
FUTURE PLANS AND [REDACTED]

FUTURE PLANS AND PROSPECTS

See “Business — Our Strategies” for a detailed description of our future plans and prospects.

[REDACTED]

We estimate that we will receive [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED] million, after deducting [REDACTED], fees and estimated expenses payable by us in connection with the [REDACTED], and assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED] stated in this document, assuming [REDACTED] is not exercised. If the [REDACTED] is set at HK\$[REDACTED] per [REDACTED], being the high end of the indicative [REDACTED], the [REDACTED] from the [REDACTED] will be HK\$[REDACTED] million. If the [REDACTED] is set at HK\$[REDACTED] per [REDACTED], being the low end of the indicative [REDACTED], the [REDACTED] from the [REDACTED] will be HK\$[REDACTED] million.

Assuming an [REDACTED] at the mid-point of the indicative [REDACTED] [and that the [REDACTED] is not exercised], we currently intend to apply these [REDACTED] for the following purposes:

- approximately [REDACTED]%, or HK\$[REDACTED] million (RMB[REDACTED] million), will be used for enhancing our production capabilities by upgrading our production facility in Weifang, Shandong with a view to achieve further business growth:

It is one of our major business objectives to complete the upgrade of our production facilities located in the Economic and Technological Development Zone in Changle County, Weifang City, Shandong Province, the PRC. We anticipate that the upgraded production facility will be fully completed by December 2025.

The upgrade plan construction was initiated in 2019 and was estimated to require a total capital expenditure budget of RMB[REDACTED] million for fixed assets. As of June 30, 2024, approximately RMB[REDACTED] million has been invested, which was primarily used for construction of our major buildings, land investment, purchase of office furniture, and acquisition of office software. We intend to apply RMB[REDACTED] million of [REDACTED] on the upgrade plan. We intend to apply RMB[REDACTED] million, RMB[REDACTED] million and RMB[REDACTED] million on constructions costs, equipment purchase costs and installation costs and other expenses, respectively. Our Directors expect that the remaining capital expenditure budget of RMB[REDACTED] million as of June 30, 2024 in relation to the above facility upgrade will be financed by our internal resources and external financing.

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We intend to allocate RMB[REDACTED] million of [REDACTED] to upgrade our production facilities. The construction of our major production workshop officially commenced in 2019. As of June 30, 2024, we have relocated all production processes to the major production workshop, except for gold purification operations.

For refurbishment of the production area, we plan to continuously improve and upgrade our major production workshop’s manufacturing facilities to meet market demands and enhance manufacturing efficiency, the upgrade of which is expected to complete by December 2025. We plan to start construction of the staff quarters in 2024, with completion expected by December 2025.

The following table sets forth details of the floor areas, timeframe, allocation of [REDACTED] and cost breakdown for each of the major buildings:

<u>Buildings</u>	<u>Floor area</u>	<u>Timeframe</u>	<u>Estimation of [REDACTED] on the upgrade plan</u>	<u>Cost breakdown</u>
Major production workshop . . .	74,146 sq.m.	Started in 2019, was essentially completed in 2023 and is expected to be fully completed in December 2024	RMB[REDACTED] million	(i) Construction costs: RMB[REDACTED] million, primarily for earthworks, masonry, and other major building constructions; (ii) Installation cost: RMB[REDACTED] million, primarily including floor and wall decorations, equipment installations and beautification projects; and (iii) Other expenses: RMB[REDACTED] million, including the purchase of manufacturing equipment, setup and calibration and ongoing operational expenses.
Staff canteen . . .	9,143 sq.m.	Started in 2019 and has been in use by our employees since 2024	RMB[REDACTED] million	(i) Construction costs: RMB[REDACTED] million, primarily allocated to earthworks, masonry, and concrete and reinforcement works; (ii) Installation cost: RMB[REDACTED] million, primarily including floor and wall decorations, equipment installations and beautification projects; and (iii) Other expenses: RMB[REDACTED] million, including the purchase of kitchen equipment, and ongoing operational expenses.
Staff quarters . . .	20,623 sq.m.	Expected to begin construction in early 2025 and to be fully completed by December 2025	RMB[REDACTED] million	N/A ^(Note)
Refurbishment of the production area	6,000 sq.m.	Expected to begin construction in early 2025 and to be fully completed by December 2025	RMB[REDACTED] million	N/A ^(Note)

Note: We plan to schedule the quotations for our staff quarters and refurbishment of the production area in December 2024.

