the final jewellery as shown below:

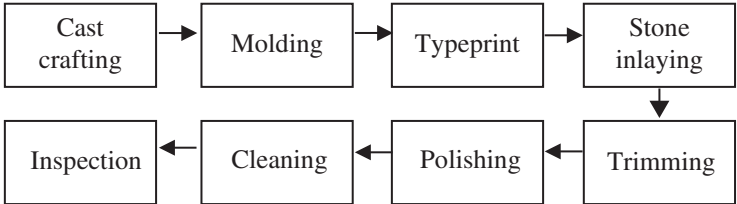


BUSINESS



ii. *Production of diamond inlaying jewellery*

Our diamond inlaying products are primarily gold bracelets decorated with diamonds. After crafting the gold jewellery with the aforementioned process, we will proceed with inlaying diamond on top of the gold bracelets. The diamond inlaying process is set out in the flowchart below:



(d) *Digitalized production of gold jewellery*

We have incorporated high-precision, automated, and digitalized machinery into the production process of gold jewellery, forming an automated and digitalized production chain from design to processing and sales of gold jewellery. Our effort in incorporating traditional crafting techniques into digitalized machinery not only preserves the intangible cultural heritage production process of gold and silver fine crafting but also integrates these techniques into an industrialized and high-precision production mode.

We research on and develop machinery, revamp our imported equipment and adopt digitalized production of gold jewellery to ensure:

1. *Efficiency and Precision:* Our advanced production systems adopts a high level of digitalization and automation, including computer-aided design (CAD) and computer-aided manufacturing (CAM), enable precise and accurate jewellery designs. These technologies eliminate the need for manual drafting and handcrafted models, reducing the likelihood of errors and enhancing the overall efficiency of the production process. It also enables us to track, monitor, control, and optimize the end-to-end production processes on a real-time basis, from planning and scheduling to procurement and warehousing, and from production to finished goods transporting. Our automated warehousing enables us to enhance operational efficiency.

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2. *Faster time-to-market:* our mold creation know-how allows for faster prototyping and production cycles. Designs can be created, modified, and tested digitally, reducing the time required for traditional manual processes. This enables us to bring new jewellery designs to market more quickly, staying ahead of trends and meeting consumer demands in a timely manner.
3. *Customization and personalization:* With our advanced digital tools, it becomes easier to offer customization and personalized jewellery options to consumers. Design software allows for the creation of unique designs tailored to individual preferences, enabling a more personalized purchasing experience. This capability enhances consumer satisfaction and increases our competitive advantage.
4. *Cost savings:* Computer simulations can be used to optimize material usage and reduce waste. Additionally, automation and robotics can be incorporated into the production line, streamlining operations and reducing labor costs. Overall, digitalized production can improve our cost efficiency and profitability.
5. *Scalability and flexibility:* Our production systems are inherently scalable and flexible. They allow for easy replication of designs and scaling up production volumes as needed. Digital files of jewellery designs and crafting techniques can be stored and retrieved easily, eliminating the need for physical inventory and reducing storage costs. It also eliminates human error and flaws in crafting the desired design patterns. This scalability and flexibility enable us to efficiently manage production volume fluctuations.

Our ultimate goal in adopting digitalized manufacturing is to accommodate the rising trend of large-scale commercial customization of gold jewellery, including increased efficiency, faster time-to-market, customization capabilities, cost optimization and scalability. As PRC’s consumption trend shifts towards personalized and diversified consumption needs according to Frost & Sullivan, we aim to meet this demand by developing processing machinery and molds according to production needs. Our digitalized flexible production allows us to modify our processing equipment and processes quickly, adapt to different production models, and cater to different product needs and design requirements. This agility enables us to respond quickly to market demand and improve the competitiveness of our products.

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(e) *Production Capacity*

The following table sets out the optimal production capacity and the actual production volume of our gold jewellery products in our production facility during the year/period indicated:

	Year ended December 31,			Six months
	2021	2022	2023	ended June 30, 2024
Actual production volume of gold jewellery products (kg) ^{(1) and (2)}	47,190	41,566	43,558	18,242
Optimal production capacity of gold jewellery products (kg) ^{(2) and (4)}	50,000	50,000	50,000 ⁽⁵⁾	25,000
Utilization rate ⁽³⁾	94.4%	83.1%	87.1%	73.0%

Notes:

- (1) Our production scale is flexible depending on factors such as workforce, work hours and equipment. Our optimal production capacity is calculated based on the optimal hourly production rate of various machines and the workforce available operating 12 hours a day for 330 working days a year (not including time spent on production line upgrade or adjustment).
- (2) Production volume refers to actual output for the relevant year/period.
- (3) The utilization rate is calculated by dividing the actual production volume of gold jewellery products by the optimal production capacity of gold jewellery products for the same year/period.
- (4) The optimal production capacity are adjusted by the duration of the reporting period (i.e. 50% production capacity for six months period).
- (5) Despite the relocation of our production facilities, our optimal production capacity of gold jewellery remained the same as we maintained our previous production lines.

The lower utilization rate for the year ended December 31, 2022, was primarily attributed to a significant number of our employees diagnosed with COVID-19 in the fourth quarter of 2022, which in turn were stemmed from measures implemented to control the most recent pandemic. It was in line with our relatively lower sales volume of gold jewellery products during the same year. The lower utilization rate for the six months ended June 30, 2024 was mainly attributed to a slower sales, whereby our sales volume decreased by 10.4% for the six months ended June 30, 2024 when compared to the same period in 2023. Our sales volume decrease was generally in line with (and slightly better than) that of the industry, which observed a period-to-period decrease of 26.7%. For the three months ended September 30, 2024, our utilization rate was 90.8%. The increase in our utilization rate for the three months ended September 30, 2024 was primarily due to the increase in demand for our products during the “One RMB Exchange” promotion.

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The following table sets forth the purification capacity and utilization rate of our purification facilities during the years/period indicated:

	Year ended December 31,			Six months
	2021	2022	2023	ended June 30, 2024
Actual volume of gold purified (kg) ⁽¹⁾	13,702	7,577	6,270	7,246
Optimal purification capacity (kg)	30,000	30,000	30,000	15,000
Utilization rate ⁽²⁾	45.7%	25.3%	20.9%	48.3%

Notes:

- (1) The actual volume of gold purified decreased from 13,702 kg in 2021 to 7,577 kg in 2022, and then to 6,270 kg in 2023. This decline aligns with the decreasing trend in the weight of gold trade-ins we received during the Track Record Period. The actual volume of gold purified increased to 7,246 kg and the utilization rate for our purification facilities increased to 48.3% for the six months ended June 30, 2024 mainly because we increased the proportion of gold products of 999.99 purity level in our product mix. The gold raw materials we procured from Shanghai Gold Exchange were of purity level of 999.9 such raw materials, together with the gold jewellery products of purity level of 999.9 or above we collected from customers and/or end-consumers through gold trade-in, can be used directly for production without purification when we produce gold products of 999.9 purity level. Since we adjusted our product mix in 2024 to increase the proportion of gold products of 999.99 purity level, all raw materials we procured from Shanghai Gold Exchange and used gold of purity level less than 999.99 were required to be refined for production of such product. Accordingly, the volume of gold purified for the six months ended June 30, 2024 increased.
- (2) The utilization rate is calculated by dividing the actual volume of gold purified by the optimal purification capacity for the same year/period.

Production Expansion Plan

In order to further elevate our production capabilities, we plan to upgrade our existing production facilities in Changle County, Weifang City, Shandong Province, the PRC. We follow several key steps in upgrading our production facilities, namely (i) engineering and construction preparation, (ii) equipment sourcing, (iii) equipment installation, (iv) staff training, (v) equipment testing, and (vi) pilot operation.

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The table below sets forth the details of our estimated capital expenditure, additional planned annual production capacity and expected timeline of our intended production expansion plan.

<u>Location of intended expansion</u>	<u>Key products</u>	<u>Estimated capital expenditure (RMB'000)</u>	<u>[REDACTED] from the [REDACTED] to be applied (RMB'000)</u>	<u>Expected timeline of completing operation</u>
Economic and Technological Development Zone in Changle County, Weifang City, Shandong Province, the PRC	Gold jewellery and K-gold products and spring clasps	[REDACTED]	[REDACTED]	February 2026

Production Expansion Descriptions

We intend to upgrade our production facilities with a total estimated investment amount of approximately RMB[REDACTED] million, which operations have already been commenced since March 2019. With the completion of the upgrade, we expect to see an increase in our annual production capacity of (1) gold jewellery and K-gold products and (2) spring clasps by approximately 30 tons each. The expected investment payback period for the upgrade of our production facilities is 11.6 years commencing from 2022. Investment payback period refers to the time needed for the net profits after tax generated from operating the upgraded production facilities to equate the total costs paid for upgrading the production facilities.

In order to maximize our production expansion plan and fully utilize our newly constructed major production workshop, we plan to purchase the manufacturing equipment, as following:

<u>Manufacturing equipment</u>	<u>Total cost</u>	<u>Quantity of equipment to procure</u>	<u>Unit Price</u>	<u>Function of the equipment</u>
CNC Gold Product Processing Machine (CNC金飾品加工中心機) ⁽¹⁾	RMB[REDACTED]	Two units	RMB[REDACTED]	Used for engraving and milling complex patterns and textures on gold product
Single-Spindle Automatic Tool-Change Five-Axis Engraving Machine (單主軸自動換刀快速車花雕銑五軸機) ⁽¹⁾	RMB[REDACTED]	Three units	RMB[REDACTED]	A single-spindle engraving machine for gold jewellery, suitable for processing gold at few positions

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<u>Manufacturing equipment</u>	<u>Total cost</u>	<u>Quantity of equipment to procure</u>	<u>Unit Price</u>	<u>Function of the equipment</u>
Film Chain Weaving Machine (菲林鏈織鏈機) ⁽¹⁾	RMB[REDACTED]	Three units	RMB[REDACTED]	For the production and assembly of blanks, with arrangement for laser welding
Sewage Treatment Equipment ⁽²⁾	RMB[REDACTED]	One set	RMB[REDACTED]	Used to treat wastewater generated during the production of gold jewellery and K-gold products

Notes:

- (1) We plan to procure two sets of CNC gold product processing machines, three units of single-spindle automatic tool-change five-axis engraving machines, and three units of film chain weaving machines to meet our gold jewellery production needs. With enhanced production capacity, we aim to: (i) ensure the quality of our products; (ii) enhance the efficiency of our production processes and labor; (iii) ensure on-time production and delivery of our products; (iv) accommodate urgent and/or bulk orders received from time to time; and (v) achieve optimal usage and maintenance of our production machinery and equipment.
- (2) We have sewage treatment equipment in our manufacturing facility in Changle. We plan to procure one additional set of sewage treatment equipment for our major production facilities to treat wastewater based on our future expansion needs.

Reasons for Production Expansion

We develop our production expansion plans based on, among other things: (i) estimated supply and demand for relevant products; (ii) prevailing and anticipated prices for relevant products; (iii) utilization of existing manufacturing facilities and feasibility for expanding existing facilities; (iv) estimated cost of development; and (v) availability and cost of capital resources. Our production expansion plan is primarily based on our understandings of business plans, product planning, potential demands for existing and new products and expected customers’ needs in the coming years.

We are confident in the viability of our expansion plan, supported by the below factors.

BUSINESS

During the Track Record Period, despite a slight decrease in revenue for the year ended December 31, 2022, attributable to the impact of the pandemic, our overall revenue demonstrated an upward trend. Our revenue increased from RMB16,871.0 million for the year ended December 31, 2021 to RMB20,208.6 million for the year ended December 31, 2023, indicating a positive outlook for our expansion plan.

With our substantial investment in upgrading of production facility, we are well-positioned to meet customer demand and support our rapid business growth. There is no guarantee that any of the expansion projects will proceed as planned. We remain open to investing in additional expansion projects as we continue to expand our business and capitalize on market opportunities.

(f) *Production machinery and equipment*

During the Track Record Period, our production machinery and equipment were mainly purchased in the PRC or self-developed. The table below sets forth the details of on our major machinery and equipment as of June 30, 2024:

<u>Type of machinery/ equipment</u>	<u>Principal functions</u>	<u>Units</u>	<u>Approximate average age (year)⁽¹⁾</u>	<u>Approximate average remaining useful lives (year)⁽²⁾</u>
Spring clasps production equipment	manufacture spring clasps	175	10	8.7
Turning and milling compound CNC processing centers	processing high-end precision shaped molds and equipment parts	1	10	6.9
Five-axis CNC processing centers	machining of complex molds and equipment parts shapes	1	10	6.9
Tablet press machine	rolled precious metal sheets for efficient supply of high quality sheets for stamped fittings and spring-buttoned tubes	1	10	8.1
Coordinate machine for metrology	measurement of workpiece dimensions and data inspection of machined workpieces	1	10	8.4

Notes:

- (1) The average age of the machinery and equipment is calculated based on the total time since the machineries or equipments of the same category had been put into use divided by the number of units of the machinery or equipment.
- (2) The remaining useful life of the machinery is calculated based on the estimated useful life deducted the average age of the machinery.

We adopt the straight line method to recognize the depreciation of our machinery and equipment.

BUSINESS

Outsourcing to external manufacturers

We carry out substantially all of the high-purity gold processing and jewellery design and production process ourselves. However, we also engage external manufacturers to produce gold jewellery and diamond products. As confirmed by our Directors, during the Track Record Period, all the external manufacturers engaged by us were Independent Third Parties.

When outsourcing our production, we provide external manufacturers with major raw materials such as gold and/or diamonds and pays auxiliary material costs and processing fees to external manufacturers. We have worked with some of these external manufacturers for around two to five years. We have not entered into any long-term contract with these external manufacturers and services are provided on an as required basis. Each invoice for the work to be done will specify, among other things, a description of the product, weight of the product, cost and the work required to be done. The fee payable to these external manufacturers is calculated based on the type and amount of products processed.

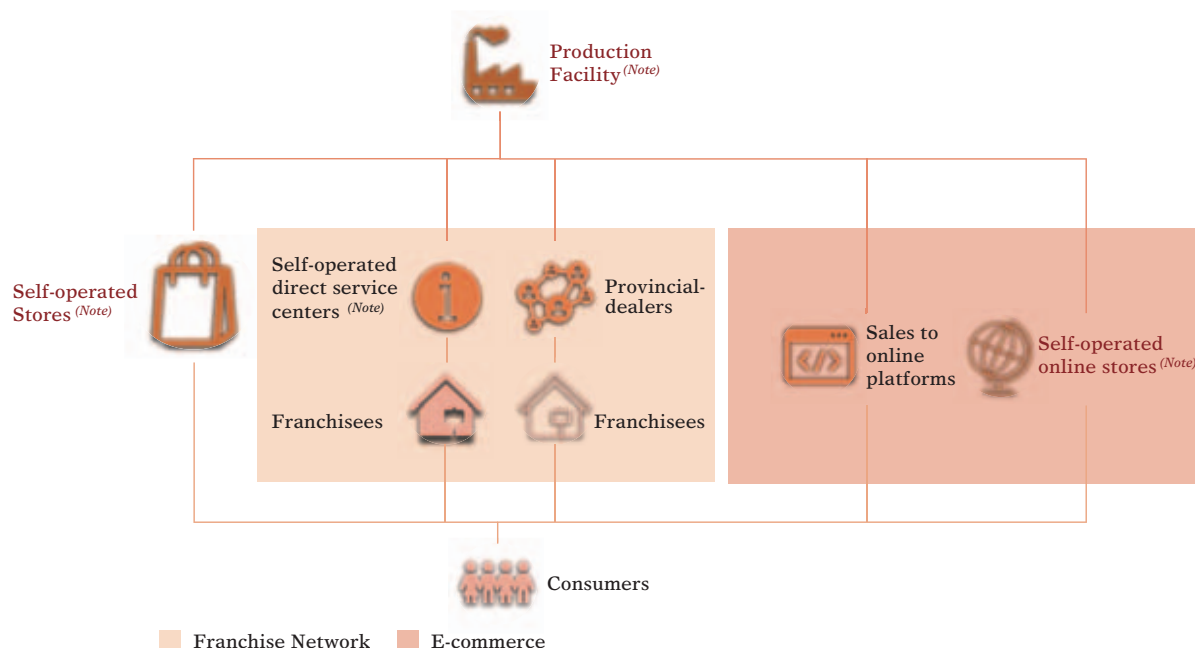
Our stable cooperation with external manufacturer effectively enhances our production capacity and enriches our product portfolio. According to our internal policy, we have developed detailed and comprehensive evaluation criteria in selecting external manufacturers, under which we will consider external manufacturers’ industrial capabilities, reputation, technical skills, design and research capabilities, and quotations when choosing appropriate external manufacturers. We will review the qualifications of our existing external manufacturers on annual basis.

During the Track Record Period, the cost of sales incurred for products produced by external manufacturers constituted a de minimis amount of total cost of sales. For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, our outsourcing rates for gold products were 3.2%, 2.2%, 10.1%, and 7.2%, respectively. During the same periods, our outsourcing rates for K-gold products were 7.7%, 7.2%, 0.2%, and 1.5%, respectively.

BUSINESS

SALES AND DISTRIBUTION CHANNELS

As of June 30, 2024, we had established a franchise network covering 2,850 franchise stores, operated by 1,670 franchisees, seven self-operated direct service centers and 17 provincial-dealers, as well as 36 self-operated stores and online stores on major e-commerce platforms in our consumer network. For further information, see “— franchisees and provincial-dealers management”. The following diagram illustrates our goods flow in our distribution channels.



Note: Our Group’s in-house operation.

Revenue by Distribution Channels

The following table sets forth the breakdown of our revenue by distribution channels during the Track Record Period:

	Year ended December 31,						Six months ended June 30,			
	2021		2022		2023		2023		2024	
	Revenue	Percentage of revenue	Revenue	Percentage of revenue	Revenue	Percentage of revenue	Revenue	Percentage of revenue	Revenue	Percentage of revenue
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Franchise network	14,772,630	87.6	14,836,284	94.4	18,923,195	93.7	8,851,440	95.1	8,207,527	82.3
— Franchisees	9,409,225	55.8	9,629,142	61.3	12,273,776	60.8	5,906,356	63.5	5,755,003	57.7
— Provincial-dealers	5,363,405	31.8	5,207,142	33.1	6,649,419	32.9	2,945,084	31.6	2,452,524	24.6
E-commerce sales	1,608,263	9.5	364,473	2.3	750,705	3.7	172,095	1.8	1,318,687	13.2
— Self-operated online stores	79,108	0.5	233,641	1.5	651,431	3.2	118,279	1.3	412,632	4.1
— Sales to platform	1,529,155	9.0	130,832	0.8	99,274	0.5	53,816	0.5	906,055	9.1
Self-operated stores	356,146	2.1	366,488	2.3	412,216	2.0	226,708	2.4	200,108	2.0
Others ^(Note 1)	133,961	0.8	156,970	1.0	122,483	0.6	65,970	0.7	253,422	2.5
Total	16,871,000	100.0	15,724,215	100.0	20,208,599	100.0	9,316,213	100.0	9,979,744	100.0

BUSINESS

Note:

- (1) Others include sales in relation to subcontracting production for independent third party and tailor-made products for specific customers.

From 2021 to 2023, our revenue from franchise network generally increased mainly as a result of the growth in our direct sales to franchisees through our direct service centers. While for the six months ended June 30, 2024, revenue from our franchise network generally decreased when compared to the same period in 2023 as consumer sentiments were affected by the economic condition and gold price in general.

Our revenue from e-commerce sales fluctuated during the Track Record Period. While e-commerce sales through our self-operated online stores generally increased during the Track Record Period, our e-commerce sales to platforms fluctuated in correlation to demand from online platforms in accordance to such platform’s promotion events during the same period. In particular, our revenue from e-commerce sales increased materially in 2021 and for the six months ended June 30, 2024 because of our sales of gold bullion to a leading PRC online discount retailer, Vipshop, for their promotion events during the respective year/period.

Our revenue from self-operated stores generally increased during the Track Record Period, while our revenue from others sales channel fluctuated based on (i) the demand for subcontracted production from independent third parties, (ii) our tailor-make products for specific customers and (iii) sales of gold raw materials to an Independent Third-Party.

For further details, please see “Financial Information — Description of Selected Items in the Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue — Revenue breakdown by distribution channels”.

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Key Operating Metrics

The following tables set forth certain key operating metrics as of the dates or for the years/as of the period indicated:

	Year ended/As of December 31,			Six months ended/ As of June 30,
	2021	2022	2023	2024
Distribution channel				
Number of franchisees at the end of year/period	1,721	1,704	1,687	1,670
Number of franchise stores as of the end of the year/period	2,680	2,743	2,817	2,850
Number of self-operated stores as of the end of the year/period	31	32	35	36
Number of direct service center as of the end of the year/period	7	7	7	7
Number of provincial-dealers as of the end of the year/period	17	17	17	17
Number of e-commerce platforms as of the end of the year/period	10	13	12	12
Procurement of gold as raw material for production				
Total material costs (RMB'000)	16,182,592	14,817,208	18,916,211	9,254,701
Amount of gold obtained from the Shanghai Gold Exchange (kg)				
• Direct procurement	23,027.1	23,480.1	30,325.5	13,357.8
• Gold loans obtained from commercial banks	1,795.0	1,390.0	1,589.0	730.0
Gold trade-in amount (kg)	24,766.4	17,158.4	16,987.7	5,969.5
Total sources of gold (kg)	49,588.5	42,028.5	48,902.2	20,057.3
Details for gold trade-in arrangement				
Number of franchisees conducted gold trade-in with us during the year/period	753	727	692	729
Consideration settled by gold trade-in during the year/period (RMB'000)				
• Consumers from our self-operated stores	111,028.5	96,690.5	114,025.5	58,937.9
• Franchise stores	5,005,506.0	3,870,742.1	4,549,877.9	2,039,239.9
• Provincial-dealers	3,072,306.8	1,926,673.4	2,142,820.2	661,843.5
Total consideration settled by gold trade-in during the year/period (RMB'000)	8,188,841.3	5,894,106.0	6,806,723.6	2,760,021.3
Our production capacity				
Actual production volume of gold jewellery products during the year/period (kg) ^(Note 4)	47,190	41,566	43,558	18,242
Optimal production capacity of gold jewellery products during the year/period (kg) ^(Note 5)	50,000	50,000	50,000	25,000
Utilization rate of our production capacity during the year/period (%) ^(Note 1)	94.4	83.1	87.1	73.0
Our purification capacity				
Actual volume of gold purified (kg) ^(Note 2)	13,702	7,577	6,270	7,246
Optimal purification capacity (kg)	30,000	30,000	30,000	15,000
Utilization rate of our purification capacity during the year/period (%) ^(Note 3)	45.7%	25.3%	20.9%	48.3%

Notes:

- The utilization rate of production capacity is calculated by dividing the actual production volume of gold jewellery products by the optimal production capacity of gold jewellery products for the same period. The lower utilization rate for the six months ended June 30, 2024 primarily resulted from slower sales as our sales volume decreased by approximately 10.4% compared to the six months ended June 30, 2023. Our sales volume decrease was generally in line with (and slightly better than) that of the industry, which observed a period-to-period decrease of 26.7%. For the three months ended September 30, 2024, our utilization rate was 90.8%, the increase in our utilization rate for the three months ended September 30, 2024 was primarily due to the increase in demand for our products during the “One RMB Exchange” promotion.
- The actual volume of gold purified decreased from 13,702 kg in 2021 to 7,577 kg in 2022, and then to 6,270 kg in 2023. This decline aligns with the decreasing trend in the weight of gold trade-ins we received during the Track Record Period. The actual volume of gold purified increased to 7,246 kg and the utilization rate for our purification facilities increased to 48.3% for the six months ended June 30, 2024 mainly because we increased the proportion of gold products of 999.99 purity level in our product mix. The gold raw materials we procured from Shanghai Gold Exchange were of purity level of 999.9 such raw materials, together with the gold jewellery products of purity level of 999.9 or above we collected from customers and/or end-consumers through gold trade-in, can be used directly for production without purification when we produce gold products of 999.9 purity level. Since we adjusted our product mix in 2024 to increase the proportion of gold products of 999.99 purity level, all raw materials we procured from Shanghai Gold Exchange and used gold of purity level less than 999.99 were required to be refined for production of such product. Accordingly, the volume of gold purified for the six months ended June 30, 2024 increased.
- The utilization rate of purification capacity is calculated by dividing the actual volume of gold purified by the optimal purification capacity for the same year/period.
- Production volume refers to actual output for the relevant year/period.
- Our optimal production capacity is calculated based on the optimal hourly production rate of various machines and the workforce available operating 12 hours a day for 330 working days a year (not including time spent on production line upgrade or adjustment).

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Our Franchise Network

Our franchise network comprises two channels, namely: (i) through our self-operated direct service centers and then through franchisees and (ii) through provincial-dealers and then through franchisees. Given consumer mobility, there are instances where consumers make overlapping purchases at our franchisees and self-operated stores as they travel to different regions/markets. In order to mitigate the competition between franchisees and our self-operated stores, when considering an application for new franchisee and/or establishing a self-operated store, we analyze the market demand of the particular region/market and take into consideration of the density of existing franchise stores and/or self-operated stores in the relevant area/region. According to the terms of our standard franchise agreement, our prior approval must be obtained before any franchisee set-up additional franchise stores and/or counters to sell our products. Such measured expansion plan also minimizes the potential competition between franchisees and/or between franchisees and self-operated stores in that region/market. In addition, we issue pricing guidelines for our products to franchisees to avoid potential price competition between franchisees and our self-operated stores. Furthermore, according to the terms in our standard franchise agreement, if it comes to our knowledge that a franchisee engaged in unauthorized cross-region sales, we will be entitled to terminate the franchisee agreement with the relevant franchisee, which helps ensure that we can exert sufficient supervision over competition among our franchisees. As advised by Frost & Sullivan, the two channels franchise network structure adopted by us was in line with market norm.