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Other miscellaneous construction works include warehouse, security centers and groundwork.

The major equipment purchase cost include production lines of gold and K-gold, production lines of platinum products, spring clasps assembly machines, wastewater disposal system, various laboratory testing machines and various units of over 900 types of miscellaneous production machineries and equipment at unit price ranging from approximately RMB5,000 to RMB3.2 million. Installation costs and other expenses mainly relate to the setting up of the aforementioned production lines and machinery to be placed in the new production workshop and putting them into working condition.

Further details of the upgrade plan

As of the Latest Practicable Date, we were in the construction phase and undergoing the procurement and installation of machinery. Upon the completion of the construction project, we anticipate an increase in our production capacity up to 30 tons of gold jewellery and K-gold products per year, as well as substantially increasing our production capacity for spring clasps. In addition, leveraging our R&D on the mass production of mid-to-high end 18K-gold spring clasps for jewellery products, we intend to upgrade and enhance our production lines on high-precision jewellery parts and components. Such upgrade also requires construction costs and equipment purchase costs.

Accordingly, we believe this can enhance our production capabilities to support increased sales orders and ultimately, boost our market share in the gold jewellery industry and brand image.

We intend to 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.

We have carried out a feasibility study on the expansion of the production site. Based on the study, our Directors considered that our Group can leverage the experience and management knowhow on product development to capture the expected increase in demand for gold jewellery in the PRC, and the growing business opportunities in our untapped market. Also, the expansion plan is intended to be completed by the end of 2025, which will be a gradual process.

Reasons for Production Expansion

We develop our production expansion plans based on, among other things: (i) estimated supply of 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

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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.

According to Frost & Sullivan, the drivers of the gold jewellery market in the PRC includes the following:

- **Consumption upgrades in third and fourth-tier cities:** Benefiting from consumption upgrades in the third-tier and fourth-tier cities, consumers’ consumption of jewellery products has grown rapidly. The per capita consumption of gold jewellery in third and lower tier cities has seen rapid growth in recent years, from RMB489.7 in 2018 to RMB663.2 in 2023, with a CAGR of 6.3%. The per capita consumption of gold jewellery in third and lower tier cities is forecasted to increase to RMB927.8 in 2028 with a CAGR of 6.9% in light of the expanding franchised stores of gold jewellery brands in lower-tier cities and ongoing consumption upgrading.
- **Investment-driven jewellery collection:** In the post-pandemic period, the prices of precious metals went up. Precious metals, especially gold, are often high-valued, rare, and widely recognized, providing a stable and protective haven against depreciation of monetary assets. Global inflation and geopolitical conflicts have heightened the demand for assets resistant to devaluation and risks. Under prevailing pessimistic expectations towards the future macro environment, gold and other jewellery with investment features bounced back soon after the pandemic. Gold jewellery, with both decorative functions and investment properties, became popular during the post-pandemic period.
- **Increasing demand for personalized jewellery products and newly consumption scenarios:** In addition to collection and investment value, jewellery has gradually become a fashion-oriented ornament that people wear daily. The consumption mindset of Chinese consumers have become increasingly personalized and trendy, and the aspiration to purchase well-designed and unique pieces of jewellery has been rising accordingly. Besides, jewellery consumption scenes are also increasingly diversified. In addition to the traditional marriage scenes, young consumers gradually form the habit of buying jewellery as gifts for themselves. Besides, the special promotions on the Valentine’s Day, Spring Festival, and other festivals can stimulate consumers’ consumption potential of jewellery products.

With our substantial investment in the upgrading of our production facility, we are well-positioned to meet market opportunities, 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 allow us to maintain a competitive cost structure, enhance operational efficiency, and maintain quality control, thus allowing us to offer our products to customers at competitive prices and at quality standards which satisfy our customers requirements, thereby allowing us to enhance profitability. Also, we believe

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that we can fulfil the demand for our products from our franchisees and provincial-dealers, such that we can strengthen the relationship with them, and at the same time, penetrate into unsaturated markets for an increase in consumer base.

Although the current production facilities were not over utilized (i.e. exceeding 100% of utilization rate) during the Track Record Period, our Directors consider that the production facilities were sufficiently highly utilized during the Track Record Period. The overall effective utilization rates of our production facilities were approximately 94.4%, 83.1%, 87.1% and 73.0%, for the three years ended December 31, 2023 and the six months ended June 30, 2024, respectively, representing a consistent utilization rate of over 70% since 2021, of which our Directors believe to be close to saturation level. The lower utilization rate for the six months ended June 30, 2024 was mainly attributed to a decrease in sales volume, 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%. In essence, our Directors hold the view that the necessity of upgrading production facility can be illustrated by (i) increasing market demand; and (ii) foreseeable increase in our number of jewellery models. Our Directors consider that with an enlarged production capacity, we would be able to (i) ensure the quality of our products; (ii) enhance the working efficiency of our production process and labour; (iii) ensure on-time production and delivery of our products; (iv) take up urgent and/or bulk orders received from time to time; and (v) attain optimal usage and maintenance of our production machineries and equipment.

According to Frost & Sullivan, the sales revenue of the gold jewellery market in 2022 was RMB409.8 billion, accounting for 57.0% of the whole jewellery market, and is forecasted to reach RMB546.5 billion in 2027, growing at a CAGR of 5.9%. In view of the rising market demand for gold jewellery products and our high utilization of the existing production facilities, we target to enlarge our scale of production, enhance our production process and further implement automated production infrastructures at our production facility in Weifang for the production of gold jewellery and related products, which in turn will further boost our production capacity and efficiency.

During the Track Record Period, despite a slight decrease in revenue for the year ended December 31, 2022, which was attributable to the impact of the pandemic, our overall revenue demonstrated an upward trend. Our revenue decreased from RMB16,871.0 million for the year ended December 31, 2021 to RMB15,724.2 million for the year ended December 31, 2022, and then increased to RMB20,208.6 million for the year ended December 31, 2023. Our revenue increased from RMB9,316.2 million for the six months ended June 30, 2023 to RMB9,979.7 million for the six months ended June 30, 2024. See the section “Financial Information — Review of Historical Results of Operations — Six months ended June 30, 2024 compared to six months ended June 30, 2023” for further details.

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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), will be allocated towards the expansion and enhancement of our sales network. We intend to do so by (i) establishing self-operated stores and (ii) improving the scale and operations of our seven self-operated direct service centers.
- approximately [REDACTED]%, or RMB[REDACTED] million, will be allocated towards the establishment of 33 new self-operated stores. We estimate a budget of RMB[REDACTED] million for the establishment of 33 new stores. The shortfall of RMB[REDACTED] million will be covered by our internal resources and external financing.

Apart from utilizing our franchise network to strengthen our geographical coverage, we intend to strengthen our sales channels through self-operated stores, which is primarily due to (i) our self-operated stores have demonstrated a higher gross profit margin than our franchise stores during the Track Record Period, and (ii) our self-operated stores help us establish a strong brand identity, which is crucial for our market expansion. To achieve this, we plan to open 33 new self-operated stores by December 2027. This includes 20 new self-operated stores in Shandong to enhance our business scale in the region, five new self-operated stores in Henan to expand into new markets, four new self-operated stores in Beijing and another four new self-operated stores in Tianjin.

The budgets we intend to apply the opening of each self-operated store is estimated to be approximately RMB[REDACTED] million, being:

- (1) cost of initial inventories of approximately RMB[REDACTED] million;
- (2) decoration cost of the store of approximately RMB[REDACTED] million; and
- (3) initial working capital of approximately RMB[REDACTED] million.

The operation of self-operated stores has sound commercial rationale. 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, respectively, which the revenue contribution per store were considerable comparing with that we derived per franchise store, the average revenue^(Note) of which amounted to RMB5.5 million, RMB5.4 million, RMB6.7 million and RMB2.9 million for the said period, respectively. We believe our self-operated stores play a key role in enhancing our brand recognition and increasing our financial condition for two main reasons: (i) Self-operated stores allow us to achieve higher markups and improve profitability by selling directly to end consumers. For the

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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years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, we recorded gross profit margin of 14.7%, 16.9%, 22.4% and 24.4% from self-operated stores, whereas our gross profit margin from franchise network were 2.8%, 4.3%, 4.7% and 6.0%, respectively. (ii) Self-operated stores provide valuable consumer insights and feedback. Through direct consumers interactions, we can gain a deeper understanding of consumers’ preferences, trends, and market demands. These insights can inform product development, marketing strategies, and overall business decisions, leading to a more customer-centric approach and improve competitiveness.