Self-operated direct service centers and franchisees

- The self-operated direct service centers are operated by us.
- The self-operated direct service centers receive products from our production facilities, showcase our products and allow franchisees to purchase such products from them.
- Our self-operated direct service centers only sell to franchisees and do not sell directly to consumers.

Provincial-dealers and franchisees

- Different from our self-operated direct service centers, our provincial-dealers operate their own centers and are independent from our operations.
- Similar to our self-operated direct service centers, they showcase our products and allow franchisees to purchase such products from them.
- Except for provincial-dealers who also own franchise stores (in which case they could be selling directly to consumers), our provincial-dealers only sell to franchisees and do not sell directly to consumers.

Apart from holding exhibition event and selling to franchisees, provincial-dealers serve a business administrative purpose for assisting us on franchise store management. Apart from our franchise network, we also offer our products through self-operated stores and online stores on e-commerce platforms.

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Industry Norm/Market Practice

According to Frost & Sullivan:

- It is common for gold jewellery companies to adopt a franchise network in the industry, whereby a franchise is a type of license that grants franchisees access to a franchisor’s proprietary business knowledge, processes, and trademarks to sell products or services under the franchisor’s business name.
- The reasons for using a franchise model are that it can help the franchisor save costs, adapt to local market conditions, improve brand awareness, and expand rapidly while ensuring the consistency of operations across various stores.

We focus on sales through franchise network even though the gross profit margin for selling to the franchise network is substantially lower than that of self-operated stores, as we have taken into account the following factors:

- (i) We efficiently expanded our network through franchisees, who bore the initial costs for setting up stores, including obtaining premises, staff hiring, store decoration, purchasing gold jewellery, and managing franchise stores. In contrast, in the case of setting up our self-operated stores, the aforementioned initial costs for setting up a store were borne by us with our own capital. The franchise model provides an asset-light and cost-effective means of expanding our store network and geographical coverage;
- (ii) Our local franchise stores have a good understanding of local consumer preferences. Based on such market knowledge, they can order products based on the local consumer taste and implement marketing strategies that cater to their market, which in turn, we believe, enhance our consumers’ shopping experience. We believe that our franchise network helps us capture the growth potential of our targeted markets and deepen our market penetration; and
- (iii) Our business strategy and market positioning have been focused on being an OBM in the PRC since our inception. We are committed to nurturing and strengthening an integrated operation that encompasses the key stages of the gold jewellery industry, including R&D, production and sales network, rather than solely focusing on operating our own retail stores network.

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Well-established Market Position in Third and Lower Tier Cities in the PRC

We have a well-established market position in third and lower tier cities in the PRC, which are markets with high growth potential according to Frost & Sullivan. Our sales network positions us well to deepen our market penetration in these untapped markets. We have strategically focused on markets in third and lower-tier cities in China. Meanwhile, we engaged our franchisees opening franchise stores in provincial capitals with the intention to enhance our brand’s recognition within the province, which in turn supports development in third and lower-tier cities. As these provincial capitals are mostly second-tier cities, we also generate a significant portion of our revenue from such tiered cities. The following table sets forth the breakdown of our revenue derived from (i) franchise network from provincial-dealers and franchisees; and (ii) self-operated stores by tiers of cities during the Track Record Period:

Franchise network

	Year ended December 31,						Six months ended June 30,			
	2021		2022		2023		2023		2024	
	Revenue	Percentage of revenue	Revenue	Percentage of revenue	Revenue	Percentage of revenue	Revenue	Percentage of revenue	Revenue	Percentage of revenue
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Revenue from sales to provincial-dealers	5,363,405	31.8	5,207,142	33.1	6,649,419	32.9	2,945,084	31.6	2,452,524	24.6
Revenue from sales to franchisees	9,409,225	55.8	9,629,142	61.3	12,273,776	60.8	5,906,356	63.5	5,755,003	57.7
— Tier 1 cities	75,920	0.5	77,478	0.6	118,722	0.6	48,161	0.6	53,336	0.5
— Tier 2 cities	3,088,026	18.3	3,055,976	19.4	3,887,350	19.2	1,876,688	20.2	1,988,767	20.0
— Tier 3 cities	3,747,082	22.2	3,765,410	23.9	4,775,933	23.6	2,340,790	25.1	2,225,213	22.3
— Tier 4 and lower cities	2,498,197	14.8	2,730,278	17.4	3,491,771	17.4	1,640,717	17.6	1,487,687	14.9
Total:	14,772,630	87.6	14,836,284	94.4	18,923,195	93.7	8,851,440	95.1	8,207,527	82.3

Self-operated stores

	Year ended December 31,						Six months ended June 30,			
	2021		2022		2023		2023		2024	
	Revenue	Percentage of revenue	Revenue	Percentage of revenue	Revenue	Percentage of revenue	Revenue	Percentage of revenue	Revenue	Percentage of revenue
	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)
	(Unaudited)									
Tier 1 cities	—	—	189	—	11,493	0.1	5,456	0.1	8,028	0.1
Tier 2 cities	303,248	1.7	293,211	1.8	314,759	1.5	172,227	1.8	146,917	1.4
Tier 3 cities	42,976	0.3	58,712	0.4	70,659	0.3	40,382	0.4	40,223	0.4
Tier 4 and lower cities	9,922	0.1	14,376	0.1	15,305	0.1	8,643	0.1	4,940	0.1
Total	356,146	2.1	366,488	2.3	412,216	2.0	226,708	2.4	200,108	2.0

Note: According to Frost & Sullivan:

- (1) the first-tier cities refer to Shanghai, Beijing, Guangzhou and Shenzhen;

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- (2) the second-tier cities refer to Chengdu, Chongqing, Hangzhou, Wuhan, Suzhou, Xi'an, Nanjing, Changsha, Tianjin, Zhengzhou, Dongguan, Qingdao, Kunming, Ningbo, Hefei, Foshan, Shenyang, Wuxi, Jinan, Xiamen, Fuzhou, Wenzhou, Harbin, Shijiazhuang, Dalian, Nanning, Quanzhou, Jinhua, Guiyang, Changzhou, Changchun, Nanchang, Nantong, Jiaxing, Xuzhou, Huizhou, Taiyuan, Taizhou, Shaoxing, Baoding, Zhongshan, Weifang, Linyi, Zhuhai and Yantai;
- (3) the third-tier cities refer to Lanzhou, Haikou, Huzhou, Yangzhou, Luoyang, Shantou, Yancheng, Ganzhou, Tangshan, Urumqi, Jining, Zhenjiang, Langfang, Xianyang, Taizhou, Wuhu, Handan, Jieyang, Nanyang, Hohhot, Fuyang, Jiangmen, Yinchuan, Zunyi, Huai'an, Zhangzhou, Guilin, Zibo, Xinxiang, Lianyungang, Cangzhou, Mianyang, Hengyang, Shangqiu, Heze, Xinyang, Xiangyang, Chuzhou, Shangrao, Jiujiang, Yichang, Putian, Zhanjiang, Liuzhou, Anqing, Suqian, Zhaoqin, Zhoukou, Xingtai, Jingzhou, Sanya, Yueyang, Bengbu, Zhumadian, Tai'an, Chaozhou, Zhuzhou, Weihai, Liu'an, Changde, Anyang, Suzhou, Huanggang, Dezhou, Ningde, Liaocheng, Yichun, Weinan, Qingyuan and Nanchong; and
- (4) the fourth and lower tier refer to the rest of the other cities in the PRC.

We believe having a strong and reputable brand attracts franchisees to join our sales network, which in turn, strengthens our ability to build a solid and loyal customer base. The pictures below illustrate our exhibition halls where franchisees shop and purchase from us:



The pictures below illustrate our self-operated stores:



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Management of franchisees

We have established stable and cooperative relationships with our franchisees. In order to strengthen the management of franchisees and provide high-quality services to franchisees nationwide, we set up self-operated direct service centers (直營區服務中心), which are responsible for distribution of our products to franchisees in their respective regions. Further, in regions where it is not commercially efficient to establish self-operated direct service centers, we engage provincial-dealers with strong local distribution capabilities to enable us to penetrate these local markets in order to save time and set-up costs for establishing self-operated direct service centers. We engage only one provincial-dealer in a given province in the PRC. As of June 30, 2024, we had seven self-operated direct service centers that were directly managed and operated by us, and we have appointed 17 provincial-dealers. In our franchisees management structure during the Track Record Period, direct services centers and provincial-dealers carried similar operational functions, with the main difference being that self-operated direct service centers were part of our in-house operation and provincial-dealers were external parties. As a result, we concurrently sold to provincial-dealers (who resell the products to franchisees) and directly to franchisees during the Track Record Period.

We appoint provincial-dealers mainly because we believe we can utilize provincial-dealers’ business network in the jewellery industry to expand our franchisees’ network, as well as for cost saving such as exhibition halls maintenance and marketing expenses in each covered province. Based on our Directors’ knowledge, provincial-dealers usually have strong connections with local jewellery stores. By appointing provincial-dealers, we can facilitate the distribution of our products to franchisees within the regions and this practice is effective in terms of building a distribution network. Our Directors believe that some franchisees do not directly transact with the Group but transact through the provincial-dealers mainly because of logistical convenience. Provincial-dealers perform similar functions as our self-operated direct service centers, which include to host exhibition halls for franchisees to make purchase. As there is no price difference for franchisees to purchase at exhibition halls hosted by our self-operated direct service centers or exhibition halls hosted by provincial-dealers, franchisees usually attend the exhibition halls which are more convenient for them logistically. Given the nature of gold jewellery, many franchisees opt for self-pickup of the purchased goods at the exhibition halls.

All sales between our Group and provincial-dealers, as well as sales between our self-operated direct service centers and our franchisees, are buyout sales. All franchisees are required to sign franchise agreements with us for each franchise store, establishing a seller and buyer relationship rather than a principal and agent relationship. During the Track Record Period, provincial-dealers were our major customers in terms of their respective sales amount, but revenue we derived from sales to franchisees through our self-operated direct service centers in aggregate outnumbered that of revenue derived from provincial-dealers in aggregate.

We are of the view that relationship between the Group and the provincial-dealers is seller and buyer relationship and are buyout sales (not consignment sales) because: (i) we do not have control over the gold products once they are transferred to provincial-dealers, whereby the provincial-dealers have control over the exhibition and sales of such products, and we have no right to reclaim

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the gold products, and (ii) risks associated with holding and selling the relevant gold products are shouldered by our provincial-dealers, whereby the inventory risk and payment collection risks rests with our provincial-dealers. Furthermore, according to Hong Kong Financial Reporting Standards 15, the sales between our Group and provincial-dealers is recognized as revenue from direct sales instead of consignment sales based on the following reasons:

- i. For provincial-dealers, we dispatch the gold products to be showcased at the provincial-dealers’ exhibition halls. We transfer the control of the gold products to provincial-dealers which transfer to the franchisee by the provincial-dealers at or near the same time. The provincial-dealers act as the principal in the arrangement based on the below reasons:
 - a. The provincial-dealers are primarily responsible for fulfilling the promise to provide the specified gold products.
 - The provincial-dealers physically possessed the gold products during the period of the exhibition and were responsible for display and sales of the gold products.
 - The provincial-dealers have the right to veto the timing of exhibitions.
 - In case of tight supply of certain gold products, the provincial-dealers can decide how to allocate the gold products to fulfil orders from the franchisees.
 - In case of any quality issues of the gold products, the provincial-dealers are responsible to follow up with the franchisees.
 - b. The provincial-dealer has inventory risk before the specified gold product has been transferred to a franchisee.

The provincial-dealers are responsible for the security arrangement during the exhibition. If the gold products went missing or were lost during the exhibition, the provincial-dealers took full responsibility.
 - c. Under the pricing model of “gold price + crafting fee for the relevant gold product”, the provincial-dealers do not have discretion in establishing the price for the gold products, such policy was mainly to maintain price stability and consistency among various franchisees and markets.
- ii. During the process of exhibition, we cannot arbitrarily withhold, take back the gold products or transfer them to any other third parties without the consent from provincial-dealers. In addition, provincial-dealers have the right to sell the gold products or not during the exhibition, or to buy any unsold gold products as its own inventories by the end of exhibition;

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- iii. Provincial dealers have an unconditional obligation to pay us for the gold products purchased regardless of whether they could be paid by franchisees or not. Provincial dealers are solely responsible to collect receivables from franchisees they sell product to.

The Reporting Accountants [issued] an unqualified opinion on the Historical Financial Information of the Group for the Track Record Period as a whole. The Sole Sponsor agrees with the classification of the relationship between the Group and the provincial-dealers as a seller and buyer relationship, and that sales made to the provincial-dealers are not consignment sales.

Save as disclosed in the document, during the Track Record Period and up to the Latest Practicable Date: (i) we were not aware any franchisee who has committed a significant breach of franchise agreements or has violated our retail policies; and (ii) to the best of our knowledge, there had been no significant disputes or litigation between us and either past or present franchisees. Moreover, we had not been informed of any material incidents, claims, litigation, or legal proceedings, either actual or threatened, related to non-compliance in any of the franchise stores that we supervise during the Track Record Period and up to the Latest Practicable Date.

Control on franchise network

Although we do not own or have direct managerial control over our provincial-dealers or franchisees, we monitor and indirectly manage their performance through adopting and implementing policies on their operations, pricing guidelines and providing them with training sessions in relation to our product. To monitor the performance of our franchise network, our internal management policy includes requiring our sales representatives to conduct ad-hoc site-visits and monitoring the sales performance, pricing and quality of marketing activities. We also initiate meetings with provincial-dealers and franchisees who are underperforming to help them recover.

(i) Use of Company name

We exert full control over the franchisees regarding the use of our Company name. Our franchisees display the name of “Mokingran” and our logo at their franchise stores or, in a very few cases where our franchisees operate their own branded jewellery collection stores, at the counters where our products are displayed. Aside from bearing the name of “Mokingran” and the brand “**梦金园**”, we require franchisees and provincial-dealers not to use our legal business name or trademarks in their operations, including in advertisements, or sign any agreements under our legal business name, unless authorized by us in writing. Our staff conduct on-site checks at our franchise stores to ensure there are no unauthorized displays of our name, sign or use of it on their marketing materials. We would conduct investigations and may issue warnings or terminate the business relationship if such violation was confirmed. Our franchisees are responsible for losses from unauthorized uses of our Company name.

During the Track Record Period, we did not have any material disputes with our franchisees relating to the improper use of our Company names during the Track Record Period in the course of our normal commercial dealings, as confirmed by our Directors. As of the Latest Practicable Date, a small number of franchisees and provincial-dealers, who were Independent Third Parties, incorporated our trade name or similar terms into their legal business names. In the event that the

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aforementioned franchisees and provincial-dealers engage in transactions or conduct that is not in compliance with relevant laws or regulations and that could adversely impact us reputationally, financially or otherwise. We could be harmed by such actions as we may be mistakenly identified as the party that engaged in such misconduct given such franchisees and provincial-dealers incorporated our trade name or similar terms into their legal business names. However, as of the Latest Practicable Date, we were not aware of any actual or potential abuses or improper use of our legal business name by our franchisees and provincial dealers which could adversely affect our reputation, business operation or financial condition. We shall continue to monitor the activities of the aforementioned entities through onsite checks and conduct investigations into any misconducts that may adversely impact our reputation, finances, or in other ways to mitigate potential adverse effects of such activities on us. Should our franchisees and provincial-dealers engage in abuses or improper use of our legal business name, we will file claims for indemnity against them.

(ii) *Exclusivity*

We do not enter into exclusivity agreements with provincial-dealers and franchisees to limit their own business. Our franchise stores can sell other brands' gold products on the condition that those third-party brand products are not displayed under our brand's name and/or logo. We do not allow franchisees to sell products of other brands under our brand. In case where our franchisees wishes to sell products of other brands under our brand, the relevant products will have to pass the inspection of us or a third-party testing agency designated by us. For details, see “Business — Admittance of third-party products”.

(iii) *Selling price*

We have control on the products and the selling price we offer in our self-operated direct service centers and to provincial-dealers. At any time, the price we sell to our franchisees from our self-operated direct service centers and the sales price offered by provincial-dealers to franchisees are the same.

In general, we have policies in place and issue guidelines to regulate the retail price of our products. For example, we have in place minimum retail prices and suggested retail price guidelines which all franchisees are required to follow. Our franchisees may determine the retail prices, but the prices cannot be lower than our predetermined minimum retail prices. We reserve the right to review and approve the retail price of our franchisees and will exercise such right as appropriate and necessary.

(iv) *Store image*

We also require our franchisees to maintain a unified image of our brand by providing franchisees guidance on size and layout, designs and decorations, such as colour scheme and design specifications, for the franchise stores.

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(v) *Minimum sales target*

Minimum sales target for provincial-dealers

Minimum sales targets for our provincial-dealers are generally set through commercial negotiations. We have the discretion to establish a minimum sales target, and typically, we take into consideration factors such as the provincial-dealer’s historical performance, number of franchise stores in the respective regions and the market environment.

The table below sets out the historical range of the minimum sales amount during the Track Record Period.

	Year ended December 31,		
	2021	2022	2023
Range of minimum sales target	Gold: 150 kg to 1,500 kg	Gold: 173 kg to 2,130 kg	Gold: 129 kg to 2,300 kg
	Diamond: RMB0.5 million to RMB23.5 million	Diamond: RMB0.1 million to RMB20.0 million	Diamond: RMB0.2 million to RMB10.0 million
Number of provincial-dealers who did not achieve the minimum sales target	Gold: 7	Gold: 16	Gold: 12
	Diamond: 17	Diamond: 16	Diamond: 17
Aggregate sales target	Gold: 14,486 kg	Gold: 16,732 kg	Gold: 17,185 kg
	Diamond: RMB141.3 million	Diamond: RMB120.6 million	Diamond: RMB75.9 million
Overall sales target achievement	Gold: 106%	Gold: 84%	Gold: 89%
	Diamond: 56%	Diamond: 42%	Diamond: 45%
Aggregate amount of sales target shortfall of principal- dealers who did not achieve the minimum sales target . . .	Gold: 678 kg	Gold: 2,780 kg	Gold: 2,417 kg
	Diamond: RMB62.4 million	Diamond: RMB70.9 million	Diamond: RMB41.6 million

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Minimum sales target for franchisees

Minimum sales targets for our franchisees are normally set through commercial negotiations. Factors considered include (i) historical sales and (ii) economic environment.

The table below sets out the historical range of the minimum sales amount during the Track Record Period. Sales of high purity gold with 99.999% gold content, K gold and solid gold are converted to 99.99% gold at respective pre-determined formula for calculating sales target. The pre-determined formula is formulated primarily based on the gold content of respective products.

	Year ended December 31,		
	2021	2022	2023
Range of minimum sales target	Gold: 0 kg to 623 kg ⁽¹⁾	Gold: 0 kg to 678 kg ⁽¹⁾	Gold: 0 kg to 823 kg ⁽¹⁾
	Diamond: RMB0 to RMB5.1 million	Diamond: RMB0 to RMB5.6 million	Diamond: RMB0 to RMB3.7 million
Number of franchisees who did not achieve the minimum sales target	Gold: 763	Gold: 1,217	Gold: 1,000
	Diamond: 1,318	Diamond: 1,327	Diamond: 1,040
Aggregate sales target	Gold: 34,157 kg	Gold: 39,187 kg	Gold: 41,894 kg
	Diamond: RMB342.8 million	Diamond: RMB301.6 million	Diamond: RMB190.3 million
Overall sales target achievement	Gold: 102%	Gold: 87%	Gold: 88%
	Diamond: 53%	Diamond: 41%	Diamond: 42%
Aggregate amount of sales target shortfall of franchisees who did not achieve the minimum sales target	Gold: 4,499 kg	Gold: 7,521 kg	Gold: 7,995 kg
	Diamond: RMB192.8 million	Diamond: RMB167.1 million	Diamond: RMB117.3 million

Note:

- (1) The minimum sales target of some of our franchisees exceed the minimum sales of target of some of our provincial-dealers because of the business scale of such franchisees, which in turn, relates to the such franchisee’s market reach and its customer base. For instance, as of December 31, 2023, our largest franchisee was operating a total of 20 stores. Due to the larger scale of operations for such franchisee, its minimum sales target exceeds that of certain provincial-dealer.

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Consequences of failure to meet minimum sales targets

In the event that a provincial-dealer or franchisee fails to meet its minimum sales target, we have the right to require the provincial-dealer or franchisee to pay us market promotion fees, calculated based on the amount of shortfall, to recover our subsidies and marketing and promotion expenses.

In light of the general economic environment and the pandemic, we waived all fees on provincial-dealers and franchisees for their failure to meet minimum sales targets in 2021. In 2022, considering the performance of provincial-dealers and franchisees and the marketing expenses we incurred, we decided to reactivate our controls over our provincial-dealers and franchisees in terms of sales targets and promote their proactiveness in sales of our products and thus, we exercised our right to charge them for such failure. In 2022, the fees charged on each provincial-dealer and franchisee that failed to meet the targets ranged from RMB91,200 to RMB2.3 million and RMB800 to RMB1.7 million, respectively. The total fees (tax-excluded) we charged amounted to RMB60.6 million, which were recognized as our revenue and represent 0.4% of our total revenue in 2022. In 2023, the fees charged on each provincial-dealer and franchisee that failed to meet the targets ranged from RMB35,000 to RMB2.9 million and RMB1,000 to RMB2.4 million, respectively. The total fees we charged amounted to RMB90.9 million, which were recognized as our revenue and represent 0.4% of our total revenue in 2023.

Measures to avoid channel stuffing and cannibalization

When appointing new franchisees, we are conscious of the potential negative impacts of channel stuffing and cannibalization among existing franchisees. Therefore, we have adopted measures to mitigate these issues.

We pay close attention to the inventory levels of our franchisees. In order to prevent channel stuffing, we have adopted a transaction arrangement that all sales between (i) our Group and provincial-dealers, and (ii) our self-operated direct service centers and our franchisees, are buyout sales. For franchisees, we generally do not allow returns of gold products sold to franchisees, except when they cease to be our franchisees. We also generate sales reports on an as-needed basis to monitor franchisees' sales, and regularly visit franchise stores to check the inventory levels. We have an inspection team responsible for conducting site visits to our franchise stores intermittently to review various aspects of their overall business operations, including but not limited to (i) the sales performance, (ii) inventory levels, (iii) brand image, customer service and display of products sold under our brand and (iv) whether there are any non-compliance issue in relation to product labeling, to ensure there is no non-compliance of the terms and conditions of the franchise agreement. Our staff responsible for conducting site visits is required to complete a checklist recording the relevant findings during the site visit, where if there are any non-compliances, supporting documents such as photos of the stores are required to be uploaded to our internal system for record keeping. Our inspection team conduct site visits to each franchise stores intermittently but at an interval of approximately once a year. Apart from site visits performed by our inspection team, we also perform site visits to all franchise stores which have installed the

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CRM system approximately on a quarterly basis, and check their sales performances and inventory levels against data being inputted on the CRM system, to ensure, among other things, accuracy of inventory data on the CRM system and sufficient supervision over the inventory levels of our franchise stores. For further details of our internal control mechanism, please also refer to the section headed “History, Development and Corporate Structure — Previous A-Share Applications — The First A-Share Application — CSRC’s concerns in relation to “One RMB Exchange” — Internal Control Measures”. In general, we do not allow payment on credit for sales to franchisees while on a case by case basis, we may permit payment on credit for sales to franchisees when our existing franchisees open new stores. We typically do not accept product returns, ensuring that franchisees cannot compel us to accept unsold products. For provincial-dealers, given our business model, provincial-dealers generally do not hold gold products as their inventory and may only maintain a insignificant level of products for sales that occur at ad hoc.

The table below sets out the gold inventory levels of provincial-dealers as of December 31, 2021, 2022 and 2023 and as of June 30, 2024.

	As of December 31,			As of June 30,
	2021	2022	2023	2024
	(kg)	(kg)	(kg)	(kg)
Gold inventory of provincial-dealers in aggregate ^(Note) . .	92	111	55	57

Note: Volume include K-gold products without conversion adjustment.

As of December 31, 2023 and June 30, 2024, based on the information available on our CRM system, the amount of inventories held by our franchisees were 24,266.8kg and 25,868.6kg, respectively. The inventory turnover days of gold products calculated based on the inventory held by the aforementioned franchisees (per the CRM system) were 211.6 days and 337.1 days for the year ended December 31, 2023 and for the six months ended June 30, 2024, respectively. The increase in inventory turnover days of gold products for our franchisees was mainly due to our franchisees having low inventory due to the pandemic at the beginning of 2023 that lead the inventory turnover days to be lower for 2023. Moreover, the inventory turnover days of gold products of 211.6 days for our franchisees (per the CRM system) for 2023 was within the inventory turnover days range (55 days to 230 days) of our industry peers, which we believe illustrates the reasonableness of our franchisees’ inventory balance. For the six months ended June 30, 2024, based on information available on the CRM system, the inventory turnover days of our franchisees increased to 337.1 days. Such increase was primarily attributable to the decline in consumption sentiment for gold products resulting from the increase in gold price. According to Frost & Sullivan, the consumption volume of gold products in terms of weight for the six months ended June 30, 2024 decreased by 26.7% when compared to the corresponding period in 2023. Accordingly, the sales of gold products slowed down in the first half of 2024, leading to an increase in inventory turnover days of our franchisees.

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Our self-operated stores recorded a lower inventory turnover days of 261.0 days when compared with that of 337.1 days of our franchisees due to a higher proportion of our self-operated stores commenced “One RMB Exchange” program during the six months ended June 30, 2024. As of June 30, 2024, out of our 36 self-operated stores, 24 of them were located in Shandong Province and organized the “One RMB Exchange” promotion event in June 2024. Benefited from such promotion, the inventory turnover days of our self-operated stores located in Shandong Province were lower than those located in other provinces. The inventory turnover days of our self-operated stores located outside Shandong Province for the six months ended June 30, 2024 was 337.5 days, which were in line with that of our franchisees’ inventory turnover days. Since our franchisees outside Shandong Province generally only organize the “One RMB Exchange” program in July to September, the impact of our “One RMB Exchange” promotion has yet to be reflected in our franchisees’ sales performance as of June 30, 2024.

Given we have a higher proportion of self-operated stores located in Shandong Province when compared with franchise stores, the effect of “One RMB Exchange” on overall inventory turnover days of our self-operated stores was more significant, thereby contributing to a lower inventory turnover days when compared with that of our franchisees.

Based on the foregoing measures taken by our Group, our Directors are of the view that as a whole, there was no abnormal accumulation of inventories by provincial-dealers and franchisees during the Track Record Period.

In practice, we have anti-cannibalization measures to foster healthy competition among franchisees, provincial-dealers and self-operated stores, and across our different sales channels:

- Between our self-operated stores and franchise stores, we (i) determine the distance between our franchise stores and self-operated stores based on our market analysis as well as commercial considerations to minimize unhealthy competition; and (ii) retain the discretion to terminate our relationships with franchise stores engaging in non-compliant acts or employing unhealthy competition means.
- Between our self-operated direct service centers and provincial-dealers, we (i) only appoint provincial-dealers in regions where we do not have own self-operated direct service centers, particularly in areas relying on provincial-dealers’ networks to reach consumers, to avoid competition; (ii) assign each provincial-dealer their designated sales and operating regions; and (iii) reserve the right to expand, re-assign or modify the operating regions of provincial-dealers when we foresee cannibalization risk.
- Among our franchisees, (i) each franchise store is generally required to purchase products from designated exhibition halls hosted by self-operated direct service center or provincial-dealer; and (ii) we require self-operated direct service centers and provincial-dealers to offer uniform crafting fees for products sold to franchise stores.
- Among our provincial-dealers, we believe cannibalization risks are limited due to the small number of provincial-dealers, and in any event, they are prohibited from marketing and selling our products outside their designated territory.

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To prevent channel stuffing and cannibalization across franchisees, we implement strong control measures over franchisees within each service area of our self-operated direct service centers and provincial-dealers. We also dispatch managers to provide joint support in the daily operations and supervision management of our brand and franchisees as needed.

Each of our self-operated direct service centers and provincial-dealers is designated to cover a specific geographical region that does not overlap with others. Accordingly, franchisees typically procure from the self-operated direct service center or provincial-dealer within their region, which helps prevent overlapping purchases by the franchisees from both self-operated direct service centers and provincial-dealers. In addition, we charge the same price to our self-operated service centers and provincial-dealers to help alleviate channel stuffing and cannibalization among them. In practice, we require each franchisee to only purchase from its assigned regional self-operated direct service center or provincial-dealer as the case may be. Normally, there is no overlapping of purchases from both self-operated direct service center and provincial-dealer. However, in limited circumstances, including cases where a franchisee owns more than one franchise store located in different regions or when a franchisee makes a special purchase request (whereby such purchase is subject to our pre-approval), there may be instances where such franchisee may have overlapping purchases from both self-operated direct service center and provincial-dealer. For such reasons, franchisees are not limited to purchasing only from exhibition halls within their region.

Our Directors believe that the above internal control policies and measures are sufficient to effectively manage inventory risk and/or detect any possible channel stuffing and cannibalization.

Exhibition halls and logistics arrangement

Our self-operated direct service centers and provincial-dealers have exhibition halls to showcase and to sell our products to franchisees within the respective region. Franchisees purchase at the relevant exhibition halls and are required to arrange their own logistics for the purchased goods.

For provincial-dealers, we dispatch the products to be showcased at the provincial-dealers exhibition halls. When the products are purchased by franchisees at the exhibition halls, the provincial-dealers will simultaneously make purchase of the relevant products from us and onwards sell them to the franchisees. This approach creates a positive development cycle between ourselves and the provincial-dealers, whereby our provincial-dealers can economically benefit from the onward sales while we gain their expertise in management/development of a stronger network of franchisees. Moreover, such arrangement also enables our provincial-dealers to provide diversified products for franchisees' selection, which is essential for maintaining a strong and loyal franchise network.

In situations where customers have an urgent need to replenish their inventory, we may consider lending gold products to creditworthy customers on a case-by-case basis to ensure our customers have sufficient inventory to sell on to consumers. Such situations include the hosting of exhibition events, new opening of franchise stores and shortage of inventories at franchise stores. The decision regarding the quantity of gold products to be lent and whether any security pledge or guarantee is required is determined by our management team on a case-by-case basis.

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Such gold lending arrangement involves entering into written agreements to lend gold products to customers for a specified period. The major terms and conditions are set out below.

Lending period The lending period is usually less than one month, but in certain cases, it may exceed one month.

Fees or charges For exhibition event, we normally charge lump sum exhibition service fees. For long-term lending (which exceeds one month), we normally charge lump sum exhibition service fees based on the value of the gold being lent, which, when converted according to the value of the gold being lent, ranges approximately from nil to 0.9% per month normally.

For short-term lending (which is no more than one month) to replenish inventories, we normally charge fees based on the value of the gold being lent ranging from nil to 1.0% per month normally or up to 1.5% per month for the renewal of lending period. In case of short-term lending, especially for new franchisees in need of gold jewellery for display in their new franchise stores, we have the discretion to waive the services fees or charges.

Return of the gold products At the end of the lending period, customers can purchase the lent gold products based on the prevailing gold price at settlement date or return the remaining gold products to us.

Settlement method Those customers who purchase the lent gold products can settle with cash or use trade-in gold as a mean of non-cash settlement.

Pledge and guarantee . . . Fixed properties and personal guarantee.

If the borrowers intend to extend the lending period, we will negotiate a new period with the borrowers and charge the service fee. There was no default on gold lending made during the Track Record Period where borrowers failed to return or to purchase the gold we lent to them and there has been no material adverse impact on our Company’s performance due to our gold lending activities. To the best knowledge, information and believes of our Directors, there were no material breach of terms of any relevant gold-lending agreements by our provincial-dealers and franchisees during the Track Record Period which may impose material adverse effect on our business operation and financial position.

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During the Track Record Period, the respective number, range of the amounts of gold lent and total amount/weight of gold lent as at the end of each year/period were as follows:

		As of December 31,			As of
		2021	2022	2023	June 30, 2024
Number	Franchisees	405	460	552	569
	Provincial-dealers	17	17	17	17
Range of the gold lent (RMB'000)	Franchisees	0.5	2.4	1.3	1.0
	Provincial-dealers	16,380.5	21,334.5	30,796.7	19,507.9
Amount of gold lent as of the end of each period (RMB'000)	Franchisees	0.8	1.0	2.9	5.5
	Provincial-dealers ^(Note)	28,378.1	36,001.5	56,608.9	36,406.3
Weight of gold lent as of the end of each period (kg) . . .	Franchisees	65,881.1	118,741.0	183,720.8	165,519.4
	Provincial-dealers ^(Note)	13,269.4	2,109.5	10,969.5	59,579.9
	Franchisees	198.7	337.5	438.0	361.8
	Provincial-dealers ^(Note)	39.9	6.0	26.3	131.1

Note: Although our provincial-dealers generally do not hold our gold products as their inventory, we sometimes lend gold to them in the following scenarios: (i) gold lent to provincial-dealers that also operated franchisee stores for operations of their own franchisee stores, and (ii) gold lent to provincial-dealers, who, in turn, lent such gold to franchisees in their respective regions.

Per our internal control policy, gold lending is approved by our management on a case-by-case basis. Assessments are made on factors including the reasons for the gold lending request, the borrowers' credibility, availability of fixed asset pledges and/or guarantees from the borrower, the amount of gold to be lent per the request, and our business relationship with the borrower. For the gold products lent, we enter into lending agreements with the borrowers outlining details of the gold lending arrangement including the type of gold products to be lent, duration of the loan, service fee, basis of calculating service fee and other obligations (if applicable). In addition, we formulated an internal manual to govern the lending process for longer-term loans with a term beyond six months. As confirmed by Frost & Sullivan, it is an industry norm for gold jewellery producers/brands to provide gold lending services to their franchisee customers and provincial-dealers.

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Our gold lending balances are reflected in the right to returned goods assets. As of December 31, 2021 and 2022 and 2023 and June 30, 2024, our right to returned goods assets amounted to approximately RMB157.9 million, RMB184.4 million, RMB246.0 million and RMB259.9 million, of which our gold lending balances were RMB79.2 million, RMB120.9 million, RMB194.7 million and RMB225.1 million, respectively. During the Track Record Period, our gold lending balances generally increased due to (i) the growth in our business scale and franchise network, which required us to lend more gold to provincial-dealers and franchisees, and (ii) an increase in gold prices. In particular, the balance of gold lent to franchisees increased from RMB65.9 million as of December 31, 2021 to RMB118.7 million as of December 31, 2022, primarily attributable to the growth in number of newly-opened franchise stores which borrowed gold from us towards the end of 2022, resulting in an increase in number of gold-lending transactions that crossed the year-end when compared to that of 2021. Our gold lending balances as of June 30, 2024 increased compared to that of December 31, 2023 mainly due to the gold price increase in the first half of 2024 and an increase in volume of gold lent in preparation for our annual promotional “One RMB Exchange” program held between June and September 2024. For details of the accounting treatment of gold lending arrangement, see “Financial Information — Prepayments, deposits and other receivables”.

Selection of Franchisees

We have strict standards for selecting franchisees. We conduct a thorough systematic evaluation of potential franchisees, including evaluation on their:

- sales record history;
- financial background and performance;
- commercial resources; and
- long-term operational goals including but not limited to concrete sales targets and expansion plans.

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As of June 30, 2024, we had contracted 1,670 franchisees. The table below sets forth the changes in the number of our franchisees during the Track Record Period^(Note):

	Year ended December 31,			Six months ended June 30,
	2021	2022	2023	2024
Beginning of the year/period	1,703	1,721	1,704	1,687
Additions	106	69	88	31
Cessations	(88)	(86)	(105)	(48)
Net increase	18	(17)	(17)	(17)
End of year/period	1,721	1,704	1,687	1,670

Note: The number of franchisees includes provincial-dealers engaged by us during the relevant year/period as indicated.

The major reasons for the decrease in number of franchisees for the year ended December 31, 2022 and 2023 and the six months ended June 30, 2024 were (i) the relevant franchisees had other business endeavours and no longer intended to operate as our franchisees; and (ii) the relevant franchisees were unable to follow our franchise management and operational standards and we terminated the franchise relationship with them accordingly.

Services and support we provide to franchisees

To ensure that our franchise stores receive comprehensive operational support, we have established a system where our support personnel visit franchise stores to provide guidance and training to store staff. This includes coaching and training on the daily routine work, operational management standards, store display and management of goods, sales strategies, appearance, and other relevant areas. Franchisees who require additional support may apply for our support personnel to visit the relevant franchise stores. With the guidance of our support personnel, franchisees can improve their management ability and operational efficiency.

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To promote franchise network management and for brand development, we hold franchisee conferences to discuss industry trends, our development plans, and business strategies with all franchisees. Furthermore, we offer various subsidies to encourage franchisees to open new stores and expand our market share. These subsidies include decoration subsidies and discounts on crafting fees for franchisees who meet the specified conditions for a certain period of time. Some of the key subsidies are listed below:

<u>Major subsidies</u>	<u>Description</u>
Store decoration subsidies	Franchisees are required to renovate new and existing stores according to our requirements. We will provide renovation subsidies in the form of price discounts based on factors such as store channel type, business district, business area, and geographical location.
Advertising subsidies . . .	To encourage franchisees to carry out advertising and promotion activities in their respective regions (including but not limited to television advertising, packaging advertising, outdoor advertising, car advertising), as well as to carry out store celebrations, festivals, exhibitions, and other promotional activities, we provide advertising fee subsidies at a certain proportion of the total advertising costs.
Promotion subsidies	For promotional activities carried out by franchisees during new store opening, store celebrations, holiday promotions, and exhibitions, we can provide processing fee subsidies at a certain proportion of the total promotional activities.
Product support during special events and peak season	On franchisees’ request, we may lend franchisees with display products and product for sales during store celebrations and other approved activities. Furthermore, during the spring festival, which is traditionally peak sales season, leveraging our strong production capability, we formulate sales strategies to provide our franchisees with a large variety of different products and to improve store efficiency. After the provision of our products, franchisees can settle the payment according to our unified quotation on the expiration date. The policy aims to effectively support high-quality franchisees to establish new branches and enhance the competitiveness of the brand in the regional market.

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The following table sets out the total amount and average amount per franchisee of different types of subsidies during the Track Record Period:

	Year ended December 31,						Six months ended June 30,	
	2021		2022		2023		2024	
	Average amount per franchisee	Total amount	Average amount per franchisee	Total amount	Average amount per franchisee	Total amount	Average amount per franchisee	Total amount
	(Note)	(Note)	(Note)	(Note)	(Note)	(Note)	(Note)	(Note)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Store decoration subsidies	17,522.7	10.2	15,302.8	9.0	23,878.2	14.2	13,812.7	8.2
Advertising subsidies	19,408.5	11.3	12,378.8	7.3	13,679.6	8.1	5,800.0	3.5
Promotion subsidies	5,697.6	3.3	8,171.0	4.8	75,992.0	45.0	11,671.5	7.0
Product support during special events and peak season	6,416.4	3.7	5,771.9	3.4	15,992.4	9.5	6,793.0	4.1
Total	49,045.2	28.5	41,624.5	24.5	129,542.2	76.8	38,077.2	22.8

Note: The average amount per franchisee is calculated by dividing the respective total amount by the number of franchisee at the end of each year.

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, our subsidies to franchisees amounted to RMB49.0 million, RMB41.6 million, RMB129.5 million and RMB38.1 million, respectively. The increase in our subsidies to franchisees for the year ended December 31, 2023 was mainly attributable to the increase in promotion subsidies. We incurred a significant increase in subsidies for promotional activities for the year ended December 31, 2023 to support our franchisees as they resumed operation and as the economy began to recover from the recent pandemic.

Admittance of third-party products

We maintain a third-party product list which our franchisees are permitted to buy and sell third-party produced products under our brand name “**梦金园**”, provided that the products passed the inspection of us or a third-party testing agency designated by us.

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To apply for third-party product admittance, franchisees are required to submit the relevant products to our self-operated direct service centers and provincial-dealers for registration. Our quality control department conducts a preliminary inspection of the products to determine whether they infringe upon any intellectual property rights. The products are then sent to a qualified national or provincial gold jewellery quality testing center for inspection. Once qualified, we will issue category labels for the products and the products will be added to our list of approved products. We then collect brand usage fees from the franchisees and grant them approval to sell the products under our brand name. During the Track Record Period, our brand usage fees collected from franchisees amounted to RMB32.1 million, RMB25.8 million, RMB25.7 million and RMB11.3 million for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively.

According to Frost & Sullivan, the aforementioned is common in the jewellery industry. It is a useful method for franchisees to broaden the product portfolio available for sale, and possibly increase the sales of both franchisees and us in the local market and to enlarge our market share.

Other than passing through our stringent quality control and testing mechanism as set above for third-party brand products admittance, our franchisees are subject to their contractual obligations under the franchisees’ agreement, pursuant to which, they are not allowed, in any manner, to sell other products under our brand, or to adopt our trademark and logo in any packaging material, quality assurance slip, pictures or videos when selling products of other brands. We also have a designated market inspection team to perform routine inspections in franchisees store to scrutinize whether there is any alleged infringing products sold in the stores and whether the content and use of product labels fulfil our internal regulations. We will strictly enforce our legal rights and consider seeking necessary actions to safeguard our reputation in situation where there is evidence that the franchisees may have breached our relevant policies when conducting their business.

Former Employee-Franchisees

During the Track Record Period, we had franchisees stores or engage provincial-dealers that were established by our former (or then former) employees. As of December 31, 2021, 2022 and 2023 and June 30, 2024, we had two, four, four and four former employees that left our Group since 2018 (or their respective successors), respectively (“**Former Employee-Franchisees**”), and these Former Employee-Franchisees operated 13, 16, 13 and 12 franchise stores or provincial-dealers during the respective year/period.

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Some of our former employees developed interests in engaging in retailing business of gold jewellery when working with us and some of them has resigned from our Company and enter into franchisee agreements or arrangements with us for their personal business pursuits. Our Directors believe our Former Employees-Franchisees would be able to gain better understanding of our product development concepts and corporate culture during their tenure with us, and would be able to promote our brand and products more effectively, and therefore having Former Employees-Franchisees will be in the interest in of our Company as a whole. Our Directors also further confirms that such practice is common in gold jewellery retailing industry.

We applied the same selection criteria and review procedures as other franchisees when selecting and conducting periodic review of the performances of Former Employee-Franchisees. The terms and conditions of the franchise arrangements and/or agreements we entered into with these Former Employee-Franchisees are the same as that we offered to other third-party franchisees.

During each of the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, the revenue contribution by the franchisees stores operated by our Former Employee-Franchisees amounted to RMB74.9 million, RMB77.0 million, RMB76.7 million and RMB36.9 million, representing approximately 0.4%, 0.5%, 0.4% and 0.4%, respectively, of our total revenue over the same years. Accordingly, our Directors are of the view that the revenue contribution from our Former Employee-Franchisees were immaterial.

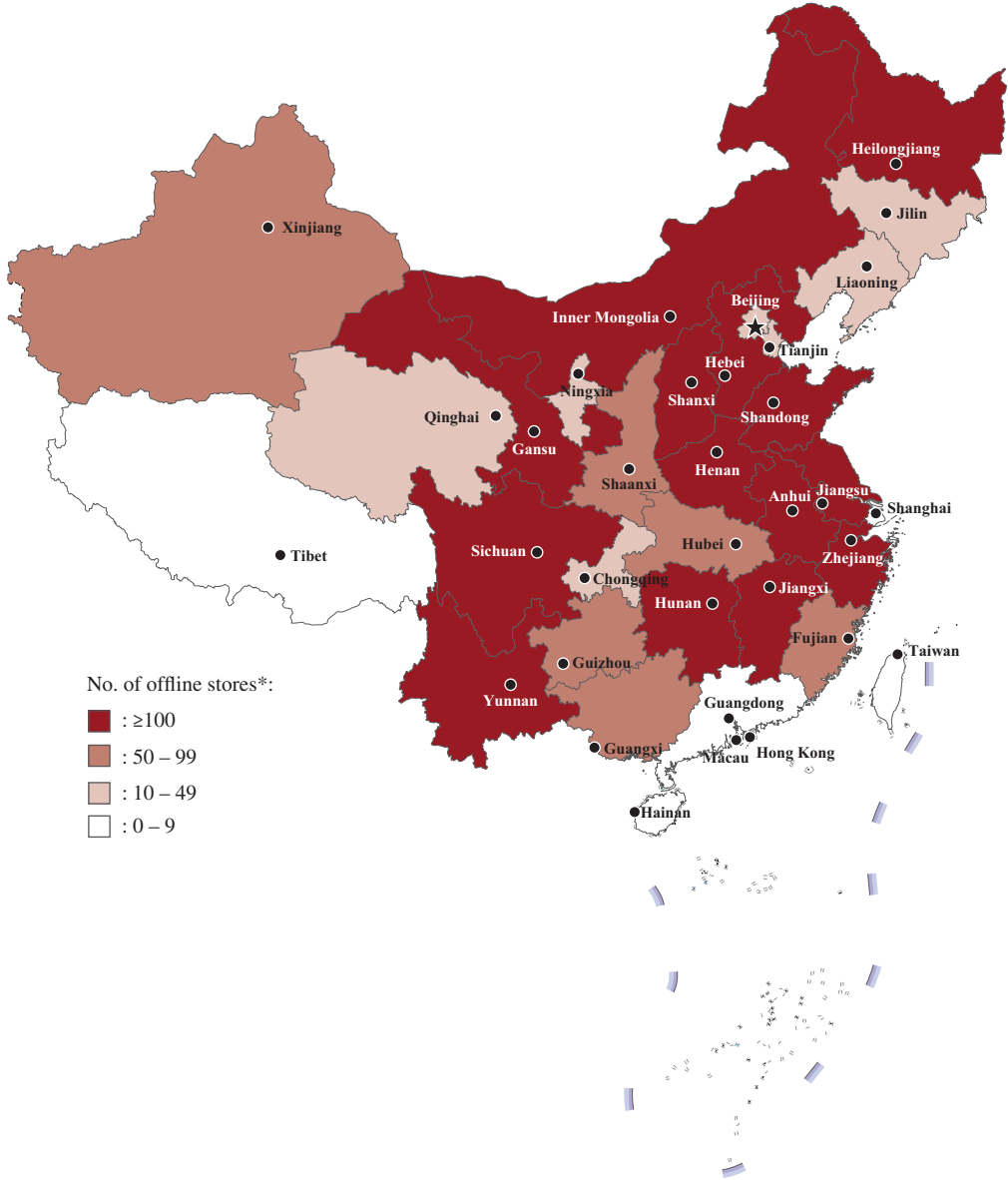
Save as disclosed above, none of our franchisees or provincial-dealers have any relationship with our Group, their respective Directors or shareholders during the Track Record Period.

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Offline Sales

We have established an extensive national-wide offline sales network comprising franchise stores and self-operated stores. As of June 30, 2024, our offline sale network had a total of 2,850 franchise stores operated by 1,670 franchisees, 36 self-operated stores, seven self-operated direct service centers and 17 provincial-dealers located in more than 1,400 county-level areas in over 250 cities across multiple provinces and municipalities in the PRC.

The map below illustrates the locations of our offline sales network in the PRC as of the Latest Practicable Date:



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The following table sets forth a breakdown of number of our franchise stores by tiers of city as of the end of each year/period during the Track Record Period:

	As of December 31,						As of June 30,	
	2021		2022		2023		2024	
	Number of franchise stores	% of total number of franchise stores (%)	Number of franchise stores	% of total number of franchise stores (%)	Number of franchise stores	% of total number of franchise stores (%)	Number of franchise stores	% of total number of franchise stores (%)
Tier 1 cities	8	0.3	9	0.3	15	0.5	15	0.5
Tier 2 cities	676	25.2	696	25.4	732	26.0	744	26.1
Tier 3 cities	765	28.6	778	28.4	798	28.3	802	28.2
Tier 4 and lower cities	1,231	45.9	1,260	45.9	1,272	45.2	1,289	45.2
Total:	2,680	100.0	2,743	100.0	2,817	100.0	2,850	100.0

The following table sets forth a breakdown of the geographical areas of our franchise stores during the Track Record Period:

	As of December 31,						As of June 30,	
	2021		2022		2023		2024	
	Number of franchise stores	% of total number of franchise stores (%)	Number of franchise stores	% of total number of franchise stores (%)	Number of franchise stores	% of total number of franchise stores (%)	Number of franchise stores	% of total number of franchise stores (%)
Northeast region	253	9.4	258	9.4	280	10.0	290	10.2
Northern region	857	32.0	906	33.0	958	34.0	975	34.2
Northwest region	404	15.1	415	15.1	431	15.3	444	15.6
Southwest region	384	14.3	398	14.5	418	14.8	417	14.6
Eastern region	429	16.0	424	15.5	421	14.9	423	14.8
Southern region	353	13.2	342	12.5	309	11.0	301	10.6
Total	2,680	100.0	2,743	100.0	2,817	100.0	2,850	100.0

PRC

Northeast region	253	9.4	258	9.4	280	10.0	290	10.2
Northern region	857	32.0	906	33.0	958	34.0	975	34.2
Northwest region	404	15.1	415	15.1	431	15.3	444	15.6
Southwest region	384	14.3	398	14.5	418	14.8	417	14.6
Eastern region	429	16.0	424	15.5	421	14.9	423	14.8
Southern region	353	13.2	342	12.5	309	11.0	301	10.6
Total	2,680	100.0	2,743	100.0	2,817	100.0	2,850	100.0

BUSINESS

(a) Franchise Stores

We have a rapidly growing sales network supported by our franchisees. We believe our business model of having franchise stores across the PRC allows us to expand rapidly in targeted markets as the franchise business model provides an asset-light and cost-effective means of expanding our store network and geographical coverage. By partnering with local franchisees who possess exceptional distribution capabilities and local industry knowledge, we were able to efficiently enter into and expand our retail presence in third and lower tier cities in China. For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, we recorded an average revenue^(Note) of RMB5.5 million, RMB5.4 million, RMB6.7 million and RMB2.9 million per franchise store, respectively. According to Frost & Sullivan, the engagement of franchise stores as a method of distribution is common in the gold jewellery industry in the PRC.

We enter into a separate franchise agreement with each franchise store. Our franchise agreements grant franchisees the rights to operate and open franchise stores within specific geographical regions, and to sell our products under our brand name “梦金园” to consumers. While the franchisee is primarily responsible for managing the franchise store, staffing, and profit and loss, we closely supervise our franchisees to ensure consumer satisfaction, service quality, and to protect our reputation. To ensure consistency in operations, we provide a set of operational procedures that our franchisees are required to comply with. See the section “— Sales and Distribution Channels — Franchisees and provincial dealers management” above for further details.

To enhance franchisee management and standardize the image of our franchise stores, we have implemented a systematic and unified standard. This standard covers various aspects, including product display, sales process, after-sales service, pricing, promotion, salesperson appearance, and promotional language. We occasionally ask managers and inspectors to visit and record the business operation of franchise stores.