We will primarily focus our expansion efforts in opening stores in third and lower tier cities in the PRC where we have relatively strong market position, market recognition and penetration rate, 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 assess the local demand for our products, distance between our stores based on our market analysis, as well as commercial considerations to minimize unhealthy competition among stores and avoid cannibalization amongst our stores.

At the same time, we will also be looking to opening 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 relatively less well-known, thus improving our brand awareness and image.

- approximately [REDACTED]%, or RMB[REDACTED] million, will be allocated towards the improvement of the scale and operations of our seven self-operated direct service centers. We estimate a budget of RMB[REDACTED] million to enhance our exhibition halls. The shortfall of RMB[REDACTED] million will be covered by our internal resources and external financing. We also intend to utilize part of the [REDACTED] as initial funds to enhance and enlarge the exhibition halls managed by our self-operated direct service centers. By offering a wider range of gold jewellery options in well-decorated and inviting exhibition halls, along with enhanced services, we believe that we can motivate franchisees to increase their purchases during exhibition events.

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The following table sets out our intended [REDACTED] for enhancing of our exhibition halls.

	<u>Description</u>	<u>Total cost</u> <u>RMB' million</u>
Budget for decoration and improvement	To enhance our seven self-operated direct service centers and exhibition halls	[REDACTED]
Cost for products to display	To increase display inventories by 30 kg of gold products for our seven exhibition halls	[REDACTED]
Total		<u>[REDACTED]</u>

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. With such in mind, the expansion of additional self-operated stores in third-tier cities and below are essential for our business expansion.

- approximately [REDACTED]%, or HK\$[REDACTED] million (RMB[REDACTED] million), will be used for investing in information technology;
 - approximately [REDACTED]%, or RMB[REDACTED] million, will be allocated towards the improvement of our operational efficiency through the acquisition of digital system for integrating operation data (i.e. an Enterprise digital management system) (“**EDM System**”). The EDM System will enable us to enhance the real-time flow of operational data within our organization, facilitating centralized and synchronized data management across our Group. By implementing the system, we will be able to monitor our operations and manage cashflow activities more efficiently, ensuring smooth capital flow and real-time monitoring of our financial status. Furthermore, we intend to acquire data management system to support our sales development for our e-commerce channels. It will enable us to monitor purchase orders, payments, and delivery instructions efficiently, ensuring streamlined and effective management of our e-commerce operations. This will enhance our ability to serve customers, optimize the e-commerce experience, and contribute to the growth of our online sales platform.

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We estimate a budget of RMB[REDACTED] million for improving our operational efficiency through the acquisition of a digital system for integrating operation data. The shortfall of RMB[REDACTED] million will be covered by our internal resources and external financing. In relation to the upgrade of information technology system, we expect to allocate RMB[REDACTED] million to procure equipment and install software in various major aspects:

- (1) approximately RMB[REDACTED] million for EDM System with the additions of equipment such as cloud platform, server and cloud storage and training services and maintenance provision;
- (2) approximately RMB[REDACTED] million for enterprise network construction with the additions of modular room, core switch, firewall and other various software systems serving the purpose of operations, intrusion detection and intrusion prevention;
- (3) approximately RMB[REDACTED] million for industrial internet construction with upgrades in the MES system, IOT gateway, wireless network, 3D printing capabilities; and
- (4) approximately RMB[REDACTED] million for various other systems including operation training and video conferencing capabilities, collaborative office system, store sales system, security system and POS system.

The following table sets out the major cost components of our upgrade of information technology system.