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

	Year ended December 31,			Six months ended June 30,
	2021	2022	2023	2024
Beginning of the year/period	2,543	2,680	2,743	2,817
Additions	318	258	301	115
Closures	(181)	(195)	(227)	(82)
Net increase	137	63	74	33
End of the year/period	2,680	2,743	2,817	2,850

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, the number of franchise stores closed was 181, 195, 227 and 82, respectively. The major reasons for closure of stores during the years/period indicated were (i) failure of franchise store to follow our store operational standards; (ii) franchisees took the initiative to terminate for various reasons, including the franchisees considered the performance of the franchise store to be unsatisfactory; and (iii) termination of or disagreements to the renewal of lease agreements.

Note: Calculated by dividing revenue derived from franchise network (i.e. including revenue generated from provincial-dealers) by the total number of franchise stores as of the ending date of the respective year/period.

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During the Track Record Period, we implemented a careful expansion strategy and successfully attracted a fitting number of new franchisees. We also proactively adjust and improve our distribution management strategies to suit our business development. By maintaining stringent management control, we terminated our business relationship with franchisees who failed to meet our expectations in terms of sales performance, operational capabilities, active transactions, and materially breached our franchise management policies. During the Track Record Period, there was no material breach of franchise agreement that resulted in a material adverse impact to our Group.

Set forth below is a summary of the salient terms of our franchising agreements for franchise stores:

- Duration: Typically for one year and is renewable.
- Exclusivity: Without our prior consent, our franchisees shall only sell products sourced from us. For application procedures for the sales of products sourced from third parties, see “— *Admittance of third-party products*”.
- Minimum sales target: . . . Depending on the historic transaction amount, we may require franchisees for a minimum sales amount.
- Restrictions on appointing sub-distributor(s): . . . There are no provisions in our franchising agreements restricting our franchisees from further appointing sub-distributors^(Note).
- Store location: Our franchisees are required to operate the franchise store only in our approved premises and not at any other premise or online platforms in order to minimize malicious competition among franchisees.
- Cost of renovation of store: The franchisees shall be responsible for appointing renovation agencies approved by us to renovate the franchise store, provided that the renovation plan is in accordance with our internal standards.

Note: We enter into a separate franchise agreement with the relevant franchisee for each franchise store. Thus, before a franchisee opens a franchise store through a sub-distributor, such franchisee would have to receive our consent and enter into a separate franchise agreement with us. As of the Latest Practicable Date, we had not entered any such agreements, and neither were we aware of the appointment of sub-distributors by any of our provincial-dealers or franchisees. Moreover, our relevant personnel regularly visit our franchise stores, and during such visits they have not come across franchise stores that have not been authorized by us. Accordingly, to the best of our knowledge, there were no appointments of sub-distributors by our provincial-dealers and franchisees, and hence no revenue attributable to provincial-dealers and franchisees who engaged sub-distributors. In addition, our sales to provincial-dealers and franchisees are buy-out sales and we had not received substantial product returns during the Track Record Period. Based on the aforementioned, our Directors are of the view that there was no abnormal accumulation of inventories from our franchisees that raises reasonable suspicion of the existence of sub-distributors during the Track Record Period.

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Settlement terms and credit period:	Upon execution of the franchising agreement, our franchisees are required to pay an annual brand royalty and franchising fee. According to the franchising agreement, we charge a fixed annual brand royalty fee of RMB30,000 for each franchise store, which may be discounted at our discretion. We also charge a one-time franchising fixed fee of RMB10,000 per franchise store. The annual brand royalty fee and franchising fee were set by us with reference to similar fees charged by our industry peers according to Frost & Sullivan. Fees that we collected are applied to commercials, advertisements, sales events, amongst other events/ purposes that we believe can support and strengthen our franchise network. According to Frost & Sullivan, the annual brand royalty fee and the franchising fee that we charge per franchise store are within the industry norm, which usually range from RMB30,000 to RMB100,000, or are determined by a designated percentage of the sales value of the previous year. Thereafter, franchisee settle with us based on the actual amount of products purchased. We generally grant franchisees a credit period ranging from three to 90 days.
Suggested retail price and discount:	We set a suggested retail price for our gold jewellery products. Our franchisee shall participate in promotional activities arranged by us.
Transfer of risk:	The risk transfers to the franchisees after they complete inspection and confirm receipt of the products on the day of delivery. The franchisee is also responsible for purchasing insurance for the delivery of products.
Product return:	Once the franchisee has accepted delivery of the goods, we generally do not allow the return of products. According to Frost & Sullivan, our product return policy is in line with industry practice.

(b) Provincial-dealers

In regions where we do not have our own self-operated direct service centers, we appoint provincial-dealers to handle sales distribution to franchisees in that region. As of December 31, 2023, we had 17 provincial-dealers and there had been no changes of number of provincial-dealers throughout the Track Record Period. Provincial-dealers set up exhibition halls where our products will be showcased, and franchisees in such regions can source our products at the exhibition halls. According to Frost & Sullivan, the engagement of provincial-dealers is common in the gold

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jewellery industry in the PRC. For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, we recorded an average revenue of RMB315.5 million, RMB306.3 million, RMB391.1 million and RMB144.3 million per provincial-dealer^(Note), respectively.

While provincial-dealers facilitate the distribution of our products to franchisees within the regions, we are responsible for the brand management, store management, and after-sales services for franchisees in the respective regions.

We normally deliver our products to provincial-dealers’ exhibition halls without transferring title of goods, and provincial-dealers will only confirm purchases and settle with us after they sell such products to franchisees. However, diamond products are usually delivered to provincial-dealers following their confirmed purchases, and we generally grant a product exchange period of five years for diamond products only.

Set forth below is a summary of the salient terms of our provincial-dealer agreements with provincial-dealers:

- Duration: Typically for one year.
- Area of distribution: Provincial-dealers are restricted to distributing our products within the agreed region. We have the right to expand, re-assign or modify the operating regions of the provincial-dealer.
- Use of brands: Provincial-dealers are authorized to use our brands, trademarks and other intellectual property rights within the agreed region. They are required to protect our brand and reputation during their ordinary course of business and marketing and promotion activities. Provincial-dealers are prohibited from authorising third-parties to use our brand.
- Minimum sales target: Depending on the historic transaction amount, we may require provincial-dealers for a minimum sales amount.
- Restrictions on appointing sub-distributor(s): There are no provisions in our provincial-dealer agreements restricting our provincial-dealers from further appointing sub-distributors.
- Cost for operating exhibition hall: The provincial-dealer shall be responsible for appointing renovation agencies approved by us to renovate the exhibition hall premises, provided that the renovation plan is in accordance with our internal standards.

Note: Calculated by dividing revenue derived from provincial-dealers by the total number of provincial-dealers as of the ending date of the respective year/period.

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Admittance of third party products:	Provincial-dealers may only sell products of third parties in accordance with our relevant product admittance procedures.
Resale selling price of products:	Provincial-dealers must onward sell our jewellery products to franchisees in accordance with the price guidance provided by us.
Settlement and credit terms:	At the end of an day of sale in exhibition halls, the provincial-dealers shall confirm with us the amount of products sold. Upon the conclusion of an agreed period, provincial-dealers shall settle with us based on the actual number of products sold. We generally grant provincial-dealers a credit period ranging from three to 90 days.

(c) *Self-operated stores*

We operate self-operated stores to directly sell our products to consumers. We believe business strategies on having self-operated stores are built on several benefits, including:

- **Greater control over the consumer experience:** By owning and operating our self-operated stores, we have greater control over the consumer experience and can ensure that our products and customer services align with our brand’s values and standards.
- **Improved brand recognition:** Self-operated stores can help improve brand recognition and awareness, as consumers can directly interact with our products and staff. It also sets a standard for our franchisees to follow in the operation of their franchise store.
- **Increased revenue and profitability:** By selling our products directly to consumers, we can eliminate distributor costs and therefore increase our revenue and profitability.

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For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, we recorded an average revenue of RMB11.5 million, RMB11.5 million, RMB11.8 million and RMB5.6 million per self-operated store^(Note 1), respectively comparing with average revenue per franchise store^(Note 2) of RMB5.5 million, RMB5.4 million, RMB6.7 million and RMB2.9 million for the same period, respectively. During the same period, the average monthly sales per self-operated store^(Note 3) were approximately RMB957,000, approximately RMB954,000, approximately RMB981,000 and approximately RMB926,000, respectively, comparing with the average monthly sales per franchise store^(Note 4) of approximately RMB458,000, approximately RMB451,000, approximately RMB560,000 and approximately RMB480,000, respectively.

Same store sales of our self-operated stores

Our profitability is affected in part by our ability to successfully increase revenue from our existing stores, primarily through the launch of new products and various marketing and promotional events, such as the “One RMB Exchange” promotions and advertisement through different media. We utilize data collected from our self-operated stores to illustrate the condition of our same store growth because we have robust data from such stores for the relevant analysis. Same store sales growth rates of our self-operated stores provide a period-to-period comparison of our performance, excluding increases and decreases due to the opening and closing of new self-operated stores and only taking into account of stores that were in operation at the ending dates in both of the compared years. There are variations in the way in which other retailers calculate these metrics. Accordingly, our Directors are of the view that these metrics may not be fully comparable with those of our competitors.

Notes:

- (1) Calculated by dividing revenue derived from self-operated stores by the total number of self-operated stores as of the ending date of the respective year/period.
- (2) Calculated by dividing revenue derived from franchise network (i.e. including revenue generated from provincial-dealers) by the total number of franchise stores as of the ending date of the respective year/period.
- (3) Calculated by dividing average revenue per self-operated store (calculation as indicated in Note 1 above) by the number of months of the relevant year/period.
- (4) Calculated by dividing average revenue per franchise store (calculation as indicated in Note 2 above) by the number of months of the relevant year/period.

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The table below sets forth our same store sales of self-operated stores for the years indicated:

	Year ended December 31,		Year ended December 31,		Six months ended June 30,	
	2021	2022	2022	2023	2023	2024
Number of the same self-operated stores that were in operation at the ending dates in both of the compared years/periods	27		29		28	
Same store sales of our self-operated stores (RMB'000)	347,313	340,725	349,040	362,033	202,607	170,376
Same store sales growth of our self-operated stores (%)	(1.9) ⁽¹⁾		3.7		(15.9) ⁽²⁾	

Notes:

- (1) The same store sales growth of self-operated stores was (1.9)% for the year ended December 31, 2022, primarily because of disruptions to the operation of our self-operated stores caused by the pandemic.
- (2) The same store sales growth of self-operated stores was (15.9)% for the six months ended June 30, 2024 when compared to the corresponding period in 2023, which was in line with the fluctuation in sales at our self-operated stores due to the decline in consumption sentiments of purchase of gold products.

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

	Year ended December 31,			Six months ended June 30,
	2021	2022	2023	2024
Beginning of the year/period	28	31	32	35
Additions	3	4	8	1
Closures ^(Note)	—	(3)	(5)	—
End of year/period	31	32	35	36

Note: Major reasons for closure of stores during the Track Record Period included change in our marketing strategy.

E-commerce sales

We have also been ramping up our online presence and catering to our consumers’ evolving consumption patterns. Through making our products available on leading, nationwide e-commerce platforms, such as JD.com and Tmall, which are independent third-parties, our gold jewellery products are easily accessible by our consumers via online platforms. Our online sales grew rapidly

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across the Track Record Period. Revenue recorded from our e-commerce sales for the year ended December 31, 2021 of RMB1,608.3 million was higher than that in 2022 and 2023, mainly due to our sales of gold bullion to Vipshop, for a promotional event. For details, see “Financial Information — E-commerce sales”. As we continue to expand our footprints online, we believe we are able to broaden our consumer coverage and forge a lasting connection between our brand and consumers.

We adopt two types of e-commerce sales model as following:

<u>Sales Model</u>	<u>Major e-commerce platforms</u>	<u>Description</u>	<u>Settlement</u>	<u>Logistics</u>
Self-operated E-commerce . . .	Tmall, JD.com POP	We establish our own online stores on the e-commerce platforms and sell goods directly to consumers	Consumer makes payments to the e-commerce platform or their payment gateways, then such amount will be transferred to us after confirmation of sales	We engage third party service providers to deliver the goods to the consumers directly
Sales to platform	Vipshop, JD.com and etc.	The e-commerce platform either settles with us directly upon purchase or settles with us after they have successfully sell our products on behalf of us. The e-commerce platform then sells our products to consumers on our behalf.	Bank transfer	We deliver the goods to the designated warehouses of the e-commerce platform and the e-commerce platform handles the delivery to the consumers

(a) *Self-operated E-commerce*

Under our self-operated e-commerce model, we sell directly to consumers through establishing our online flagship stores on three main e-commerce platforms, namely, Tmall, JD.com, PinDuoDuo among others, and thus providing a convenient and efficient shopping experience to our consumers. The following key steps summarizes our self-operated e-commerce operations:

- Consumers place orders through our online flagship stores on the e-commerce platforms, and pay for the jewellery products via the platform’s payment gateway.
- Payments are automatically credited to our e-commerce account once the order is confirmed and we issue invoices to consumers as required.
- We provide delivery, product return, and after-sales services directly to the consumers.

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Consumers are generally allowed to return the purchased products within the purchase cool-down period, which is generally seven days upon purchased and they are eligible for a refund.

(b) Sales to platforms

Under our sales to platforms model, we sell our product directly to the e-commerce platforms and they settle with us accordingly. We deliver the goods to the warehouses of the e-commerce platforms and they are responsible for product promotion, order management and delivery. Consumers place orders and pay directly to the e-commerce platforms and the e-commerce platforms arrange delivery and provide after-sales services as necessary, whereas we provide after-sales services to the e-commerce platforms in accordance with our contractual obligations. The e-commerce platforms settle with us on a regular basis following the agreed billing period. According to Frost & Sullivan, the engagement of e-commerce platforms for the distribution of our products is in line with the industry norm in the gold jewellery industry.

Set forth below is a summary of the salient terms of our standard agreements with e-commerce platforms during the Track Record Period:

- Duration: Typically for one year.
- Minimum purchase requirement: We generally do not set sales target for e-commerce platforms.
- Pricing policy: We generally sell our products through e-commerce platforms at a mutually agreed price after considering the suggested price provided by us.
- Product return: The terms and policies for product return between e-commerce platforms vary, we generally allow product return in various circumstances including product defects or products not sold to consumers after a set period of time, which is usually seven or 15 days in accordance with return policy of the e-commerce platforms. In case product return is allowed, e-commerce platforms will give refund instructions to us in the manner as contractually agreed and we shall reimburse the e-commerce platforms for refunds. According to Frost & Sullivan, our product return policy is in line with industry practice.
- Credit terms: Based on the specific arrangements, we generally grant a credit period within 30 days.

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The table below sets forth the changes in the number of e-commerce platforms under sales to platforms engaged by us during the Track Record Period.

	Year ended December 31,			Six months ended June 30,	
	2021	2022	2023	2024	
Beginning of the year/ period	8	10	13	12	12
Additions	4	4	3	—	—
Cessation ^(Note)	(2)	(1)	(4)	—	—
End of year/period	<u>10</u>	<u>13</u>	<u>12</u>	<u>12</u>	<u>12</u>

Note: The major reason for cessation was due to adjustments in marketing strategy by our management.

For sales of goods from self-operated online stores, revenue is recognised when the end customer confirms acceptance of goods. For sales of goods to platforms, revenue is recognised when the platform accepts goods or we delivered to the carrier designated by the platform. The point at which revenue is recognised is also the point at which the customer obtains control of goods. Such revenue recognition practices comply with our Group’s revenue recognition policy.

The actual amount of returns from e-commerce platforms during the Track Record Period were as follows:

	Year ended December 31,						Six months ended June 30,	
	2021		2022		2023		2024	
	Actual amount of returns	Percentage	Actual amount of returns	Percentage	Actual amount of returns	Percentage	Actual amount of returns	Percentage
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
E-commerce returns ^(Note) :								
Self-operated online stores . . .	10,607.4	26.9	18,818.8	69.5	41,686.8	74.0	28,677.5	33.0
Sales to platform	28,757.3	73.1	8,277.9	30.5	14,622.9	26.0	58,350.8	67.0
Total:	<u>39,364.7</u>	<u>100.0</u>	<u>27,096.7</u>	<u>100.0</u>	<u>56,309.7</u>	<u>100.0</u>	<u>87,028.3</u>	<u>100.0</u>

Note: The amount of sales returns from e-commerce platforms “after receipts were confirmed” is also included.

Returns from e-commerce platforms include both returns from end consumers to our self-operated online stores and returns from our sales to platforms. The major reasons for the return of goods from e-commerce platform sales to consumers included: (i) returns during the seven-day cool-down period for online purchases, and (ii) consumers refusing to accept goods due to personal reasons. For returns from e-commerce platforms during the Track Record Period, the majority of returns occurred before the consumer or the system confirmed receipt of goods, meaning that returns happened before we recognized revenue. Fewer returns occurred after receipts were

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confirmed. Returned goods from e-commerce platform sales constituted a de minimis portion of our total sales during the Track Record Period. Returned products from e-commerce platforms are generally resold on e-commerce platforms. Changes in our sales returns from e-commerce closely followed our sales trends through this channel, and the rapid increase in the actual amount of returns through our e-commerce channel was mainly attributed to the increase in actual returns from our sales to end consumers via our self-operated online stores. In 2021, our e-commerce sales returns were primarily from transactions with platforms, notably from sales of gold bullion to Vipshop. In 2022, our e-commerce sales returns decreased in line with a reduction in our overall e-commerce sales, however such decrease was partially offset by an increase in the actual amount of returns from our self-operated online stores as our sales through such channel materially increased to RMB233.6 million in 2022 from RMB79.1 million in 2021. In 2023, our e-commerce sales returns increased mainly due to returns from end consumers who purchased via our self-operated online stores. In turn, this increase in sales returns was primarily attributed to our sales of gold bullion to end consumers through our self-operated online stores on JD.com. For the six months ended June 30, 2024, our e-commerce sales returns were primarily from sales to platforms, particularly from sales of gold bullion to a leading PRC online retailer.

Sales returns after receipts confirmation are not allowed for most e-commerce platforms, while returns after receipts confirmation due to quality issues are only allowed for few e-commerce platforms within a certain period of time. In practice, sales returns from e-commerce platforms “after receipts were confirmed” is directly deducted from the revenue.

Sales to Vipshop under a Promotion Event in 2021 and the first half of 2024

Certain online retailers may procure products from us when they conduct promotional events. In 2021, we sold a large batch of gold bullion to a leading online discount retailer, Vipshop. The gold bullion sold to Vipshop was then resold at a promotion event throughout 2021 organized by Vipshop. During this event, Vipshop promoted the sales of gold bullion to its members at a discount to market prices. Vipshop obtained the gold bullion through us, and we received approximately 3,300 orders from Vipshop during the 40-week promotion event. We believe Vipshop collaborated with us because of our (i) market reputation; and (ii) sales and supply chain capability. In addition, Vipshop made another procurement of gold bullion from us in the first half of 2024 for its promotional event. We generally do not allow the return of gold bullion, and during the Track Record Period, we received only a de minimis amount of gold bullion returns from the online discount retailers we sold to, including Vipshop in 2021.

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Loss-making stores

During the Track Record Period, there were some loss-making stores and the details are as below:

	Year ended/As of December 31,			Six months ended/As of June 30,
	2021	2022	2023	2024
Self-operated stores				
— Total number of self-operated stores ⁽⁶⁾	31	35	40	36
— Number of loss-making self-operated stores	4	7	3	6
— Aggregate operating loss amount (RMB'000)	259.2 ⁽¹⁾	1,730.0 ⁽²⁾	636.8 ⁽³⁾	930.7 ⁽⁴⁾
E-commerce stores				
— Number of e-commerce stores	12	14	16	14
— Number of loss-making e-commerce stores	5	6	6	6
— Aggregate operating loss amount (RMB'000)	4,718.9 ⁽⁵⁾	2,928.0 ⁽⁵⁾	2,182.3 ⁽⁵⁾	1,728.1 ⁽⁵⁾

Notes:

- (1) We had an aggregate operating loss of RMB259,200 from our self-operated stores in 2021, primarily due to the slow-moving sales at one self-operated store, which contributed to be approximately 50% of the loss.
- (2) We had an aggregate operating loss of RMB1.7 million from our self-operated stores in 2022, primarily due to the adjustments in the leasing contract of one of the self-operated stores and an increase in leasing costs at another.
- (3) We had an aggregate operating loss of RMB0.6 million from our self-operated stores in 2023, primarily due to we established several self-operated stores in 2023, all of which have yet to reach breakeven, thereby causing an operating loss. In particular, out of the newly established stores, we have closed down one of them due to the low sales volume, which further contributed to the aggregate operating loss of our self-operated stores.
- (4) We had an aggregate operating loss of RMB0.9 million from our self-operated stores for the six months ended June 30, 2024, primarily due to the establishment of one new self-operated store towards the end of 2023 and one at the beginning of 2024, both of which have yet to reach breakeven, thereby causing an operating loss.
- (5) We had aggregate operating losses from our e-commerce stores of RMB4.7 million, RMB2.9 million, RMB2.2 million and RMB1.7 million in 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively, primarily due to the establishment of new e-commerce stores and the operational expenses of e-commerce stores. The costs we incurred in association with many of such stores, including marketing and promotion fees, staff salaries and other miscellaneous expenses, exceeded the gross profits we derived from sales of products in such stores because they were still in the sales ramp-up stage.
- (6) The number of self-operated stores includes all self-operated stores that were in operation during the relevant year/period in the Track Record Period.

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Our customers

Our customers are primarily our franchisees and provincial-dealers. They normally settle payment with us by bank transfer and/or by way of gold trade-in settlement. Consumers are also considered as our customers if they purchase directly from our self-operated stores or self-operated e-commerce platforms.

Our five largest customers of each year/period of the Track Record Period primarily consist of provincial-dealers, except for an online retailing platform as one of our five largest customers in 2021 and six months ended June 30, 2024, and one franchisee as one of our five largest customers in 2023. The revenue we derived from our five largest customers of each of the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024 accounted for approximately 23.2%, 17.6%, 18.7% and 21.3% of our total revenue for the respective year/period. Save for customers who participated in the gold trade-in activities, none of our five largest customers of each year/period during the Track Record Period supplied gold to us in each year and period during the Track Record Period. For details of our gold trade-in, see “— Gold Trade-in”.

During the Track Record Period, we were not dependent on any single customer. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any major disruption of business due to material delay or default of payment by our customers due to their financial difficulties, nor had we experienced any material disputes with our customers causing material disruption to our business. None of our Directors or their respective close associates or any of our Shareholders who own more than 5% of our issued share capital had any interest in any of our five largest customer of each of the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024. During the Track Record Period, we did not enter into any long term contracts with our five largest customers of each of the respective year/period.

Pricing Policy

We generally adopt a cost-plus pricing policy for our gold jewellery and K-gold products. When we sell our gold products and K-gold, we normally charge customers based on prevailing market price of gold and crafting fees, multiplied by the weight of gold. Crafting fees represent mark-ups on top of the costs of our products, which vary by product and by the transaction type. We determine crafting fees primarily with reference to the following criteria: (i) whether the transaction is settled by trade-in gold from third-party brands, we charge a higher crafting fee to cover the necessary costs of purifying and processing gold from third-party brands, (ii) our counterparty, namely (a) consumers with whom we directly transact, or (b) franchisees and/or provincial-dealers, whereby we charge a higher crafting fee when transacting with consumers to align with the charges imposed by our franchisees when they transact with consumers, (iii) the product specification, including its design and production complexity, and (iv) whether the product is to be sold under the “One RMB Exchange” for our “Wan Purity” series products. The crafting fees listed in the table below illustrate the differences between crafting fees charged for the same gold jewellery product in different scenarios. The crafting fees listed are for illustrative purpose only and are not indicative of the actual crafting fees charged for each scenario.

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	Settlement Party		
	Consumers of Self-operated Stores	Franchisees	Provincial- dealers
	Crafting Fee per Gram		
Form of Settlement			
Cash	RMB45	RMB18 ^(Note 2)	RMB15 ^(Note 2)
Trade-in Gold of Our Own Brand	RMB65 ^(Note 1)	RMB18 ^(Note 2)	RMB15 ^(Note 2)
Trade-in Gold of Third-party Brand	RMB75 ^(Note 1)	RMB21	RMB18

Note 1: The crafting fee charged to consumers when gold trade-in is involved is determined with reference to (i) our market position in, and (ii) the competitive landscape of, the relevant market.

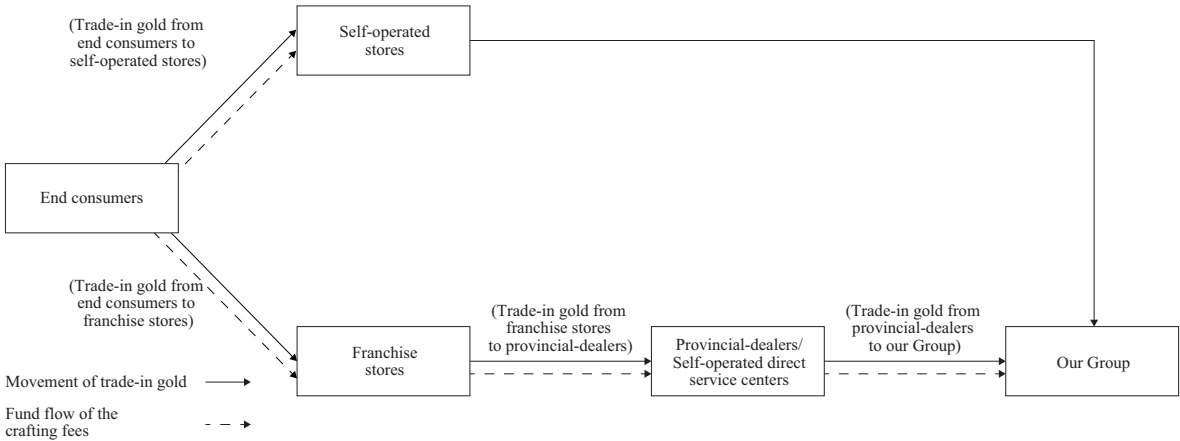
Note 2: The crafting fee charged to franchisees and provincial-dealers is the same when gold trade-in is settled in cash or gold of our brand. This is because we believe in the quality of gold jewellery of our own brand and does not require mark-up on crafting fee when trade-in gold is of our own brand.

In addition, we charge a nominal crafting fee under the “One RMB Exchange” program, where our self-operated stores and franchise stores charge RMB1.0 per gram as the crafting fee for our end consumers, and we charge RMB4.5 per gram as the crafting fee for our provincial-dealers and franchisees. The table below sets forth the crafting fees we charged different parties under the “One RMB Exchange” program:

	Settlement Party		
	End consumers at both self-operated stores and franchise stores	Franchisees	Provincial- dealers
	Crafting fee per gram		
Form of Settlement			
Trade-in gold under the “One RMB Exchange” program	RMB1.0	RMB4.5	RMB4.5

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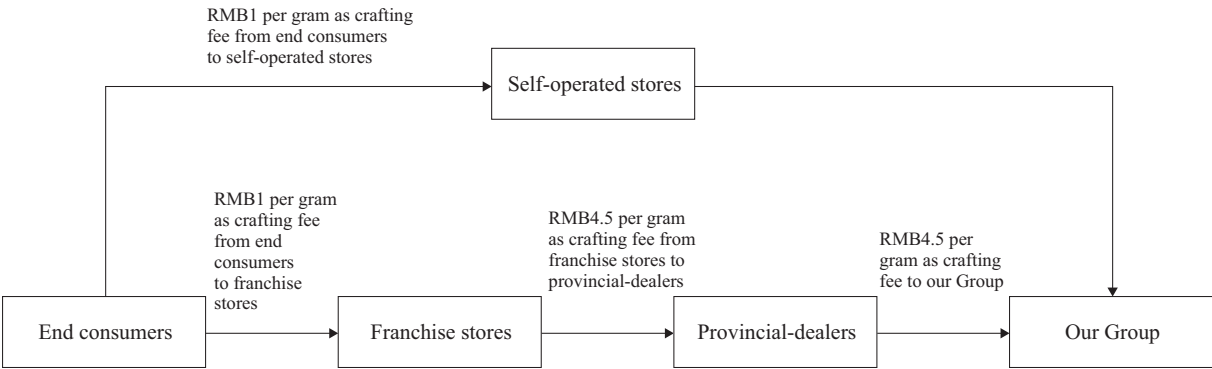
The following diagram outlines the transaction and fund flow of the “One RMB Exchange” promotion between our end consumers, franchise network, and our Group.



Under the “One RMB Exchange” program, we charge nominal crafting fees for the used gold received and for the additional new gold purchased (the portion that exceeds the weight of the trade-in gold), we charge regular crafting fee.

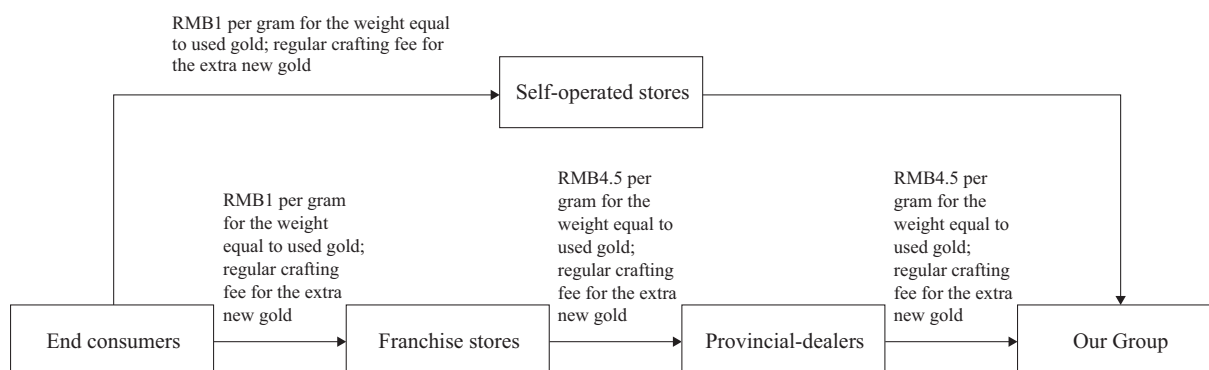
The following diagram illustrates the allocation of crafting fees charged by our franchise network during the “One RMB Exchange” program across two scenarios:

Scenario I: If the weight of the used gold is the same as that of the new gold, end consumers pay only RMB1 per gram for the trade-in gold. There is no gold price component payable in cash for the new product.



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Scenario II: If the weight of the used gold is less than that of the new gold jewellery, end consumers pay for the following components: (i) RMB1 per gram as the nominal crafting fees for the weight of used trade-in gold under “One RMB Exchange” program, (ii) the regular crafting fees for the extra new gold, and (iii) the price of the extra new gold, calculated as prevailing gold price multiplied by (the weight of the new gold minus weight of the used gold.)



Average and price range of crafting fees according to different source

During the Track Record Period, the crafting fees we derived from sales of gold jewellery and K-gold products were less than 5% of our total revenue for each of the respective year/period. The following table sets forth the crafting fees associated with gold jewellery and K-gold products for each year during the Track Record Period:

	Year ended December 31,			Six months ended June 30,
	2021	2022	2023	2024
	RMB	RMB	RMB	RMB
Gold jewellery^(Note 3)				
Crafting fee range ^(Note 1)	1.00–199.98	1.00–189.92	1.00–215.49	1.00–209.99
Average crafting fee ^(Note 2)	15.53	14.81	18.38	18.68
K-gold products^(Note 3)				
Crafting fee range ^(Note 1)	10.82–399.98	7.50–389.97	1.00–408.29	1.28–410.96
Average crafting fee ^(Note 2)	46.26	59.12	51.99	41.12

Notes:

- (1) We exclude the fixed-price products, when we calculate crafting fee range.
- (2) We calculate the average crafting fee for trade-in gold jewellery and K-gold products using the total crafting fee in RMB divided by the total gold weight in grams.

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(3) We have a diverse range of trade-in gold jewellery and K-gold product types. We charge different crafting fees based on the styles and types of the gold jewellery and K-gold products, which results in a wide range of crafting fee. It is necessary to account for the differences in the complexity, including the level of detail for the product design (i.e., one pattern or multiple patterns), and craftsmanship, including pressing and product surface treatment, required for each distinct K-gold product. Crafting fees for our gold jewelry products are generally higher for high-precision, semi-handcrafted ancient-style craftsmanship, with fees reaching up to approximately RMB209 per gram, depending on the complexity of the craftsmanship methods and styles used. Similarly, crafting fees for our K-gold products are higher for inlaid designs, with fees reaching up to approximately RMB410 per gram, based on the number of inlays and the complexity of the craftsmanship.

The following table sets forth the crafting fees associated with gold jewellery and K-gold products through gold trade-in transactions for each year during the Track Record Period:

	Year ended December 31,			Six months ended June 30,
	2021	2022	2023	2024
	RMB	RMB	RMB	RMB
Sales of gold jewellery settled by traded-in gold				
Crafting fee range ^(Note 1)	1.00–199.98	1.00–189.92	1.00–208.98	1.00–208.14
Average crafting fee ^{(Note 2) (Note 4)}	11.33	9.93	11.82	15.74
Sales of K-gold products settled by traded-in K-gold^(Note 3)				
Crafting fee range ^(Note 1)	10.84–399.04	7.50–389.77	1.00–408.29	1.28–410.3
Average crafting fee ^(Note 2)	53.63	61.61	60.43	59.91

Notes:

- (1) We exclude the fixed-price products, when we calculate crafting fee range for products through gold trade-in.
- (2) We calculate the average crafting fee for trade-in gold jewellery and K-gold products using the total crafting fee in RMB divided by the total trade-in gold weight in grams.
- (3) We have a diverse range of trade-in K-gold product types. We charge different crafting fees based on the styles and types of the K-gold products, which results in a wide range of crafting fee. It is necessary to account for the differences in the complexity and craftsmanship required for each distinct K-gold product.
- (4) The average crafting fee associated with gold jewellery through gold trade-in transactions was lower than the average crafting fee associated with sales of gold jewellery mainly due to “One RMB Exchange” program.

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The following table sets forth the crafting fees associated with trade-in gold from our brand and from third-party brand for each year during the Track Record Period:

	Year ended December 31,			Six months ended June 30,
	2021	2022	2023	2024
	RMB	RMB	RMB	RMB
Sales settled by trade-in gold from our brand (excluding gold bullion)				
Crafting fee range	1.00–199.83	1.00–189.44	1.00–199.71	1.00–208.14
Average crafting fee ^(Note 1)	8.02	7.61	9.18	13.24
Sales settled by trade-in gold from third-party brand (excluding gold bullion)				
Crafting fee range	7.2–199.98	6.05–189.92	8.00–208.98	7.17–198.12
Average crafting fee ^{(Note 1)(Note 2)}	15.36	17.03	21.45	20.89
Sales settled by trade-in gold bullion				
Crafting fee range ^(Note 3)	1.00–97.06	1.00–83.30	1.00–83.82	1.00–97.73
Average crafting fee	4.80	1.72	4.14	5.11

Notes:

- (1) We calculate the average crafting fee from our brand and from third-party brand using the total crafting fee in RMB divided by the total trade-in gold weight in grams.
- (2) Our average crafting fee for sales settled by trade-in gold from third-party brand was largely in line with the average crafting fee of our gold products for 2021. Commencing in 2022, we implemented stricter control on accepting traded-in gold from third-party brand and continued to charge higher crafting fees on sales settled by trade-in gold from third-party brand. As a result, our average crafting fee for sales settled by trade-in gold from third-party brand had been evidently higher than the average crafting fee of our gold products since 2022.
- (3) Our trade-in program for gold bullion includes craft gold bullion, investment gold bullion, and investment ornaments. Crafting fees for craft gold bullion and investment ornaments are higher due to their intricate designs and craftsmanship.

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The following table sets forth the crafting fees of trade-in gold from different customer types, such as consumers who purchase from our self-operated stores, provincial-dealers and franchisees for each year during the Track Record Period:

	Year ended December 31,			Six months ended June 30,
	2021	2022	2023	2024
	RMB	RMB	RMB	RMB
Self-operated stores’ sales to end consumers				
Crafting fee range	1.00–399.98	1.00–389.97	1.00–408.29	1.00–410.96
Average crafting fee ^(Note)	72.78	63.96	75.28	71.36
Sales to franchisees				
Crafting fee range	1.00–92.50	1.00–189.50	1.00–191.50	1.00–118.50
Average crafting fee ^(Note)	12.59	12.51	15.79	17.18
Sales to provincial-dealers				
Crafting fee range	1.00–46.50	1.00–40.50	1.00–102.00	1.00–30.50
Average crafting fee ^(Note)	11.33	10.79	13.54	15.21

Note: We calculate the average crafting fee for trade-in gold using the total crafting fee in RMB divided by the total trade-in gold weight in grams.

As indicated in the above, we handle a diverse range of trade-in K-gold product types. Different types of K-gold products incur varying crafting fees depending on their specifics. This broad range is due to the inclusion of various types of K-gold products in the trade-in gold. The wide range of crafting fees is attributed to (i) the diversity in styles of K-gold products; and (ii) each style may require different levels of craftsmanship and materials.

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The following table sets forth the crafting fees we charged during the “One RMB Exchange” program for each year during the Track Record Period:

	Year ended December 31,			Six months ended June 30,
	2021	2022	2023	2024
	RMB	RMB	RMB	RMB
Crafting fees charged by our self-operated stores to end consumers during the “One RMB Exchange” program				
Crafting fee range	1.00	1.00	1.00	1.00
Average crafting fee ^(Note 1)	1.00	1.00	1.00	1.00
Crafting fees we charge to franchisees under the “One RMB Exchange” program				
Crafting fee range	4.50	4.50	4.50	4.50
Average crafting fee ^(Note 1)	4.50	4.50	4.50	4.50

Note 1: We calculate the average crafting fee for our franchisees and self-operates stores during the “One RMB Exchange” program using the total crafting fee in RMB divided by the total trade-in gold weight in grams.

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, the total amount of crafting fees we charged aggregated to RMB513.6 million, RMB482.7 million, RMB662.8 million and RMB279.1 million, respectively, representing 3.0%, 3.1%, 3.3% and 2.8% of our total revenue for the corresponding years/period.

If there is an increase in the prevailing gold market price, we would adjust our price of gold jewellery and K-gold products based on the current market price. Diamond inlaying products are usually priced based on cost-plus basis, and we usually add to our cost a profit margin on different products with reference to their respective design complexity, novelty and popularity of the relevant product line on a case-by-case basis, and come up with a fixed selling price.

We have a suggested retail price guide for crafting fees to be charged, and franchisees have some discretion to conduct promotional sales as long as they meet with our minimum retail price requirements and franchisees can also adjust the mark-up based on fluctuations in the market gold price. To maintain fair competition, we encourage franchisees in the same city or region to maintain a consistent price, which is regulated by our market supervision department to prevent unfair competition.

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We usually transfer any increase in cost of gold material to our customers for gold products and maintain a reasonable profit margin. Our ability to pass on increases in costs of raw materials to our customers varied primarily depending on whether the jewellery products are priced mainly based on their cost of raw material or both their cost of raw material and crafting work.

Marketing and promotion

The high-purity of our gold jewellery demonstrates not only our leading technical know-how but also the crux of our marketing strategy setting us apart from our competitors. We understand and appreciate the deeply-rooted belief of Chinese consumers in the authenticity and invaluable nature of high-purity gold jewellery. As a result, high-purity gold is an integral part of our brand concept and jewellery design. Our commitment to using only the finest raw materials and our attention to craftsmanship ensure that our gold jewellery exceeds the high expectations of our customers in terms of both quality and value. Our focus is not only on the aesthetic appeal and trendiness of our gold jewellery products, but also on the cultural and emotional significance that they represent. By prioritizing these values, we aim to gain customer loyalty and enhanced our brand recognition through positive publicity.

We develop tailored marketing plans that cater to specific product characteristics and market demands. For example, we have teamed up with renowned intellectual property owners to introduce cross-over merchandise, such as the “Master Craftsman Legend (大師匠傳)” jewellery series in collaboration with the “Eight Imperial Handcrafts (燕京八絕)” and the “Lucky Golden Year (金年大吉)” jewellery series with a widely recognized beverage brand. We also introduced the “Sail with Dreams (小夢奇航)” jewellery series in honor of China’s space exploration achievements, among others. These products extend our brand influence and attract greater attention and participation from our consumers. In addition, our self-operated stores and franchisees’ stores simultaneously serve as our primary customer touchpoints and as our brand ambassadors. We provide guidelines to franchisees to design and decorate stores to provide a uniform ambiance that is both comfortable and stylish, thereby capturing consumers’ attention and stimulating their desire to purchase.

Due to our OBM capabilities, we are able to devise promotional plans for franchisees to take advantage of different festivals and holidays. We deploy consistent marketing and promotional strategies through operations management, daily training, and on-site supervision. As an illustration, we initiated the “One RMB Exchange” promotion, which runs for up to one week in each region annually. Through this promotion, our franchisees may accept consumer trade-in of their used high purity “Wan Purity” series gold jewellery of 999.9 for new pieces of “Wan Purity” series gold jewellery of the same weight or more by paying only the crafting fees of one RMB for each traded-in gram of gold to our franchisees or our self-operated stores, as applicable, and full price of any addition of gold purchased. Accordingly, consumers can enjoy the benefits of purchasing new pieces of gold jewellery while franchisees also benefit from consumer flow during such promotion events. As a result, this not only boosts consumers’ confidence and desire to purchase from us but also creates a positive cycle that encourages them to continue buying from our “**梦金园**” brand, thereby increasing brand recognition and customer loyalty.

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To strengthen our online marketing efforts, we have established a consumer-centric and multifaceted marketing system that encompasses live streaming, KOL sales, product reviews, advertorials, and more. Furthermore, we specially design promotional pages on leading e-commerce platforms like Tmall, JD.com, Pinduoduo, and Vipshop, utilizing superior content and captivating advertising to stimulate purchase intent and drive customers’ engagement.

We have established publicity and promotion management guideline which specifies the approval process for brand publicity, including social media publicity. The context of all external advertising manuscripts, product packaging, product theme posters, and other external promotional materials are reviewed by our legal and compliance departments before publication.

Inventory management

Our inventory comprises raw materials, work-in-progress and finished products.

We have a computerized inventory management system that enables us to track the level of inventory, particularly gold. As of the Latest Practicable Date, our computerized system extended to cover all of our provincial-dealers, allowing us to track the gold inventories held by provincial-dealers on a daily basis. However, due to the fact that the computerized system was only launched in mid-2022 and we did not mandatorily require our franchisees to adopt such system, data collected on franchisees’ inventory levels and sales records were not as complete as at the provincial-dealer level. Nevertheless, our Group normally track inventories levels of franchisees through sales reports and through regular site visits.

We manufacture our gold and jewellery products based on confirmed purchase orders from customers and estimated sales volume. Our sales and senior management teams analyze market information to determine the required amount of raw materials required to meet market demand for our products. We closely monitor our inventory levels of production materials, work-in-progress products, and finished products through daily reviews of computerized inventory records. We produce according to demand, thus we generally do not have a significant amount of slow-moving or obsolete stock.

We generally pre-set and maintain an inventory level for gold of approximately five tons, which represents approximately one-eighth of our total annual sales volume. We do not impose any policies on pre-set inventory level for our provincial-dealers and franchisees.

Inventory security

To ensure the security of our inventory which is mainly gold, we have implemented various security measures. Our self-owned production facility is equipped with face recognition entrances and vaults, which can only be accessed by registered staff. At the end of each day, all valuable inventory is counted and stored in the checkout vaults. To prevent misappropriation of gold, all staff must pass through metal detectors when entering and leaving our production facilities. Staff members are required to wear uniforms and must leave all personal belongings and bags in designated storage rooms before entering the production facility. Closed circuit television surveillance is also installed to provide additional security measures.

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Our inventory control procedures generally involve the following:

- each inventory withdrawal must be recorded and justified by the person making the withdrawal and the withdrawer must sign a pre-numbered inventory withdrawal notice to acknowledge receipt of the inventory, which must be witnessed by another staff;
- at the beginning of each working day, the inventory control team distributes raw materials and work-in-progress inventory to the supervisors of the production workshops and records all distributions;
- the supervisors of the production workshop then distribute raw materials and work-in-progress to the workers in his/her production workshop and records all distributions;
- at the end of the working day or when the workers leave the production areas, the workers must return all inventories distributed to him/her to the supervisors of the production workshops who will check against his/her record to ensure the inventories returned matches the particulars stated in the record; and
- security guards are placed at the entrances of our production facility to detect any suspicious staff movements and prevent trespassing.

Our Directors confirmed that, during the Track Record Period, our Group did not experience any material loss of inventory due to theft. In light of our inventory control procedures as mentioned above, our Directors are of the view that the inventory control measures implemented by our Group are effective and adequate.

IMPACT OF THE OUTBREAK OF COVID-19

During the Track Record Period, the COVID-19 pandemic and related restrictive policies led to a decline in social networking and business activities, which in turn had adverse impacts on China’s gold jewellery market and our operations.

In 2022, our manufacturing facilities in Changle experienced a temporary decrease in capacity, primarily due to an increase in the number of days waiting for raw materials to arrive, caused by recurring COVID-19 outbreaks in China that led to transportation delays. Additionally, a number of our franchise stores were temporarily shut down due to COVID-19 in 2021 and 2022. Despite the COVID-19 challenges, our business maintained an upward trend during the Track Record Period. We had promptly taken various measures to mitigate the impacts of the COVID-19 pandemic, such as (i) organizing our employees to work remotely and closely monitoring their health and wellness; (ii) providing epidemic prevention essentials to our employees, such as masks and disinfectant alcohol; and (iii) conducting routine sanitization and requiring regular negative COVID-19 PCR test results to prevent any resurgence. Our revenue decreased from RMB16,871.0 million in 2021 to RMB15,724.2 million in 2022, primarily due to the pandemic’s effect on our sales in the fourth quarter of 2022, then increased to RMB20,208.6 million in 2023, primarily due to the recovery of economic activities in 2023. As of the Latest Practicable Date, COVID-19 has not posed any material adverse impact on our daily operation, supply chain, or regulatory affairs.

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With the PRC government substantially lifting COVID-19 prevention and control policies since December 2022, our Directors are of the view that it is unlikely that the COVID-19 pandemic will have a material adverse impact on our business going forward. Based on the above, our Directors are of the view that the COVID-19 pandemic did not have any material adverse impact on our overall business, financial condition and results of operations during the Track Record Period and up to the Latest Practicable Date.

AWARDS AND RECOGNITION

We received a number of accolades in recognition of our quality of products and our achievements. The following table sets forth major awards and recognition we received in recent years:

<u>No</u>	<u>Award</u>	<u>Recipient</u>	<u>Year(s) awarded</u>	<u>Issuing Organization</u>
1	2024 National Product and Service Quality Integrity Demonstration Enterprise (2024年全國產品和服務質量誠信示範企業)	Company	2024	China Association for Quality Inspection
2	2023 China Gold and Jewellery Industry Excellent Full Supply Chain Service Provider (2023中國黃金珠寶行業全產業鏈優秀服務商)	Company	2023	Beijing Gold Economic Development and Research Center and China Gold News
3	2023 China Gold and Jewellery Consumer Survey Recommended National Chain Store Brands (中國黃金珠寶消費者調查全國連鎖推薦品牌)	Company	2023	Beijing Gold Economic Development and Research Center and China Gold News
4	Top Ten Enterprises in China's Jewellery Processing Volume (全國黃金首飾加工量十大企業)	Company	2014–2022	China Gold Association
5	Top Ten Enterprises in China's Jewellery Sales Revenue (中國黃金珠寶銷售收入十大企業)	Company	2015–2022	China Gold Association

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No	Award	Recipient	Year(s) awarded	Issuing Organization
6	The 40th Anniversary of China’s Reform and Opening up Jewellery Industry Social Contribution Award (中國改革開放40週年珠寶業社會貢獻獎)	Company	2018	Gems & Jewellery Trade Association of China
7	The 40th Anniversary of China’s Reform and Opening up Jewellery Industry Social Innovation Award (中國改革開放40週年珠寶業科技創新獎)	Company	2018	Gems & Jewellery Trade Association of China
8	China Jewellery & Jade Association Science and Technology Award (中國珠寶玉石首飾產業協會科學技術獎)	Company	2018	Gems & Jewellery Trade Association of China
9	National Intellectual Property Advantageous Enterprise (國家智慧財產權優勢企業)	Shandong Mokingran	2017	China National Intellectual Property Administration

MARKET AND COMPETITION

According to Frost & Sullivan, the recognition of the gold jewellery brand is one of the most important factors that affect customers’ purchasing decisions since gold price is transparent and gold jewellery products are normally set with a high unit price. Brand awareness and brand scale are the assurance of consumers’ confidence in product quality and related services. With the improvement of people’s aesthetic level, Chinese consumers attach great importance to the quality, design and cultural connotation of jewellery products. The gold jewellery company’s ability to accurately decipher what is trendy in the market and launch new product line is crucial, which depends on a strong design team and efficient product design and production system. Establishing a national wide sales channel is also one of the core competitiveness of gold jewellery companies. Building a sales network is time consuming and requires a lot of resources and an experienced management team to form and maintain a long-term stable and reliable cooperative relationship with franchisees at all levels.

The gold jewellery market in the PRC was concentrated in 2023 in terms of revenue from gold jewellery. The market size of gold jewellery in terms of sales revenue experienced an overall growth from RMB308.0 billion in 2018 to RMB518.0 billion in 2023, achieving a CAGR of 9.1% for the aforementioned period. According to the Frost & Sullivan, the top five gold jewellery

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brands in the PRC constituted 45.0% of the total market in 2023 when measured by gold jewellery revenue, while the top five gold jewellery brands in the PRC constituted 36.3% of the total market when measured by gold processing volume in 2023.

According to Frost & Sullivan, most gold jewellery products offered by the top gold jewellery brands in the PRC are 999 and 990 and below purity. With the maturity of gold jewellery manufacturing technology, a few enterprises, such as us, have developed high-purity level gold jewellery processing techniques, and the purity level of its gold jewellery can reach 999.9 and above. With consumers’ increasing enthusiasm for the investment of gold, high-purity gold jewellery is no longer merely for meeting consumers’ aesthetic needs but also has inherent investment value. As an OBM possessing an established gold jewellery brand with high popularity, wide national sales network layout and diversified product portfolio with innovative design, we believe that our business model enables us to maintain competitive in the gold jewellery market.

According to Frost & Sullivan, the concentration rate of franchisees in the gold jewellery market is low, with over tens of thousands of players in the industry. Most of the gold jewellery franchisees are small and medium-sized companies or individually-owned businesses, concentrated in provinces such as Guangdong, Shandong, Jiangsu, Fujian, and Zhejiang.

SEASONALITY

Our sales are festive in nature and past experience indicates that this seasonality will continue in the future. The peak seasons include the PRC National Day holiday, the period from Chinese New Year till Valentine’s Day, and the period during our ‘One RMB Exchange’ promotion which is typically between June and September. For details, see “Risk Factor — Risks relating to our Business and Industry — Our sales may be affected by seasonality”.

Accordingly, results of any interim period are not necessarily indicative of results that might be expected during a full year.