Items	Description	Unit price (RMB'000)	Quantity	Total price (RMB'000)
(I) Enterprise Digital Management System (企業數字化管理系統)	Data center and data mining system	[REDACTED]	[REDACTED]	[REDACTED]
	Hybrid Cloud Platform	[REDACTED]	[REDACTED]	[REDACTED]
	High-end Server	[REDACTED]	[REDACTED]	[REDACTED]
	Remote Disaster Recovery	[REDACTED]	[REDACTED]	[REDACTED]
	CRM Membership System	[REDACTED]	[REDACTED]	[REDACTED]
	ERP Integrated System for Operation and Finance	[REDACTED]	[REDACTED]	[REDACTED]
	Supply Chain Collaborative Management System	[REDACTED]	[REDACTED]	[REDACTED]
	B2B Network Order System	[REDACTED]	[REDACTED]	[REDACTED]
	Human Resources System	[REDACTED]	[REDACTED]	[REDACTED]

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<u>Items</u>	<u>Description</u>	<u>Unit price</u> (RMB’000)	<u>Quantity</u>	<u>Total price</u> (RMB’000)
	Comprehensive Budget Management System	[REDACTED]	[REDACTED]	[REDACTED]
	Fund Management System	[REDACTED]	[REDACTED]	[REDACTED]
	Financial Statement Consolidation System	[REDACTED]	[REDACTED]	[REDACTED]
	Business and Development Technology Center	[REDACTED]	[REDACTED]	[REDACTED]
	Upgrade of EOS Production Management System	[REDACTED]	[REDACTED]	[REDACTED]
	Identity Authentication Management System	[REDACTED]	[REDACTED]	[REDACTED]
	Product life cycle management system (PLM System)	[REDACTED]	[REDACTED]	[REDACTED]
	Portal System	[REDACTED]	[REDACTED]	[REDACTED]
(II) Enterprise Network Construction	Enterprise Modular Room	[REDACTED]	[REDACTED]	[REDACTED]
	Firewall	[REDACTED]	[REDACTED]	[REDACTED]
(III) Industrial Internet Construction	MES Manufacturing Execution System	[REDACTED]	[REDACTED]	[REDACTED]
	IOT Intelligent Gateway	[REDACTED]	[REDACTED]	[REDACTED]
	Intelligent Machine Retrofit	[REDACTED]	[REDACTED]	[REDACTED]
	3D Printing	[REDACTED]	[REDACTED]	[REDACTED]
	Industrial Robot	[REDACTED]	[REDACTED]	[REDACTED]
(IV) Others:				
Upgrade of Store Sales System	Upgrade of Store Sales System	[REDACTED]	[REDACTED]	[REDACTED]
Store security	Store Monitoring and Security System	[REDACTED]	[REDACTED]	[REDACTED]
Additional POS System of Stores	Additional POS System of Stores	[REDACTED]	[REDACTED]	[REDACTED]

We expect to complete the above by December 2025 and we expect to create synergy and operational efficiency via the enhancement of information technology in our operations and monitoring of various tranches of our operation.

- approximately [REDACTED]%, or HK\$[REDACTED] million (RMB[REDACTED] million), will be allocated towards the enhancement of our production line and inventory management through the integration of advanced digital elements into our production chain. This includes the implementation of digital technologies to monitor warehouse storage, transportation data, sales, and capital flow in a dynamic

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and real-time manner, enabling us to operate more efficiently. By embracing digitalization, we aim to improve operational and cost efficiency, establish stringent quality control measures throughout our manufacturing process, and increase overall productivity.

The above allocation of the [REDACTED] from the [REDACTED] will be adjusted on a pro-rata basis in the event that the [REDACTED] is fixed at a higher or lower level compared to the mid-point of the indicative [REDACTED] stated in this document.

If the [REDACTED] is not exercised, the [REDACTED] we will receive will be approximately: (i) HK\$[REDACTED] million, assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the indicative [REDACTED]); (ii) HK\$[REDACTED] million, assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the low end of the indicative [REDACTED]); or (iii) HK\$[REDACTED] million, assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the high end of the indicative [REDACTED]).

If the [REDACTED] is exercised in full, the [REDACTED] that we will receive will be approximately: (i) HK\$[REDACTED] million, assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the indicative [REDACTED]); (ii) HK\$[REDACTED] million, assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the low end of the indicative [REDACTED]); or (iii) HK\$[REDACTED] million, assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the high end of the indicative [REDACTED]). In the event that the [REDACTED] is exercised in full, we intend to apply the additional [REDACTED] to the above purposes in the proportions stated above.

To the extent that the [REDACTED] from the [REDACTED] are not immediately used for the purposes described above and to the extent permitted by the relevant laws and regulations, they will be placed in short-term interest-bearing accounts at licensed commercial banks and/or other authorized financial institutions (as defined under the Securities and Futures Ordinance or applicable laws and regulations in other jurisdictions).