RISK MANAGEMENT AND INTERNAL CONTROL

We have devoted ourselves to establishing and maintaining risk management and internal control systems consisting of policies and procedures that we consider to be appropriate for our business operations, and we are dedicated to continuously improving these systems. We regularly review the implementation of our risk management and internal control policies and procedures to enhance their effectiveness and sufficiency. During the Track Record Period, we have gold price exposure management to manage fluctuations of raw material price. See “— Our Procurement/Suppliers — (b) Gold price exposure management to manage fluctuations of raw material price” above for further details. However, we do not treat such arrangements as hedging arrangements since (i) we do not have formal designation and documentation of the hedging relationship, risk

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management objective and strategy for undertaking the hedge; and (ii) the arrangements do not meet all of the hedge effectiveness requirements under HKFRS 9. As such, we have not had any hedging arrangements in relation to risk management.

Without prejudice to the responsibilities of our Board of Directors as a whole, our Audit Committee provide independent advice on the effectiveness of our financial reporting, risk management and internal control systems. See “Directors, Supervisors and Senior Management” for further details of the qualification and experience of the members of our Audit Committee.

Internal control on financial reporting

We have adopted comprehensive accounting policies in connection with our financial reporting risk management, such as payment policy. Our accounting department reviews our management accounts based on such policies.

Internal control on technology system and data privacy

We have not suffered from any material data leakage during the Track Record Period and up to the Latest Practicable Date. We place great importance on users’ personal data and we continually evaluate the effectiveness of our data security and privacy protection procedures, monitor our compliance status in accordance with the recent changes in applicable regulatory requirements and regularly update our privacy policy and internal procedures to better protect our users’ privacy and interests.

Internal control on trademark, patent and intellectual property rights

Our well-established brand recognition in the PRC may attract industry peers or others to produce counterfeit products without our authorization or using similar trademarks. Counterfeiting and imitation may divert our potential customers from our own products. More importantly, counterfeiting or substandard products could significantly harm our reputation and brand image. See “Risk Factors — Risks Relating to Our Business and Industry — Our business could be materially adversely affected if we cannot protect our trade name and other intellectual property rights or if we face any negative publicity” for more details.

We endeavor to combat counterfeit products to protect our brand integrity. As of the Latest Practicable Date, we registered 678 trademarks and 601 patents in the PRC and have 33 trademarks registered outside the PRC. For details, see “Appendix VII — Statutory and General Information — B. Further Information about our Business — 2. Our Intellectual Property Rights”. Our franchise stores are contractually required to preserve our reputation and brand integrity, and selling counterfeit products is strictly prohibited. We encourage consumers to report unauthorized uses of our brands or counterfeit products to us. Furthermore, we have dedicated a team to monitoring and handling counterfeiting issues. In the event we identify any counterfeit products, we may initiate legal actions and take other responsive measures based on the advice of intellectual property consultants and legal counsel.

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Internal control on human resources

We have established internal control policies covering various aspects of human resource management such as recruitment, training, work ethics and legal compliance. We adopt strict procedures with regard to recruitment to ensure the quality of new hires. We provide specialized training tailored to the needs of our employees in different departments and compliance policies.

Our employee handbook contains guidelines containing internal rules and guidelines regarding work ethics and prevention of fraud, negligence and corruption. We explain to employees the guidelines contained in the employee handbook during orientation. We have also made available an anonymous reporting channel through which potential violations of our internal policies or illegal acts at all levels can be timely reported to management and appropriate measures can be taken to minimize damage.

Third-party Settlement Arrangement

Background

Historically, as requested by certain franchisees (the “**Relevant Counterparty(ies)**”), we settled transactions with these Relevant Counterparties through the accounts of third parties designated by them (the “**Third-party Settlement Arrangement**”). On November 14, 2023, we issued notices and informed the Relevant Counterparties of our intention to cease the Third-party Settlement Arrangement with effect from January 1, 2024. For the years ended December 31, 2021 and 2022 and 2023, the number of Relevant Counterparties was 573, 669 and 554, respectively, and the number of the third-party payors was 741, 723 and 644, respectively. Out of the 554 Relevant Counterparties who adopted Third-party Settlement Arrangement during the year ended December 31, 2023, 531, or 95.8%, of them remained as our franchisees as of the Latest Practicable Date. Most of the Relevant Counterparties are our recurring customers and the average duration of our business relationship with them is approximately six to eight years. During the Track Record Period, the Relevant Counterparties often had more than one third-party payors settle payments on their behalf due to their commercial needs and convenience. For instance, franchisees may have different shareholders/family member/personnel attending sales events at our self-operated direct service centers/sales exhibition hall, and pay with the relevant shareholder’s/family member’s/personnel’s account, which may result in different third party payors in such payments. For details, see “— Reasons for Utilizing Third-party Settlement Arrangement.” Among the Relevant Counterparties, one had a shareholder who was our former employee (“**Counterparty A**”) and Counterparty A’s Third-party Settlement Arrangements were primarily made through its shareholder during the Track Record Period. In addition, another Relevant Counterparty had a shareholder who was a family member of our former employee (“**Counterparty B**”) and Counterparty B’s Third-party Settlement Arrangements were primarily made through its shareholders and family members.

Our Directors have confirmed that after due enquiry and to their best knowledge, except for Counterparty A and Counterparty B, none of the Relevant Counterparties, their respective third-party payors, or any shareholders, directors, or senior management of the aforementioned Relevant Counterparties and third-party payors during the Track Record Period have had any other past or present relationships with us, our subsidiaries, Shareholders, Directors, Senior Management, or any of our respective associates.

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For the years ended December 31, 2021, 2022 and 2023, the aggregate amount of payment from third-party payors to us was RMB965.0 million, RMB1,211.4 million and RMB1,546.0 million, respectively, representing approximately 5.7%, 7.7% and 7.7% of the total revenue, respectively. The increase in the aggregate amount of payments from third-party payors for the years ended December 31, 2021, 2022 and 2023 was primarily attributable to the increase of transaction amount with Relevant Counterparties. None of the Relevant Counterparty had made material contribution to our revenue during the Track Record Period. As we ceased Third-party Settlement Arrangement since January 1, 2024, we have not received any payments from third-party payors for the six months ended June 30, 2024. All settlements since January 1, 2024 have been made by the relevant franchisees. Our Directors further confirm that going forward, we will not accept Third-party Settlement Arrangement and any other payments from third-party payors.

The table below sets forth our revenue attributable to the Relevant Counterparties, and the percentage of our sales to them settled through third party payors, for the years ended December 31, 2021, 2022 and 2023:

	Year ended December 31,		
	2021	2022	2023
Our revenue attributable to the Relevant Counterparties (RMB million)	5,836.9	5,564.4	6,044.5
Percentage of our total revenue (%)	34.6	35.4	29.9
Payment received from third-party payors (RMB million)	965.0	1,211.4	1,546.0
Average percentage of our sales to Relevant Counterparties settled through third-party payors (%) ^(Note)	16.5	21.8	25.6

Note: By dividing the total payment received from third-party payors by the total revenue attributable to Relevant Counterparties during the respective year/period of the Track Record Period.

The following table sets out the revenue attributable to Relevant Counterparties by band of the percentage of our sales to Relevant Counterparties that were settled through third party payors for the years ended December 31, 2021, 2022 and 2023.

Revenue settled by third-party payors	Year ended December 31,								
	2021			2022			2023		
	Relevant Counterparties	Revenue from Relevant Counterparties		Relevant Counterparties	Revenue from Relevant Counterparties		Relevant Counterparties	Revenue from Relevant Counterparties	
	Number	RMB million	%	Number	RMB million	%	Number	RMB million	%
Below 5%	81	3,123.0	53.5	174	2,358.8	42.4	101	2,391.3	39.6
5%–50%	225	1,967.7	33.7	252	2,419.4	43.5	186	2,166.4	35.8
Over 50%	267	746.2	12.8	243	786.2	14.1	267	1,486.8	24.6
Total	573	5,836.9	100	669	5,564.4	100	554	6,044.5	100

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For the years ended December 31, 2021, 2022 and 2023, the third-party payors designated by the Relevant Counterparties primarily consisted of their (i) shareholders or ultimate beneficiaries, (ii) individual franchisees’ family members, and (iii) employees.

The table below sets forth a breakdown of the payments received from third-party payors by the types of relationships with the Relevant Counterparties for the years ended December 31, 2021, 2022 and 2023:

	Year ended December 31,		
	2021	2022	2023
	(RMB million)	(RMB million)	(RMB million)
Shareholders or ultimate beneficiaries	12.9	121.4	11.8
Individual Franchisees’ Family Members	915.6	1,077.7	1,492.9
Employees and others	36.5	12.3	41.3
Total	965.0	1,211.4	1,546.0

All Relevant Counterparties have provided to us designation letters (the “**Designation Letter(s)**”) signed with their respective third-party payors on a case-by-case basis subject to prior written approval from us. Such Designation Letter specifies, among others, the relationship between the Relevant Counterparties and their respective third-party payors and payment account information.

During the Track Record Period, (i) we had not proactively initiated any Third-party Settlement Arrangement or participated in other forms in any of such arrangement; (ii) we had not provided any discount, commission, rebate or other benefit to any of the Relevant Counterparties to facilitate or incentivize the Third-party Settlement Arrangement; and (iii) the pricing and payment terms of the agreements we entered into with the Relevant Counterparties were generally in line with those of customers not involved in the Third-party Settlement Arrangement.

Potential impact of the Cessation of Third-party Settlement Arrangement

Taking into account that (i) none of the Relevant Counterparties accounted for a significant portion of our revenue during the Track Record Period, and (ii) despite our Group informing the Relevant Counterparties of the intention to cease Third-party Settlement Arrangement, none of them had indicated their intention to terminate their business relationships with our Group, as of the Latest Practicable Date, our Directors are of the view that the cessation of Third-party Settlement Arrangement will not have a material impact on the operation of our Group and we do not expect the cessation of Third-party Settlement Arrangement will result in loss of major customers.

On November 14, 2023, we issued notices and informed the Relevant Counterparties of our intention to cease the Third-party Settlement Arrangement from January 1, 2024 onwards. All Third-party Settlement Arrangements have been ceased since January 1, 2024 and all settlements thereafter have been made by the relevant franchisees. In addition, there has been no major change in the relationship or terms with franchisees following the cessation of the Third-party Settlement

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Arrangement. As of June 30, 2024, 95.4% of the amount due from parties that previously applied Third-party Settlement Arrangement with us as of December 31, 2023 has been paid by the relevant franchisees. As advised by our PRC Legal Advisor, the Third-party Settlement Arrangement is not in breach of restrictive regulations of PRC laws and regulations in force.

Reasons for Utilizing Third-party Settlement Arrangement

The use of the Third-party Settlement Arrangement was mainly aimed at addressing requests during ordinary course of business for convenience. Many Relevant Counterparties are small-sized private business in the form of sole proprietorship or small and medium-sized enterprises. According to Frost & Sullivan, it is reasonable for smaller-scale franchisees in the PRC gold jewellery industry do not possess a comprehensive settlement system. Such franchisees would then utilize any payment methods that are readily accessible to them for trade settlement purpose, including using personal, spousal or family members’ bank accounts for settlement in their business transactions. As confirmed by Frost & Sullivan, it is a common practice for entities (e.g., small-sized customers) or individual traders in the PRC to settle payments through third-party payors in the gold jewellery industry for convenience when purchasing products. For small-sized customers and individual traders, Third-Party Settlement Arrangement enables them to complete payments in a timely manner, which is conducive to the transaction efficiency. These third-party payors usually include, but not limited to, the legal representative of the franchisee company, the spouse or relative of the franchisee, and the manager of stores owned by the franchisee.

Implications Relating to Third-party Settlement Arrangement

The Third-party Settlement Arrangement has been recorded completely and accurately in our accounting books and records in all material respects and we have certain measures to manage this arrangement as following:

- (i) *Prevention of fraud or money laundering:* to prevent fraud or money laundering activities, our Group implemented several know-your-customer procedures to have a comprehensive understanding of Relevant Counterparties. Further, we also conducted periodic business meetings with Relevant Counterparties to understand the nature of their business. Based on above, our Directors are not aware of the customers involving in fraud or anti-money laundering, nor would our Directors have reason to believe that the relevant settlement involves proceeds or gains from fraud or anti-money laundering.
- (ii) *Genuine underlying transactions:* in order to ensure the Third-party Settlement Arrangement are supported by genuine transactions, for payments received from the Relevant Counterparties and their respective third-party payors, the Relevant Counterparties are required to submit the payors’ accounts and payment information to our Group upon signing franchise agreements. They are also required to submit a Designation Letter before making payment through third-party payors’ accounts.

As advised by our PRC Legal Advisor, (1) the Third-party Settlement Arrangement is merely an assignment of liability from Relevant Counterparties to their respective third-party payors pursuant to the Civil Code of the PRC (中華人民共和國民法典) and the Designation Letters, once

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coming into effect, constitute valid and binding obligations on each of the signing parties involved; (2) the Third-party Settlement Arrangement is not in breach of restrictive regulations of applicable laws or regulations in the PRC; (3) the risks are remote for our Group to be found obligated to return funds to the Relevant Counterparties or their respective third-party payors, and/or their respective creditors under the Third-party Settlement Arrangement; and (4) taking into consideration the cessation of the Third-party Settlement Arrangement as mentioned above, the risk of us being subject to administrative penalties in violation of laws and regulations related to tax evasion under the Third-party Settlement Arrangement is low.

Based on the foregoing, our Directors confirm that, (i) during the Track Record Period, the relevant payments were based on bona fide underlying transactions and valid contracts, and (ii) the risk of committing crimes, such as fraud, money laundering crime or commercial bribery is remote. Our Directors consider that the use of the Third-party Settlement Arrangement did not have any material adverse impact on our Group.

Enhanced Internal Control Measures

Transactions involving the Third-party Settlement Arrangement may negatively affect the integrity of our financial information and our normal business operations. Furthermore, misconducts involved during the settlement, such as embezzlement, fraud or other illegal activities, may significantly harm our reputation and brand image. For further information, see “Risk Factors — Risks Relating to Our Business and Industry — We are subject to various risks relating to third-party settlement arrangements.” Since 2018, we have implemented know-your-customer procedures to prevent fraud and money laundering activities. On top of the know-your-customer procedures, when dealing with Third-party Settlement Arrangement, we sought gaining a better understanding of the Relevant Counterparties through the following measures:

- (i) Engaging in discussions with Relevant Counterparties regarding their background (such as identification card, banking account, etc) and their operational plans for the franchise store. Through such interactions, we aim to confirm the commercial legitimacy of the Relevant Counterparty and assess the veracity of the need for a designated third-party payor; and
- (ii) We require the Relevant Counterparties to submit the necessary documents to prove the relationship between the third-party payor and themselves (including copies of marriage certificate, household registers and employment records, as applicable), and we do not approve of third-party payment arrangements unless there is satisfactory written proof of the genuineness of the relationship between the third-party payor and the Relevant Counterparty.

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During the Track Record Period, we adopted enhanced internal control measures to safeguard our interest against risks associated with the Third-party Settlement Arrangement, including but not limited to the following:

- (i) in our franchise agreements with customers, we request Relevant Counterparties to have their business account information consistent with their business licenses when making payments;
- (ii) our Group will closely monitor any change of payment account information to identify any Third-party Settlement Arrangement;
- (iii) for Relevant Counterparties who are unable to directly settle payments with our Group immediately, they will be required to, (a) communicate relevant information to our Group, including, among others, the identity of their respective third-party payors; and (b) provide our Group with a Designation Letter. In the Designation Letter, it is specified that the Relevant Counterparties delegate their payment obligation or grant rights for payments from Company under the terms of the original agreement with our Group to their respective third-party payors, which undertake to pay the transaction amount directly to or from our Group under the same terms. It is further specified that, (i) our Group shall settle with the respective third-party payors as if it were settled with the Relevant Counterparties, (ii) the Third-party Settlement Arrangement shall not discharge the payment obligation of the Relevant Counterparties, and (iii) our Group may demand payment from, and pursue legal action against, the Relevant Counterparties if the respective third-party payor fails to pay accordingly;
- (iv) before accepting any Third-party Settlement Arrangement, information of the third-party payor such as identity cards and relationship proofs shall be provided by the Relevant Counterparties and our Group will verify the information against the record in our system to ensure that it was settled through the relevant third-party payors' account as provided by the Relevant Counterparties;
- (v) our employees are required to reject and/or return all payments made by third-party payors that failed to satisfy the above-mentioned requirements;
- (vi) our employees are required to notify the above policies and measures to all the Relevant Counterparties and not to make payment to our Group on behalf of any of the Relevant Counterparties; and
- (vii) we manage our Group's bank accounts as well as our Group's other accounts used for transactions, in accordance with the principle of segregation of duties. Different personnels of our finance department are assigned with different duties to verify, record, manage and settle transactions through such accounts, to ensure the accuracy of our accounting records, reduce the risks of account misuse and avoid account security risks.

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Our Directors are responsible for overseeing the implementation of our internal control measures formulated by the finance department. Based on the follow-up review on the implementation of measures, our internal control consultant did not identify any material defects with regard to our Third-party Settlement Arrangement related process and policies and our Directors are of the view that the above measures are effective and adequate in preventing unauthorized Third-party Settlement Arrangement and its associated risks without any material weaknesses identified and necessary rectifications needed, and our Directors will oversee the effectiveness of the aforementioned enhanced internal controls on the Third-party Settlement Arrangement in the future.

Since we have implemented comprehensive control measures to govern Third-party Settlement Arrangement, we will cease Third-party Settlement Arrangement prior to [REDACTED] and the related transaction amounts were not material to our business during the Track Record Period, our Directors are of the view that the risks, including money laundering risks relating to Third-party Settlement Arrangement is immaterial.

QUALITY CONTROL

We are committed to maintaining the highest level of quality in our products and have attained accreditations including ISO9001 quality management, GB/T29490-2013 enterprise intellectual property management system, China Metrology Accreditation and CNAS (China National Accreditation Service for Conformity Assessment) laboratory accreditation for our testing center. We have designed and implemented a quality management system that provides the framework for continuous improvement of products and processes. We have also implemented a management review control process to conduct regular systematic reviews of our quality management system, in order to closely monitor the implementation of our quality management system.

Our business model benefits our quality control. We have established trusted sourcing channels to source for high quality gold, established our in-house testing center and developed key production capacities that are essential to producing quality gold jewellery products, while ensuring quality along the value chain.

Supply Chain Management

We have comprehensive policies and detailed procedures in place to ensure the quality of the components and raw materials we procured from Shanghai Gold Exchange and other suppliers.

Our quality control department is responsible for communicating with suppliers regarding quality standards and will thoroughly test and inspect product samples to ensure that they meet all the requirements such as gold purity level.

Testing along production

We bring testing equipment onto the production line for gold jewellery product manufacturing. We have established a gold testing center equipped with advanced testing equipment such as ICP (Inductively Coupled Plasma) emission spectrometry, ICP-MS (Inductively Coupled Plasma Mass Spectrometry), and spark direct-reading devices. In 2013, we obtained CNAS (China National

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Accreditation Service for Conformity Assessment) laboratory accreditation for our testing center. Our testing center is located inside our production complex in Changle County, Weifang City, Shandong Province, the PRC, allowing us to conduct quality control tests on raw material, work-in-progress inventories, and finished goods conveniently. Based on the testing results, our production lines can be adjusted without any delay to increase production yield rate and minimize wastage.

Advanced production equipment

Our strengths on machinery R&D allows us to tailor-make and calibrate our production machinery and equipment to high precise level. Over the years, we have introduced and/or revamped imported advanced equipment that include robotic arms for accessories flipping (首飾抓取自動翻轉機械手), automated carving machines (自動刻花機), automatic butterfly chain punching machines (自動蝴蝶鏈機), chain loosening machines (鬆鏈機), and automatic thin wall gold tube necking machine (薄壁金管自動縮口機), which are crucial to our gold jewellery production. These machinery enables us to mass-produce gold jewellery at high quality level.

Product Returns and Recalls

For franchisees, we generally do not allow returns of gold products sold to franchisees, except when they cease to be our franchisees. For provincial-dealers, given our business model, provincial-dealers generally do not hold gold products as their inventory and may only maintain an insignificant level of other products. We offer franchisees and provincial-dealers a right to exchange unsold diamond inlaying jewellery a period of five years. For details, see Note 5 “Critical Accounting Judgments and Key Sources of Estimation Uncertainty” and Note 34 “Refund Liabilities” in Appendix I to this document. As advised by our PRC Legal Advisor, as the OBM of our gold jewellery products, we bear the responsibility for ensuring their quality and safety. In the event of any product failures or issues that may pose risks to customers or consumers, we take full accountability for addressing and resolving the situation. According to Frost & Sullivan, our product return policy is in line with industry practice.

Apart from product returns, in special circumstances such as promotional benefits for newly joined franchisees and franchisees requesting to exchange previously purchased products of our brand for same grade and same type of new gold products, we allow gold product exchange. During the Track Record Period, within the franchise network, the volume of product exchange of gold jewellery and other gold products for each year/period were 993 kg, 1,017 kg, 1,094 kg and 492 kg, respectively, which represented an immaterial amount (2.3%, 2.5%, 2.4% and 2.8% of the sales of gold jewellery and other gold products for the same periods, respectively) compared with our sales of gold jewellery and other gold products within the franchise network, of 42,267 kg, 40,923 kg, 45,423 kg and 17,418 kg for the same period, respectively.

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The following table sets out our product return and product exchange, excluding the exchanges previously purchased gold products during the Track Record Period.

	Year ended December 31,			Six months
	2021	2022	2023	ended June 30,
	RMB'000	RMB'000	RMB'000	2024
				RMB'000
Due to product exchange policy for diamond inlaying jewellery ^(Note 1)	70,607	58,173	50,143	10,132
Due to closure of franchise stores .	8,935	4,083	8,530	4,096
Product returns due to other reasons ^(Note 2)	1,618	30	1,850	91
Total	81,160	62,286	60,523	14,319

Notes:

1. The amount sold and exchanged due to product exchange policy in the same (current) year (e.g., sold in 2021 and exchanged also in 2021) is also included.
2. Other types of product returns represent product return on a case-by-case basis, including cases where provincial-dealers and franchisees were materially impacted by the pandemic and in consideration of our established business relationship, we exercised our discretion to accept certain product returns on their previous purchases.

The estimated percentages of diamond inlaying jewellery exchange in relation to the five year diamond inlaying jewellery exchange period of diamond inlaying jewellery for the years during the Track Record Period were as follows:

	Year ended December 31,			Six months
	2021	2022	2023	ended June 30,
	(%)	(%)	(%)	2024
				(%)
Estimated exchange percentage for the first year	8.1	7.5	7.2	6.6
Estimated exchange percentage for the second year	5.1	4.9	4.7	4.2
Estimated exchange percentage for the third year	3.0	3.0	3.1	2.8
Estimated exchange percentage for the fourth year	2.2	2.2	2.3	2.1
Estimated exchange percentage for the fifth year	1.9	1.6	1.6	1.4

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Under our standard contract terms, except for store closures, franchisees and provincial-dealers have no right to return any goods after their acceptance of the products, but retain the option to exchange unsold diamond inlaying jewellery within five years. We estimate the percentage of exchange at a portfolio level using the expected value method with reference to historical data. The average exchange rate for forecasted future exchanges during the Track Record Period has shown a decreasing trend over time, correlating with the lengthening sales period for diamond inlaying jewellery. The average exchange rate has remained stable from period to period with no significant unusual fluctuations.

The estimated and actual amount of products exchanged by provincial-dealers and franchisees for each of the years during the Track Record Period were as follows:

	Year ended December 31,			Six months ended June 30,
	2021	2022	2023	2024
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Estimated exchange amount at December 31 of the previous year	49,574	50,995	41,448	16,472
Actual exchange amount	52,136	40,261	35,920	7,486

The estimated exchanges amount for each year during the Track Record Period were RMB49.6 million, RMB51.0 million, RMB41.4 million and RMB16.5 million, respectively, while the actual exchange amount were RMB52.1 million, RMB40.3 million, RMB35.9 million and RMB7.5 million, respectively. The actual exchange percentage of diamond inlaying jewellery was relatively high prior to 2020, leading to cautious accounting estimates by our management at the end of 2019. From 2020 onwards, the actual exchange percentage of diamond inlaying jewellery gradually stabilizes, resulting in a high difference between the estimated amount of exchange and the actual amount of exchange for 2020 only. As the revenue from diamond inlaying jewellery accounted for only approximately 1% of our total revenue, the impact of the exchange of diamond inlaying jewellery on the total revenue was small, and we had reasonably measured the exchange data and recognized the right to returned goods asset and refund liabilities based on the historical data during the Track Record Period, and therefore the difference in the estimated amount of the exchange of diamond inlaying jewellery would not have a material impact on our financial position and results.

Should a product recall be necessary due to defects or safety concerns, we are committed to executing the recall process promptly and efficiently. We communicate openly and transparently with customers and consumers, providing clear instructions and support throughout the recall process. We believe this will effectively prevent non-conforming products from being used or delivered. Regarding customer complaints received during our daily business operation in relation to product or service quality, our customer service officer will gather customer’s requests and put forward handling proposals to our brand management centre. Upon receiving the complaint details, we aim to revert to the relevant customers within one day for settlement. For cases requiring additional resources or involving risk of triggering public relations issues, the complaints will be escalated and handled by our designated crisis management team to formulate action plan to reach

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amicable solution with the customer. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any product recall and we also had not received any material complaints.

MAJOR QUALIFICATIONS AND LICENSES

Our Group has obtained all requisite business registration certificates, permits and licences in accordance with all relevant laws and regulations in the jurisdictions where our Group has operations. For further detail’s, see “Regulatory Overview” of this document.

Details of our major license, permits and registrations are set out below:

<u>License/Permit</u>	<u>Licence Holder</u>	<u>Issuing authority</u>	<u>Valid period</u>
Registration as a Commercial Franchisor (商業特許經營特許人備案)	Shandong Mokingran	MOFCOM	Registered on August 27, 2015
Customs import and export goods consignee and consignor filing receipt (海關進出口貨物收發貨人備案回執)	Company	Customs of the People’s Republic of China	No expiry date
Customs import and export goods consignee and consignor filing receipt (海關進出口貨物收發貨人備案回執)	Shandong Yifu	Customs of the People’s Republic of China	No expiry date
Registration Certificate of Customs Declaration Unit of the People’s Republic of China (中華人民共和國海關報關單位註冊登記證書)	Shanghai Yuanjunmeng	Customs of Shanghai of the People’s Republic of China	No expiry date

As of the Latest Practicable Date, we had obtained all licences and certificates as required by the relevant government authorities and all such licences and certificates were in full force and effect. We did not experience any material difficulties in renewing the licences and certificates necessary for our business operations during the Track Record Period and up to the Latest Practicable Date, and we currently do not expect to have any material difficulties in renewing such licences and certificates when they expire.

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INTELLECTUAL PROPERTY

We recognize the importance of to our business and are committed to the development and protection of our intellectual property rights. We actively seek patent protection for our products and have developed a significant portfolio of intellectual property rights to protect our technologies and products. As of the Latest Practicable Date, we registered 678 trademarks and 601 patents in the PRC and have 33 trademarks registered outside the PRC, the content of which covers gold jewellery processing technologies, automatic production equipment for jewellery components and parts and etc. For details, see “Appendix VII — Statutory and General Information — B. Further Information about our Business — 2. Our Intellectual Property Rights”.

As of the Latest Practicable Date, we owned the following registered patents which we consider to be material to our business:

<u>No.</u>	<u>Product/Technology</u>	<u>Nature</u>	<u>Place of Registration</u>	<u>Patent Number</u>	<u>Registered Owner</u>	<u>Expiry Date</u>
1	Purity level 999.999 precious metal jewellery processing equipment and methods (“純度為999.999‰ 貴金屬飾品加工設備及方法”)	Invention	PRC	201611067618.5	Shandong Mokingran	November 23, 2036
2	Automatic pricing method and automatic pricing system for gold jewellery (“金飾自動計價方法及自動計價系統”)	Invention	PRC	201810892474.X	Shandong Mokingran and the Company	August 6, 2038
3	A gold jewellery welding method (“一種黃金飾品焊接方法”)	Invention	PRC	200810139385.4	Shandong Mokingran	August 28, 2028

As of the Latest Practicable Date, we have not registered the trademark of “萬純金” and none of the intellectual property which we own would expire in the next 12 months. Further, as of the Latest Practicable Date, we were not involved in any proceedings in respect of, and we had not received notice of any claims of infringement of any intellectual property rights, in which we may be a claimant or a respondent, and none of our employees breached the confidentiality obligations under their employment contracts in a material respect.

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Trademark disputes with Cartier

During the Track Record Period, we were involved in lawsuits with Cartier International AG (“**Cartier**”). In December 2018, Cartier initiated legal proceedings against our Company, Shandong Mokingran and its franchisees for trademark infringement and improper competition regarding franchisees’ sales of products adopting same or similar marking and design of Cartier’s jewellery product series. Upon parties’ appeal, the Tianjin High People’s Court handed down its final judgment in April 2022, pursuant to which the court ruled that, among others, (i) the sales of jewellery with same mark as Cartier’s trademark series by the franchisees of Shandong Mokingran constituted trademark infringement and improper competition; (ii) there were insufficient evidence to support Cartier’s claim that the infringing products sold by the franchisees were manufactured by and sold from our Company or Shandong Mokingran; (iii) our Company and Shandong Mokingran should bear joint responsibility for the infringing behaviour of the four franchisees, including joint payment liability of a total amount of RMB180,000 (the “**Franchisees Sum**”) payable by the franchisees to Cartier, because our Company and Shandong Mokingran failed to perform its monitoring obligation over the franchisees; and (iv) our Company and Shandong Mokingran were liable to pay a total amount of RMB250,000 (the “**Settlement Sum**”) to Cartier for the economic losses suffered by and reasonable expenses incurred by Cartier. We fully settled the Settlement Sum and did not pay nor indemnify the franchisees for Franchisees Sum, which was not included in the Settlement Sum.

Following the conviction of those franchisees by the court, we imposed various penalties against each of the four franchisees. As at the Latest Practicable Date, we (i) received RMB82,000 from and terminated cooperation with the first franchisee; (ii) received RMB104,112 from the second franchisee; (iii) reached agreement with the third franchisee to pay us RMB62,476 and received partial payment of RMB10,000; and (iv) commenced legal actions to seek compensation in an amount of RMB150,000 from the fourth franchisee. We did not seek indemnification of the Settlement Sum from them considering the immaterial amount involved and the potential time and resources that would need to be devoted to seeking indemnification.

After this incident, we adopted the following internal control measures to enhance our prevention against similar incidents and supervision over franchisees’ business operation, (i) we prepared a detailed guideline to remind and request all franchisees to refrain from infringing other parties’ intellectual property rights, portrait rights and name rights, and explicitly prohibited the unauthorized printing and sticking the Group’s marking and logo on the products. In addition to signing franchisees’ contracts with us, all franchisees are required to separately read, accept, sign and strictly implement such guideline and bear legal responsibilities should there be any breach thereof; (ii) we instructed our external legal adviser to review and update the franchisee contract and incorporate provisions on enhanced protection of intellectual property rights; and (iii) our designated market inspection team has enhanced effort to perform inspection over the franchisees’ stores by specifically focusing on whether franchisees infringe on the intellectual property right of third-party products during their inspection.

Considering that (i) the Settlement Sum was immaterial and had been fully settled; (ii) we have since adopted enhanced internal control measures; and (iii) we had never manufactured nor sold the infringing products, did not record revenue in relation to the infringing products and will

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not do so in the future, our Directors are of the view, and the Sole Sponsor concurs that, the Cartier dispute did not have any material adverse impact on our Group’s operations and financial performance.

LAND AND PROPERTIES

Our primary production facility for our gold jewellery products is located in Changle County, Weifang City, Shandong Province, the PRC.



Photo: Our production facility in Changle county, Weifang, Shandong Province, the PRC

Our headquarters is located in Tianjin in the PRC.



Photo: Our headquarters in Tianjin

Owned land and properties

As of the Latest Practicable Date, we owned six parcels of land, with an aggregate area of approximately 178,173.5 sq.m., and 34 buildings or units, with an aggregate building floor area of approximately 144,938.7 sq.m. in the PRC. Save for the properties as set out in the Property Valuation Report in Appendix III to this document, all of the above properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. Our Directors confirm that no single property interest that formed part of our Group’s non-property activities had a carrying amount of 15% or more of our consolidated total assets as of June 30, 2024.

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The following table sets forth the material properties owned by our Group with building floor area more than 1,000 sq.m. in the PRC:

No	Owner	Location	Building floor area (m ²)	Usage	Mortgage status
1	Company	No. 15 Ziyuan Road, Huayuan Industrial Zone, Binhai High-tech Zone	17,555.4	Non-residential	Yes
2	Company	No. 12, Rongyuan Road, Huayuan Industrial Zone, Binhai High-tech Zone	7,555.4	Non-residential	Yes
3	Changle Chengxin	Building 15, No. 1388, Baoshicheng 2nd Road, Changle County	2,879.6	Industrial	Yes
4	Changle Chengxin	Building 5, No. 1388, Baoshicheng 2nd Road, Changle County	1,625.4	Industrial	Yes
5	Changle Chengxin	Building 4, No. 1388, Baoshicheng 2nd Road, Changle County	1,625.4	Industrial	Yes
6	Changle Chengxin	Building 18, No. 1388, Baoshicheng 2nd Road, Changle County	2,620.8	Industrial	Yes
7	Changle Chengxin	Building 37, No. 1388, Baoshicheng 2nd Road, Changle County	1,222.7	Industrial	Yes
8	Changle Chengxin	Building 30, No. 1388, Baoshicheng 2nd Road, Changle County	2,285.0	Industrial	Yes
9	Changle Chengxin	Building 35, No. 1388, Baoshicheng 2nd Road, Changle County	4,192.1	Industrial	Yes
10	Changle Chengxin	Building 29, No. 1388, Baoshicheng 2nd Road, Changle County	7,071.8	Industrial	Yes
11	Changle Chengxin	Building 1, No. 1388, Baoshicheng 2nd Road, Changle County	2,158.2	Industrial	Yes
12	Changle Chengxin	Building 17, No. 1388, Baoshicheng 2nd Road, Changle County	3,057.6	Industrial	Yes

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No	Owner	Location	Building floor area (m ²)	Usage	Mortgage status
13	Changle Chengxin	Building 16, No. 1388, Baoshicheng 2nd Road, Changle County	1,099.3	Industrial	Yes
14	Changle Chengxin	Workshop 32, No. 1388, Baoshicheng 2nd Road, Changle County	1,026.9	Industrial	Yes
15	Shandong Yifu	Building 1, No. 1998, Beisanli Street, Changle County	73,678.5	Industrial	Yes
16	Shandong Yifu	Building 2, No. 1998, Beisanli Street, Changle County	8,849.6	Industrial	Yes

Leased properties

As of the Latest Practicable Date, we leased approximately 28 properties for business operation with total floor area of approximately 10,359.5 sq.m. in the PRC. The following table sets forth the material properties leased by our Group for business operation with total floor area of more than 1,000 sq.m. in the PRC:

No	Lessee	Lessor	Location	Lease registration status	Usage	Area (sq. m)	Term
1	Shenzhen Mokingran	An independent third party	Floor 7, Shuibei Ginza Building, No. 97 Beili North Road, Luohu District, Shenzhen	Registered	Commerce	1,298.0	2024.09.01– 2027.05.20
2	Shenzhen E-commerce	An independent third party	Room 601, 5th Floor, Building B27, Zhonghe Shengshi, No. 1, Juying 3rd Street, Liuyue Community, Henggang Street, Longgang District, Shenzhen, Guangdong, China	Nil (<i>Note 1</i>)	Commerce	3,183.9	2020.11.15– 2025.11.14

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Note:

1. The property has no ownership certificate due to historical reasons and therefore the lease cannot be registered. Our Group has obtained a confirmation issued by the landlord which confirms that the lease agreement entered into between the lessor and lessee are duly recognized, and that there is no disputes or potential disputes in the leasing of the property in concern.

In addition, as of the Latest Practicable Date, our Group also leased 23 residential properties which were used as staff dormitories with total floor area of 2,735.4 sq.m. As of the Latest Practicable Date, we have renewed all of these lease agreements with the lessors.

Leased properties with no property ownership certificate or the lessor of which is unable to produce property ownership certificate

As of the Latest Practicable Date, of the leased properties used for business operation, (i) nine of the leased properties with a total floor area of 5,769.1 sq.m. did not have any property ownership certificate; and (ii) the lessors of six of the leased properties with a floor area of 848.7 sq.m. were unable to provide us with property ownership certificates. Further, of the leased properties which are used as staff dormitories, seven of such leased properties with a total floor area of 1,160.4 sq.m. either had no property ownership certificate or the lessors of which were unable to produce the relevant property ownership certificates.

As advised by our PRC Legal Advisor, such leased properties that either have no property ownership certificate or the lessor of which is unable to produce property ownership certificate does not have a material adverse impact on our business and operation results for the following reasons:

- (i) the aforementioned properties were either used as staff dormitories or for non-production purposes. As confirmed by our Directors, if the leased properties cannot be continued to be leased to us due to defects in the rights of the leased properties, we can promptly find alternative premises and this will not affect the normal operations of our Group;
- (ii) such properties, which has a total floor area of 7,778.2 sq.m., accounted for a small area of the total floor area used by the Group (being just 5.0% of the total floor area used by our Group) as of the Latest Practicable Date.

In the event that our Group is required to relocate such leased properties that either have no property ownership certificate or the lessor of which was unable to provide property ownership certificate during the lease term due to defects in the ownership of the leased properties, the total costs are expected to be approximately RMB6.6 million, considering the potential labour, construction renovation and other related expenses to be incurred for relocation. Pursuant to the undertaking from our Controlling Shareholders, such relocation costs, if incurred, will be fully indemnified by our Controlling Shareholders.

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Leased properties yet to complete registration and filing procedures

As of the Latest Practicable Date, of the leased properties used for business operation, 27 of the aforementioned leased properties with a floor area of 10,117.5 sq.m. were yet to complete registration and filing procedures. Further, as of the Latest Practicable Date, of the leased properties used as staff dormitories, 17 of the leased properties with a total floor area of 2,338.6 sq.m. were yet to complete registration and filing procedures.

As advised by our PRC Legal Advisor, the non-registration and filing of the relevant property lease will not affect the validity of the lease contracts and the legal use of the leased properties, but relevant local housing authorities may require us to complete the filing within the prescribed period and we may be subject to penalties of RMB1,000 to RMB10,000 as a result of delay in filing for each of such properties. Accordingly, our Directors are of the view that the failure to register these lease agreements does not have a material adverse impact on our business and operation results.

In addition to the above, our Controlling Shareholders have undertaken to indemnify our Group for any losses caused by the defects in the ownership of the aforementioned properties. Based on the above, the Directors are of the view that the subject leased properties are not crucial to the operations of our Group. As of the Latest Practicable Date, we were not subject to any material claims arising from or in respect of any defect in our leasehold interest in any of our leased properties.

EMPLOYEES

As of December 31, 2021, 2022 and 2023, June 30, 2024 and the Latest Practicable Date, we had in total 1,751, 1,915, 2,103, 1,997 and 1,874 full-time employees respectively. Most of our employees are stationed in our production facilities in Changle County, Weifang City, Shandong Province, the PRC. The table below sets forth the number of our employees by functions as of the Latest Practicable Date:

Functions	As of the Latest Practicable Date	
	Number of employees	Percentage of total number of employees
		(%)
Management	328	17.5
Sales and Marketing	708	37.8
Research and development	106	5.7
Production	732	39.1
Total	1,874	100.00

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We have invested substantial efforts and resources in recruiting and training our employees. In addition to our recruitment process and internal referrals, we also recruit talent through specialised recruiting firms and other third parties.

We offer vocational training to our newly hired employees serving in the production function to equip them with adequate knowledge and skills in respect of gold jewellery crafting before formally engaging them in our daily production. The training will usually last for three to six months depending on the skillsets required for respective positions. During the Track Record Period, we did not rely on a certain labor group for our business operations and did not experience any material labor shortages. We have been able to meet our labor demand through our usual recruitment and the aforementioned offering of vocational training to newly hired employees in the production function. As we expand our operations, we intend to continue with our existing recruitment and training practices to ensure that our labor force have the relevant skillsets required for respective positions. In addition to salaries, our employees who are retained after the probation period are entitled to discretionary year-end bonuses. We regularly review the performance of our employees according to their individual key performance indicators (KPI) and make reference to such performance appraisals in our discretionary bonus, salary adjustment and promotional appraisal in order to attract and retain talented employees.

In light of the long-term benefits of talent cultivation, we provide internal training programs to our employees from time to time so as to enhance our overall efficiency and promote employees’ sense of belonging to our Group. We place heavy emphasis on occupational safety in our production and we conduct periodic training for our employees to raise awareness in relation to production safety. We will continue to offer training on industry knowledge, technical know-how in using our latest production facilities and provide updated market information to our employees. In addition to providing training to our employees, our franchise management department also provides various regular comprehensive training programs including store opening training, ad hoc large-scale training sessions, and in store training to the franchise store managers and other staff of our franchisees in order to enhance the quality of their services. Such trainings are focused on product knowledge, brand knowledge, appearance, sales process, product after-sales service, and other aspects. Our franchise management department also regularly holds sales competitions and other events to enhance the overall professional quality and sales ability of our franchise store staff.

We enter into confidentiality and non-competition agreements with our employees who hold key positions and have access to our trade secret as necessary. Such agreements typically include a non-competition provision effective during our employees’ employment with us and up to two years after termination, and a confidentiality provision that remains in effect until the protected information becomes public knowledge. We have the right to take legal action against any violations of the agreement. As of the Latest Practicable Date, we were not aware of incidents of breaches of these provisions.

We have a labour union representing our employees. We believe that we maintain a good working relationship with our employees, and we did not experience any strikes, protests or other material labor disputes that may materially impair our business and reputation during the Track Record Period and up to the Latest Practicable Date.

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During the Track Record Period and up to the Latest Practicable Date, there was no fatal accident case or material injury that had led to production suspension.

INSURANCE

We maintain insurance policies that we consider to be in line with market practice and adequate for our business, including insurance on our exhibition halls, insurance for inventory losses, and jewellery property insurance. Our jewellery property insurance covers operational risks, including losses incurred due to theft, with coverage amounts determined with reference to the size of each store. We maintain social welfare insurance for our employees in accordance with relevant PRC laws and regulations. See “Risk Factor — Risks Relating to our Business and Industry — Our insurance coverage may not cover all losses which could have a material and adverse effect on our business, financial conditions and results of operations”. There was no material claim of insurance during the Track Record Period and up to the Latest Practicable Date.

ENVIRONMENTAL, SOCIAL, HEALTH AND WORK SAFETY MATTERS

Overview

Corporate social responsibility is a core part of our business philosophy and is crucial for us to create sustainable value for our shareholders. We are committed to advocating for corporate social responsibility and sustainable development and promoting sustainability at all major levels of business operations. We have implemented a series of corporate governance and environmental, social and governance (“ESG”) related policies, which provides guidelines to the management of our Group’s environmental and social and related issues, corporate governance and code of ethics. We will comply with the environmental, social and governance (“ESG”) reporting requirements after [REDACTED] and the responsibility to publish ESG report on an annual basis in accordance with Appendix C2 to the Listing Rules. We will focus on each of the areas as specified in Appendix C2 to the Listing Rules to analyze and disclose important ESG matters, risk management and the accomplishment of performance objectives, particularly those environmental and social issues that could have a material impact on the sustainability of our operations and that are of interest to our Shareholders.

We believe that it requires collective effort from our Board of Directors to evaluate and manage material ESG issues and integrate ESG into the Company’s strategy and daily operational management. In order to better manage the Company’s ESG-related affairs, the Board has the overall responsibility for developing, adopting, and reviewing our Group’s environmental, social, and governance (“ESG”) related strategies and policies. These policies are continuously updated to ensure full compliance with the latest laws, regulations, and guidelines. In accordance with Appendix C2 of the Listing Rules, we prepare disclosure that complies with the requirements of the Environmental, Social and Governance Reporting Guide (“ESG Reporting Guide”), either upon [REDACTED] or when appropriate. The Board is also responsible for identifying, evaluating and managing our ESG-related risks and opportunities and ensuring that appropriate and effective ESG risk management and internal control systems are in place. Our Board of Directors appoints management and relevant functional departments of ESG to form an ESG working group and implement ESG-related decisions to ensure that our operations and business practices align with the

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relevant ESG strategies. Furthermore, the Board identifies ESG KPIs, assigns relevant targets, reviews performance against ESG-related targets on an annual basis, and revises the ESG strategy as appropriate in the event of material non-compliance.

Following the [REDACTED], we intend to recruit employees with ESG backgrounds to augment our ESG capabilities. Additionally, we will enhance ESG training programs for the directors, senior management and staff to elevate their proficiency in ESG matters. After the [REDACTED], we will gradually appoint dedicated directors to participate in the development of necessary ESG mechanisms and policies and establish an ESG committee to be responsible for supervising and managing ESG-related risks and matters, including formulating ESG policy and strategies, monitoring ESG issues, reviewing and evaluating sustainability performance, setting metrics and targets, preparing ESG report and making recommendations to our Board.

With respect to the management of environmental, social and climate-related issues, we take into account the concerns of internal and external stakeholders on ESG issues, as well as the business characteristics of our Group, and incorporate the opinions of third-party professionals.

Identification, Assessment and Management of the Risks and Opportunities for Major ESG Issues

Our Board has the overall and collective responsibility to ensure an effective ESG risk management and internal control mechanism with periodic review on its effectiveness in safeguarding our Group’s assets and Shareholders’ interests. Upon the [REDACTED], our Group will conduct enterprise risk assessment at least once a year to cover the current and potential risks faced by us in our business, including, but not limited to the risks arising from the ESG aspects. Our Board will assess to evaluate the risks and review our Group’s existing strategy, target and internal controls, and necessary improvements will be implemented to mitigate the risks.

Based on our board and management’s judgment, reference from materiality maps provided by well-known external institutions including SASB Materiality Map by Sustainability Accounting Standards Board (SASB), as well as the professional opinion from third-party professionals, we have identified the material ESG issues highly related to our business. We will incorporate ESG related risks into our risk assessment processes.

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Firstly, we acknowledge that climate-related issues pose a certain level of threat to us. Climate-related risks identified can be classified into two major categories: physical risk and transition risk. We identify, evaluate, and monitor the climate-related risks and opportunities over the short, medium and long term, and seek to incorporate such climate-related issues into our policy and management. See “Environmental protection” in this section for further details on climate-related policies. Below is a summary of the climate-related risks and countermeasures that we have identified over the short, medium and long term:

<u>Time horizon</u>	<u>Climate-related risk type</u>	<u>Climate-related risks</u>	<u>Potential impact</u>	<u>Countermeasures</u>
Short term (current reporting period)	Physical risk: Acute risk	<ul style="list-style-type: none"> • Extreme weather conditions such as rainstorms and typhoons 	<ul style="list-style-type: none"> • Damages and disruptions to the points of sale and the resulting incurring increased capital cost 	<ul style="list-style-type: none"> • Create and continuously optimize emergency response measures to extreme weather conditions
Medium term (one to three years)	Transition risk: Policies and laws	<ul style="list-style-type: none"> • Heightened environmental regulatory oversight 	<ul style="list-style-type: none"> • Increased operating and compliance costs • Higher operating costs and/or tax burdens due to stringent environmental regulations 	<ul style="list-style-type: none"> • Pay close attention to environmental policies and regulations especially climate related
	Transition risk: Technology	<ul style="list-style-type: none"> • Global initiatives and technological innovation for carbon emission reduction 	<ul style="list-style-type: none"> • Increased cost caused by technology research and development on energy structure transformation and electric reform 	<ul style="list-style-type: none"> • Energy saving upgrade and transformation of motor equipment to reduce carbon emissions
	Transition risk: Market	<ul style="list-style-type: none"> • Consumer behavior change on environmental protection and green in product purchase and selection 	<ul style="list-style-type: none"> • Reduction in revenue due to customer preferences 	<ul style="list-style-type: none"> • Transmit low-carbon and green consumption concepts
Long term (above three years)	Physical risk: Chronic risk	<ul style="list-style-type: none"> • Global warming and sea level rise caused by continuous high temperatures 	<ul style="list-style-type: none"> • Increased in cooling demand and the resulting incurring higher electricity demand and operating cost • Interruption and price fluctuation of raw material supply and the resulting incurring higher purchasing cost 	<ul style="list-style-type: none"> • Continuously improve operational energy efficiency • Strengthen supply chain management to improve the climate resilience of supply chain

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We are constantly exploring more ways to reduce GHG emissions in response to climate change and continuously improve the ability of climate related risk management. Meanwhile, climate change mitigation presents opportunities for us to adopt energy efficient technologies or sustainable practices that help to reduce our operating cost.

On top of the risks regarding climate-related issues, we have identified the following material ESG issues and their potential impacts.

<u>Material Topics</u>	<u>Topics Potential Risks, Opportunities and Impacts</u>
Occupational and workplace safety	We strive to protect the health of our employees, create a safe working environment, thereby reducing the costs of accident handling, litigation and fines, and improving our business continuity and operational efficiency.
Employee care	Neglecting employee care may bring us the risk of talent loss. We focus on equal rights, diversity and welfare of employee and fairly evaluate employee performance and cultivate employee skills to attract, reserve, promote, and retain talent.
Social responsibility	We attach great importance to corporate social responsibility to promote the harmonious development of society which may also bring us the opportunities of social credibility, corporate reputation and business development.
Energy saving and emission reduction	Through improving operational efficiency, reducing the use of energy and resources, as well as emissions of pollutants and wastes may allow us to enhance our environmental performance and reduce the negative impact of our operation in relation to climate change. While this may potentially incur extra cost to comply with the increasingly stringent environmental regulatory requirements and increase operational cost, it may positively improve our reputation.

We report various measures that we undertake to manage and mitigate risks relating to material ESG issues in the following.

Occupational and workplace safety

We attach great importance to occupational and workplace safety and are accredited with ISO 45001 occupational health and safety management. In order to ensure production safety, we have in place a comprehensive and effective safety production management system, and have formulated various standard operating procedures to regulate workplace safety management such as the “Fire Safety Management System” (《消防安全管理制度》), “Safety Risk Grading Control and Hidden Danger Investigation and Management System” (《安全風險分級管控和隱患排查治理管理制度》),

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“Quality/Environmental/Occupational Health and Safety Management Manual” (《質量／環境／職業健康安全管理手冊》) and the “Production Safety Emergency Management Plan” (《安全生產應急管理預案》). We have established a safety production management committee with the general manager as the responsible personnel and each department’s safety officer as the specific responsible person. This committee is responsible for implementing our safety production management system, which adheres to the principle of “safety first, prevention first”.

We also attach significant importance to safety training and enhance safety awareness among our employees. We conduct regular safety production training and daily production safety inspections, as well as comprehensive safety inspections once a month, to identify and rectify any safety hazards. This approach helps to ensure the safety and well-being of employees and the public near our production facility, and it is important for maintaining our reputation and social responsibility.