We will issue an appropriate announcement if there is any material change to the above proposed [REDACTED].

IMPLEMENTATION PLANS

Our implementation plans are set forth below for the period from the Latest Practicable Date to December 31, 2026.

Our actual course of business may vary from our business strategies set out in this document. There is no assurance that our plans will materialize in accordance with our expected timeframe or that our objectives will be accomplished.

While the actual course of events may invariably encounter unforeseeable changes and fluctuations, we shall use our best endeavours to anticipate changes, yet allowing for flexibility to implement the following plans.

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The table below sets forth the expected implementation timetable of our planned use of [REDACTED] (assuming an [REDACTED] at the mid-point of the indicative [REDACTED] and that the [REDACTED] is not exercised):

Implementation timeframe

	By the end of December 31, 2024	By the end of December 31, 2025	By the end of December 31, 2026
Production Expansion Plan	Construction, purchase and installation of equipment	Construction, purchase and installation of equipment, staff training	Trial run by phase, completion and acceptance
Expansion of sales network			
— (number of additional self-operated stores to be established)	8	12	13
— (number of self-operated direct service centers to be enhanced and upgraded)	3	2	2
Upgrade on information technology	Construction preparation, validation of construction design Equipment installation and testing	Equipment installation and testing, trial run, completion and acceptance	N/A
Research and development	Construction Purchase and installation of equipment	Construction, purchase and installation of equipment, staff training, trial run, completion and acceptance	N/A

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The breakdown of [REDACTED] to be allocated is as follows:

	<u>For the year ending December 31,</u>			<u>Total</u>	<u>% of total</u>
	<u>2024</u>	<u>2025</u>	<u>2026</u>		
	<u>RMB'</u> <u>million</u>	<u>RMB'</u> <u>million</u>	<u>RMB'</u> <u>million</u>	<u>RMB'</u> <u>million</u>	
Production Expansion Plan	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Expansion of sales network	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
— Establishment of self-operated stores	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
— Improving scale and operations of self-operated direct service centers	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Upgrade on information technology	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
— EDM Systems	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
— Production and inventories system	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total				<u>[REDACTED]</u>	<u>[REDACTED]</u>

Operation and financial impact

We are a vertically integrated OBM, our future plans and our [REDACTED] are mainly for our business enhancement. As such, save for the capital expenditure on production expansion plan as detailed in “Risk Factors — Risks relating to our Financial Position — We expect to incur additional capital expenditure and depreciation expenses associated with the expansion of our production facilities”, we do not expect any material impact on our operational and financial (including the cost structure, profit margin, cashflow and risk profile).

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Expected operational and financial impact on our Group

	<u>Cost structure</u>	<u>Profit margin</u>	<u>Cashflow</u>	<u>Risk profile</u>
Production Expansion Plan	Increased depreciation from our enlarged production facilities and new machinery and equipment after they are put into use	More automation and faster production cycle may increase our efficiency, increasing our gross margins.	We may face liquidity pressure as an additional RMB[REDACTED] million of internal resources and external financing apart from [REDACTED] from the [REDACTED] is expected to be utilized to complete the expansion	See “Risk Factors — Risks relating to our Financial Position — We expect to incur additional capital expenditure and depreciation expenses associated with the expansion of our production facilities”
Expansion of sales network	Increased depreciation from our newly opened self-operated stores	It may increase our turnover, driving up profit	No material impact	We have measures in place to avoid cannibalization and channel stuffing. See “Business — Sales and Distribution Channels — Management of franchisees — Measures to avoid channel stuffing and cannibalization” We do not see material risk on the expansion
Upgrade on information technology	Maintenance cost of computer systems may increase	No material impact	No material impact	See “Risk Factor — Risks relating to our Business and Industry — Our business relies on the proper operation of our IT systems, any malfunction of which could materially and adversely affect our business, financial conditions and results of operations”
Research and development	Increased R&D expenses	Based on the intelligence from our CRM system, our R&D may develop new products and be able to mass produce them at competitive cost. It can improve our product mix and possibly improve our profit margin	No material impact	Our R&D may not be able to achieve the intended results. See “Risk Factor — Risks relating to our Business and Industry — We may not succeed in implementing our business strategies and future expansion plan”