We also strictly implement the safety production responsibility system, regularly conducts safety education, training, inspection, and evaluation for employees, especially pre job training for frontline production employees to understand the production process of our products, master equipment performance, strictly standardize operating procedures, continuously improve employees’ safety production responsibility and awareness, and follow the safety concept of “accident comes from negligence, safety comes from standardization”, effectively prevented the occurrence of safety accidents. In order to standardize the management of safety incidents, reporting and assessment, we have established a set of standards to classify safety accidents into different severity levels. The disciplinary actions, such as penalties and year-end bonus deductions, against the directly responsible person, responsible management, and responsible leader are determined based on the severity of the accidents.

During the Track Record Period, we did not have any material accidents in relation to occupational and workplace safety in the course of our operation. As advised by our PRC Legal Advisor, based on our Directors’ confirmations, we were not subject to any administrative penalties as a result of breach of safety related laws, rules, regulations, or regulatory documents during the Track Record Period and up to the Latest Practicable Date.

Employee care

We fully protect the legitimate rights and interests of employees on recruitment, dismissal, salary, and benefits to ensure equal opportunities and create a diverse and inclusive working atmosphere to all of our employees.

We have developed a comprehensive human resources system, which clearly lays out the policies on remuneration, holidays, working hours, welfare, reward, dismissal and termination of employment contract. According to “the Labor Law of the People’s Republic of China” (《中華人民共和國勞動法》), “the Labor Contract Law of the People’s Republic of China” (《中華人民共和國勞動合同法》), “the Employment Promotion Law of the People’s Republic of China” (《中華人民共和國就業促進法》) and other relevant laws and regulations, we have formulated various policies and operating procedures to regulate employment management such as the “Recruitment Management Measures” (《招聘管理辦法》), “Management Measures for Employee Induction and

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Probation Period” (《員工入職及試用期管理辦法》), “Salary and Welfare Management Measures” (《薪酬福利管理辦法》), “Attendance and Vacation Management System” (《考勤休假管理制度》), “Management Measures for Travel Expenses for Family Visits” (《探親路費管理辦法》) and other policies to ensure the rights and interests of employees on salary, dismissal, diversification, anti-discrimination, and other welfare policies within the company’s systems and management processes.

We believe that our talents are an integral part of our success. We have invested significant resources in career development and training for our employees of all levels. See “— Employees” in this section for further details.

We also offer a comprehensive compensation and benefits package, with competitive salaries, bonuses, maternity leave, and other allowances, on top of social insurance and housing provident fund contributions. We also embrace diversity and inclusion, so all our employees enjoy equal opportunities in all respects, ranging from recruitment, training, welfare coverage, career and personal development during their time with us. Besides, we will also continue to encourage a culture of work-life balance, in order to create a positive and comfortable work environment for our employees. Our policy is to treat all employees equally regardless of age and sex. We conduct internal assessment, employee self-assessment to ensure the fairness of employee compensation, and motivate, attract, and retain outstanding talents through equity incentive plans. During the Track Record Period, we were not subject to any violations of anti-discrimination and fairness principles thereof.

Social responsibility

We are committed to contributing to the welfare of society and sharing our corporate social responsibility. For example, we made charitable contribution on education fields to support the child welfare, the development of Hope Primary School and university scholarship. We also contributed to the projects of infrastructure construction and cultural construction to empower rural revitalization and promote harmonious social development. For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, our donation for social responsibility amounted to RMB0.4 million, RMB2.4 million, RMB1.15 million and RMB0.6 million, respectively.

Compliance, Business Integrity and Anti-corruption

We attach great importance to integrity and anti-corruption and cultivate the culture of compliance. We have always maintained a high-pressure stance against violations of disciplines and regulations, and actively formulated the “Anti-Corruption and Anti-Bribery System” (《反貪污、反賄賂制度》). We seek for legal advice in relation to our Group’s compliance and operation from time to time. Our internal policy includes a system of commitment to the prevention of commercial bribery for staff in key areas, and staff in important positions are required to sign a Letter of Commitment to Integrity with the company.

We also set up a reporting hotline for the prevention of commercial bribery and publish the reporting telephone number in the franchise agreement. For the whistleblower’s report, once verified, the whistleblower will be rewarded accordingly. We actively encourage employees to

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report any suspected corruption and illegal behaviors, with all reported cases being investigated rigorously and in a timely manner. Our Group soundly implements the whistle-blower protection mechanism, to carry out investigation of complaints and reports following the principles of fairness, impartiality and confidentiality. The whistle-blower and the reported information will be kept strictly confidential. During the Track Record Period, we have no judicial cases involving corruption.

Responsible Supply Chain

Responsible sourcing and sound supply chain management are essential for us to ensure reliable product quality and sustainability along our supply chain. In order to promote sustainable and responsible practices, our Group has formulated the “Supplier Management Measures” (《供應商管理辦法》), including procurement policies, and screening, evaluation and monitoring of suppliers. Our Group have also conducted a series of assessments and monitoring activities to optimize product quality and their environmental performance. The purchasing department will evaluate suppliers and establish a file for each supplier. The supplier file contains the “supplier questionnaire”, “supplier evaluation form” and the qualification documents provided by the supplier. The supplier’s form document specifically looks at the supplier’s environmental issues as well as reputational issues.

Furthermore, we categorically prohibit any occurrence that violates human rights, and the Company has not been involved in any conflict diamond incidents. To prevent the occurrence of such events, the Company has become a member of the Shanghai Diamond Exchange and currently procures diamonds exclusively from the Shanghai Diamond Exchange to ensure the legality and compliance of the diamond sources.

To ensure the quality of raw materials and meet industry standards, we collaborate with widely recognized suppliers in the industry during our procurement process. We have established a supply chain approval process, through which suppliers must provide relevant qualifications, such as their business licenses, operation licenses, among others, and demonstrate legal compliance with good business ethics prior to approval. Then we conduct on-site inspections of the supplier’s work environment and perform a comprehensive quality inspection to ensure that the raw materials fulfil our quality requirements. Once the above processes have been passed, the Procurement Department will eventually submit the Supplier Admission Process. Through effective supply chain management, we strive to enhance business development, improve operational efficiency and drive suppliers towards sustainable practices.

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Environmental protection

We recognize that environmental protection has become a vital component of promoting sustainable development. We have always been committed to improving the environment, emphasizing energy conservation and environmental protection in our production and operation processes, reducing the use of natural resources, and avoiding environmental damage caused by excessive emissions and pollutants.

(a) *Overview of environmental protection related matters*

Our production process does not produce substantial heavy pollutants, and was not named in the “High Pollution and High Environmental Risk” (高污染、高環境風險) product list of the “Comprehensive Environmental Protection Catalogue (2017 Edition)” (《環境保護綜合名錄(2017年版)》) released by the Ministry of Environmental Protection (環境保護部). Meanwhile, our business does not belong to any of the heavy pollution industry named in the “List of Environmental Protection Verification Industry Classification Management of Listed Companies” (《上市公司環保核查行業分類管理名錄》), and there are no high-risk or heavy pollution situations. During the Track Record Period, we have strictly implemented various environmental protection measures and complied with environmental protection laws and regulations. We have also been accredited with ISO14001 environmental management.

We have established Safety and Environmental Protection Department, with specialists responsible for the implementation and execution of environmental protection policies, constantly improving the environmental management system, establishing and improving the environmental protection control mechanism and long-term mechanism, forming the environmental protection system, and taking the construction of ecological civilization and environmental protection work as an important part of the work, so as to ensure lasting development.

According to the Environmental Protection Law of the People’s Republic of China (《中華人民共和國環境保護法》), in order to implement the policy of “comprehensive planning, technological innovation, comprehensive utilization, scientific management, and pollution prevention and control” (全面規劃、革新科技、綜合利用、科學管理、防治污染), we have in place a comprehensive and effective environment management system and have formulated various policies and operating procedures to regulate and promote environment management such as the “Environmental Protection Management System” (《環境保護管理制度》), “Environmental Protection Target Responsibility System” (《環境保護目標責任制》), “Environmental Protection Facility Operation Management System” (《環境保護設施管理制度》), “Hazardous waste management system” (《危險廢棄物管理制度》), “Three Waste Management System” (《三廢管理制度》) and other policies and systems.

In addition, with the intensification of climate change and under the background of China’s “carbon peak” and “carbon neutrality” goals, we are strengthening our focus on climate change management and greenhouse gas emissions reduction. We have developed the “Environmental Emergency Management System” (《突發環境應急管理制度》) to cope with the major risks brought by environmental events, and we continue to optimize the emergency management mechanism and strengthen the training and drills in order to mitigate the operational losses caused by such events.

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Meanwhile, we mitigate the transition risks posed by climate change by formulating “Environmental Responsibility System” (《崗位環保責任制》) and “Environmental Protection Management System” (《環境保護管理制度》) that requires enhanced energy-saving renovation, thereby improving energy comprehensive utilization efficiency and reducing greenhouse gas emissions. We have described the identification, management and mitigation of climate change in the section of “Identification, Assessment and Management of the Risks and Opportunities for Major ESG Issues”.

(b) *Nature resource use and actions taken to manage related impacts*

We strive to minimize the impacts of our production and operations on the environment and natural resources and take proactive measures and actions to minimize these impacts.

i. *Energy*

We endeavor to proactively conserve energy and reduce GHG emissions in response to the government’s initiatives. In addition to purchased electricity and steam for production and operation, our production facilities consume fossil fuels such as natural gas and our fleet of Group-owned vehicles consumes diesel and petrol. In order to reduce energy consumption and GHG emissions, we continue to replace high energy consuming motor equipment to save energy consumption, especially electricity consumption, and improve energy conservation efficiency. In addition, we adhere to green operation and implement electricity card management system to ensure that electricity consumption is within a reasonable range of use and avoid power waste.

ii. *Water*

We adhere to green operation and implement water card management system to ensure that water consumption is within a reasonable range of use and avoid water waste. We utilize wastewater treatment and water reuse technologies to improve water recycling. The wastewater is treated in the sewage treatment station and reused in the production process after “double-effect evaporation — ultrafiltration” (雙效蒸發 — 超濾), thereby reducing the consumption of water resources.

iii. *Resource Consumption*

We endeavor to reduce negative impact on the environment through our commitment to resource saving. We actively promote the idea of paperless workplace, and we encourage double-sided printing of documents in our office.

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I Specific production process that may cause pollution and types of pollutants emitted in course of production and operation

As disclosed in the section headed “Our operation workflow — Production — Purification and processing in our self-owned production facility”, our major production processes include casting, hydraulic pressing, threading and weaving of gold. The major types of pollutants that may be produced in course of our production process include the followings:

i. Sewage

This includes industrial sewage and domestic sewage, amongst which, the industrial sewage from our gold processing was mainly produced in course of the cleaning process after polishing (拋光). Such industrial sewage can be used in the other production process after processing and purification and the leftover purified water from our production will be sold to qualified companies. The industrial sewage from the production of hard gold and K-gold products was mainly produced in course of gold, exhaust gas treatment device drainage, pure water preparation wastewater, etc.;

We adopt strict sewage treatment procedures. The industrial sewage is treated in the sewage treatment station by “PH adjustment — gold extraction (hydrazine hydrate method) — multi-media filtration” (PH調節 — 提金(水合肼法) — 多介質過濾), and reused in the production process after “double-effect evaporation — ultrafiltration” (雙效蒸發 — 超濾). Industrial sewage is received by professional third-party organizations for treatment after sedimentation. We treat domestic wastewater for reuse and use electronic water cards to monitor and minimize uncontrolled discharge of domestic wastewater.

ii. Waste gases

The waste gas generated during the processing of hard gold and K-gold mainly consists of the waste gas generated by the preparation of liquid gold, the organic waste gas which has volatilized during the process of adding silver oil, the waste gas from electroforming, and the waste gas from acid boiling. The main pollutants in the waste gas generated from the preparation of gold water are hydrogen chloride and a small amount of ammonia.

We adhere to the concept of “source control, prevention first” (源頭治理、預防為主), continuously optimize production process to reduce the impact of waste gases on the surrounding environment. We install gas collection hoods and treatment cabinets in all waste gas generation processes for collection and uses variable frequency fans to avoid waste gas diffusion. Organic waste gas is treated by drying box, adsorption box, and carbonization furnace, and then treated by three-stage spraying treatment before reaching the standard for discharge. Acidic waste gas is adsorbed by acid treatment equipment through ceramic granules, condensed and recovered, and then treated by three-stage spraying treatment before reaching the standard for discharge. We regularly invite third-party to test the waste gases to ensure compliance with standards, and there are no instances of excessive emissions.

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iii. *Noise*

The production noise mainly comes from embossing machines, CNC discharge machining machines, multifunctional engraving machines, pumps, exhaust systems, etc., which has a small impact on the surrounding environment, as the machineries are operated inside an enclosed building;

In order to avoid the generation and spread of noise, the production shop adopts the upper and lower layered design and installs process partitions and aluminum alloy partition walls. The outside of the workshop is equipped with marble, and there is a cavity between the marble and the wall, thus greatly blocking the spread of sound. In addition, the company regularly carries out workshop noise and factory noise inspections and there are no exceeding standards. The inspection results show that the noise generated during our production and processing has less impact on the surrounding environment.

iv. *Solid waste*

The solid waste that needs disposal mainly includes general solid waste, household waste, hazardous waste, etc. General solid waste mainly includes waste wax, leftover materials, raw material packaging materials, and waste cardboard boxes generated during the jewellery processing process. Raw material packaging materials and waste cardboard boxes are centralized and sold by us, and waste wax, leftover materials, and other materials are recycled and reprocessed for reuse. Domestic waste is centrally cleared and disposed of by the environmental sanitation department. Hazardous waste includes packaging of waste chemical raw materials, sludge from sewage treatment stations, evaporated waste salts, waste filter cartridges, etc. is temporarily stored in a hazardous waste warehouse and entrusted to qualified external parties for collection, transportation, and storage.

We have established a “solid waste warehouse” and a “hazardous waste warehouse”, which store and classify waste in different areas. Domestic waste is centrally cleared and transported by the environmental health department, while general solid waste and hazardous waste are regularly cleared and professionally treated by qualified units, and transfer receipts are kept ensuring compliance. We strictly store and dispose of hazardous waste in accordance with relevant standards for hazardous waste and implements full process management of hazardous waste.

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, we have incurred costs for compliance with the applicable environmental rules and regulations of approximately RMB306,100, RMB353,000, RMB404,300 and RMB251,900, respectively. As advised by our PRC Legal Advisor, based on our Director’s confirmation, we were not subject to any administrative penalties as a result of a breach of any relevant PRC environmental-related laws, regulations, rules or regulatory documents during the Track Record Period.

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In the future, we expect that our costs for compliance with the applicable environmental rules and regulations shall increase along with our overall business development, however, we expect that the proportion of such costs against our total revenue will have a downward trend.

Metrics and targets to manage ESG-related risks

We enforce metrics and targets to manage the ESG-related risks especially on environmental issues. To protect the environment and create an “environmentally friendly enterprise” to prevent various environmental accidents, we have set a series of environmental targets.

As our business continues to expand, we expect the absolute use of energy and discharge volume of our waste to grow concurrently. However, we strive to minimize the discharge of wastes and eliminate the occurrence of various major environmental pollution accidents. We are committed to gradually adopt more environmentally friendly measures and not discharge various types of sewage containing harmful substances into domestic water bodies. In setting targets for the ESG-related KPIs, we have taken into account the respective historical levels, the best practice from peer industry and our future business development thoroughly and prudently with a view of balancing business growth and environmental protection to achieve sustainable development. Specifically, we target to reduce the water, energy, GHG emissions and waste per million revenue by 5%, respectively, by 2030 when compared to 2020. At the same time, we will continue to establish more comprehensive ESG-related indicators and targets as we discuss with relevant stakeholders. In order to achieve relevant environmental targets, we promote green operation and have taken a series of measures such as carry out energy-saving and carbon emission reduction projects, strengthen resource use and waste management. We have described the actions taken by the group for achieving the relevant targets in the sections of “— Environmental, Social, Health and Work Safety Matters — Environmental Protection — (a) Overview of environmental protection related matters” and “— Environmental, Social, Health and Work Safety Matters — Environmental Protection — (b) Nature resource use and certain actions taken to manage related impacts — I. Specific production process that may cause pollution and types of pollutants emitted in course of production and operation”. The specific financial impact on the operation of actions taken for achieving the related targets includes that help us reduce the cost of resource utilization, thereby further reducing operational costs. The specific non-financial impact on the operation of actions taken for achieving the related targets includes that help us effectively achieve environmental goals, improve water and energy efficiency, and further improve production and operational efficiency. At the same time, actions to reduce waste and GHG emissions will also minimize the negative impact of our operations on the environment, enhance resilience to climate change risks, enhance the sustainable development capabilities of enterprises, and shape a good image of social responsibility.

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We will collect and review our KPIs regularly to ensure that they remain appropriate to our Group. Set forth below are our major KPIs during the Track Record Period:

(i) Resource consumption

<u>Resource Consumption</u>	<u>Year ended December 31,</u>			<u>Six months</u>
	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>ended June 30,</u>
				<u>2024</u>
Energy Consumption:				
Purchased electricity (kWh)	5,630,894	6,053,123	7,769,924	3,887,880
Purchased steam (tons)	2,556.34	3,529.28	2,139.67	2,352.91
Natural Gas (cubic meters)	43,428.56	48,608.03	148,177.95	120,938.50
Gasoline (Liters)	89,203.69	71,865.18	96,507.06	52,853.66
Diesel (Liters)	30,625.01	24,647.81	24,912.15	6,676.47
Total energy consumption				
(tons of standard coal)	1,211.84	1,369.80	1,561.31	1,006.20
Total energy consumption per				
million revenues (tons of				
standard coal/million revenue) . .	0.07	0.09	0.08	0.10
Water Consumption (tons)	74,750	74,667	81,647	35,732
Water consumption per million				
revenues (tons/million revenue) .	4.43	4.75	4.04	3.58

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(ii) Emissions including greenhouse gas emissions, sewage, waste gases and solid waste

Emission	Years ended December 31,			Six months
	2021	2022	2023	ended June 30,
				2024
Scope 1 (direct emissions)				
(tons CO ₂ equivalent)	373.59	330.72	603.21	398.42
Scope 2 (indirect emissions)				
(tons CO ₂ equivalent)	4,269.44	4,912.97	5,316.86	2,164.77
Total greenhouse gas emissions				
(tons CO ₂ equivalent)	4,643.04	5,243.69	5,920.07	2,563.19
Emissions of greenhouse gas per				
million revenue (tons CO ₂				
equivalent/million revenue)	0.28	0.33	0.29	0.26
Sewage discharge (m ³)	74,823.20	75,253.40	84,713.60	38,311.00
Sewage discharge per million				
revenue (m ³ /million revenue) . .	4.44	4.79	4.19	3.84
Waste Gas:				
HCl gas (tons)	0.033	0.058	0.077	0.056
Ammonia (tons)	0.044	0.057	0.046	0.035
VOCs (tons)	0.087	0.055	0.106	0.093
NOx emissions (tons)	0.081	0.091	0.277	0.226
Waste gas per million revenue				
(kg/million revenue)	0.015	0.017	0.025	0.041
Hazardous waste generated during				
processing and manufacturing				
(tons)	1.504	1.557	1.394	1.122
Hazardous waste generated during				
processing and manufacturing				
per million revenue				
(kg/million revenue)	0.089	0.099	0.07	0.11
Non-hazardous waste (tons)	154.33	153.81	173.54	90.36
Non-hazardous waste per million				
revenue (kg/million revenue) . . .	9.15	9.78	8.59	9.05

In addition, we identify our ESG-related KPIs to include social issues. We attach great importance to corporate social responsibility, and we are dedicated to providing more contributions and value to society. We target to providing fair and equal treatment and maintain a healthy and safe environment for all of our employees. See “Occupational and workplace safety”, “Employee care” and “Social responsibility” in these sections for further details.

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COMPLIANCE AND LEGAL PROCEEDINGS

Legal Proceedings

We may from time to time be involved in legal proceedings or other disputes in the ordinary course of business. During the Track Record Period and up to the Latest Practicable Date, we had not received material complaints from consumers and we were not the defendant of any actual or pending litigation cases, arbitrations or administrative proceedings (including any bankruptcy or receivership proceedings), nor were we aware of any litigation, claim or arbitration to be pending or threatened against any member of our Group that we believe would have material adverse effect on our business, financial conditions, results of operations or reputations.

Non-Compliance

Inadequate Contribution to the Social Insurance Plan and Housing Provident Fund

During the Track Record Period, we and certain subsidiaries of our Group did not pay social insurance and housing provident fund in full for employees based on their actual wages in accordance with PRC laws. For each of the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, the aggregate amount of social insurance and housing provident fund that we had failed to pay was estimated to be RMB7.0 million, RMB9.3 million, RMB10.6 million and RMB5.5 million.

Our Directors confirm that the non-compliance was mainly due to (i) failure to make timely contribution upon the hiring of new employees; (ii) a number of our employees had already participated in comparable new local rural social insurance plans, rural cooperative medical schemes or other similar schemes; and (iii) a number of our employees voluntarily forfeit to participate in the social welfare schemes.

As advised by our PRC Legal Advisor, the relevant PRC authorities may demand that we pay the outstanding social insurance contributions within a stipulated deadline and we may be liable to a late payment fee equal to 0.05% of the outstanding amount for each day of delay; if we fail to make such payments within the prescribed period, we may be liable to a fine of one to three times the amount of the outstanding contributions. The maximum amount of fine we may be liable in relation to such outstanding contributions are expected to be approximately RMB13.3 million, RMB18.0 million, RMB19.1 million and RMB10.4 million for each of the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024. Our PRC Legal Advisor have also advised us that, under the relevant PRC laws and regulations, we may be ordered to pay the outstanding housing provident fund contributions within a prescribed time period, and if we fail to make such payments within the prescribed period, application may be made to a people’s court in the PRC for compulsory enforcement.

With a view to prevent potential future non-compliances, we plan to implement various enhanced internal control measures including (i) to maintain regular communication with the relevant PRC authorities to ensure our contributions calculation and payment methods comply with relevant rules and regulations, (ii) to prepare and distribute internally compliance policies with

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respect to social insurance plans and housing provident funds, (iii) to assign designated personnel to handle routine administrative matters and legal department staff to monitor the status of our social insurance and housing provident fund contributions and report to our senior management on a regular basis, (iv) to consult external legal adviser regularly to assess whether we are subject to relevant risks of non-compliance, as well as (v) to organise regular legal compliance training on the relevant laws and regulations to our employees to enhance their awareness of and encourage their participation in the social welfare scheme. Our Directors believe that our enhanced internal control measures to be adopted will be sufficient for our current operations and ensure on-going compliance with the relevant rules and regulations. Our management confirmed that during the Track Record Period and up to the Latest Practicable Date, our Group were not subject to any administrative penalty imposed by any competent authority as a result of inadequate contribution to the social insurance plan and housing provident fund.

As advised by our PRC Legal Advisor, and our Directors are of the view based on our PRC Legal Advisor’s advice, the risk of us being subject to fines and penalties as a result of the aforementioned non-compliance is low with consideration to the following factors:

- (i) we were not subject to any administrative penalties in respect of the inadequate contribution to the social insurance plan and housing provident fund during the Track Record Period and up to the Latest Practicable Date;
- (ii) during the Track Record Period, we and our subsidiaries each individually (i) did not have shortfall of social insurance and housing provident fund contributions; or (ii) did not have any records of non-compliance; or (iii) had not been subject to any administrative penalties, based on interviews with regulatory bodies, confirmations from relevant authorities, credit report obtained from searches and online searches on relevant websites; and
- (iii) according to the relevant PRC laws and regulations, (i) all the local authorities responsible for the collection of social insurance are prohibited to conduct centralized self-collection of historical unpaid social insurance contributions from enterprises; and (ii) that tax authorities at all levels may not organize centralized self-collection of arrears of taxpayers including private enterprises in the previous years.

Our Controlling Shareholders Mr. Wang Zhongshan, Ms. Zhang Xiuqin, Mr. Wang Guoxin and Ms. Wang Na have also undertaken to indemnify us against all of such outstanding shortfalls, penalties or damages in the event that we are required to pay any of the abovementioned outstanding contributions, or any overdue charges or penalties imposed by the relevant PRC authorities. Based on the above, no provisions were made in respect of the aforesaid underpayment of social insurance and housing provident fund.

Save as disclosed above, our Directors confirm that we have complied with the relevant PRC laws and regulations in all material respects and we were not subject to any material administrative penalties as a result of a breach of the relevant PRC laws and regulations during the Track Record

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Period and as of the Latest Practicable Date. Our Directors confirm that the incompliance with relevant PRC laws and regulations have no material adverse impact on the Company’s financial performance and business operation.

MATTERS IN RELATION TO CYBERSECURITY

During the Track Record Period, our Group had not suffered any material attacks from hackers or mal-ware, material sensitive data leakage, or suffered from any material loss from cyber security issues. According to the “Administration Regulations on Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》)” and the “Measures for Cyber Security Review (《網絡安全審查辦法》)” data is categorized into general data, important data, and core data. We only engage in data processing activities required in relation to our business operations and internal management. The data we collect and store primarily consists of personal information. Such data collection generally does not constitute data concerning national security as it is regarded as a type of general data.

Regarding the aforementioned collected and stored data, we have implemented security measures in accordance with the requirements of the Cybersecurity Law, Data Security Law, and Personal Information Protection Law, fulfilling our compliance obligations. We have conducted impact assessments on the protection of sensitive personal information in specific scenarios. We have established regulations including security management, personal information protection, and emergency response plans for personal information security incidents. Through technical measures such as data encryption, network controls, and system backups, as well as the implementation of appropriate network and data security technologies in line with our operations, we can effectively prevent the leakage, tampering, and loss of personal information. To establish reasonable permissions for personal information processing, we have appointed a data security officer and a personal information protection officer and established a data management organizational structure. Additionally, we plan to provide data security training to our employees after this issuance application to enhance their awareness of network and data security.