

March 30, 2022 at 9:30

Nayuki 2021 Annual Results Conference Transcript

The respective meeting was held in Mandarin, and the English version is a crude translation of such for your easy reference. In case of discrepancy, the Chinese version shall prevail.

Lu Cheng: Hello everyone, welcome to the 2021 annual results conference of Nayuki Holdings Limited. I am Lu Cheng, Head of Investor Relations. The managers present at the press conference today are Mr. Zhao Lin, Chairman and CEO, Ms. Peng Xin, Executive Director and General Manager, and Mr. Shen Hao, CFO and Secretary of the Board of Directors. The process of today's press conference is as follows. Mr. Shen will first give a brief introduction to the company's annual results, and then we will open up questions. Investors who wish to ask questions can press the * button and the 1 button on the phone to wait and listen. Investors listening online can use text to ask questions. Please go ahead, Mr. Shen.

(The following is the introduction part of the presentation. Please turn to page 6 for Q&A part)

Shen Hao: Hello everyone, welcome to Nayuki's 2021 Annual Results Conference. Investors can browse the presentation through the company's investor relations website. Please read our disclaimer before getting started.

Today's presentation is mainly divided into three parts. First, I will briefly review the overall business situation of the Group in the past year. In 2021, the group has experienced rapid growth. The main brand Nayuki covers 80 cities and has more than 800 stores. In June, it successfully IPOed on the Hong Kong Stock Exchange. The sub-brand Tai Gai covers 4 cities and reaches 62 stores. Since its establishment in the second half of 2019, our membership system has achieved rapid growth, and the number of people exceeded 40 million in December.

Our self-developed digital management Teacore system is also continuously iteratively optimized, covering members, employees, commodities, stores, etc., and integrates and analyzes a large amount of operational data from various business systems of the group to simplify business operations and improve business efficiency. At present, functions such as automatic ordering, intelligent baking production planning, and expiration date management have been implemented, and automatic shift scheduling will be gradually launched in March this year. In the future, the Teacore system will continue to be optimized to help business.

In addition, we began to enter the retail industry through bottled fruit tea, sparkling water, pure tea and other products in the third quarter of last year, and we will give a detailed introduction later. Nayuki has always insisted on product innovation. There are nearly 80 new products throughout the year. With strong product development and promotion capabilities, it has deeply tapped the potential of new raw materials and launched a number of products such as Emblica and Phoenix Oolong, which are well

received by consumers.

At the end of last year, in order to meet consumers' demand for higher cost performance, Nayuki launched a new "Lite" series of 9-19 yuan in addition to the original product line. While adhering to high-quality products and high-end brand positioning, the price range was adjusted to attract more consumers. At the beginning of 2020, we also launched a variety of Chinese dim sum, which were generally welcomed by consumers.

As disclosed in our quarterly voluntary operation announcement, a net new 326 Nayuki stores were added throughout the year, mainly in existing first-tier, new first-tier and key second-tier cities. In 2022, we expect to remain the same with the Prospectus and expect to open around 350 new stores. We will continue to increase the density of stores in high-tier cities and cultivate consumption habits. At the same time, when we are expanding our stores, we have adopted stricter financial calculations and more prudent rent negotiations, striving for better rental conditions to ensure that these newly opened stores can bring better returns in the future.

In the interim results last year, we voluntarily disclosed the performance of 6 major cities in order to help investors see the development stage of different cities and better understand the logic behind the "increasing density" strategy. Although the external environment suddenly changed in the second half of last year, which brought great challenges to data analysis, it can still be seen from the above table that the performance of mature markets such as Shenzhen and Guangzhou is relatively stable, while emerging markets are gradually becoming mature. We mentioned Guangzhou in last year's interim report that in the past one to two years, the density of stores in the core areas of Guangzhou has continued to increase and gradually matured. The revenue and profit margin of stores are also moving from "double stability" to "double high". Meanwhile, compared with other cities, Guangzhou suffered relatively limited impact from COVID-19 recently, which is also related to better performance.

In addition to store expansion, the supply chain is also an important factor for the company's high-quality development. Our upstream includes highly dispersed raw materials such as tea and fruit, as well as bulk raw materials such as dairy products and packaging materials. We will focus on the processors and bulk goods providers, establish long-term cooperative relations with them, and also consider opportunities for investment and mergers and acquisitions to achieve the binding of interests. Our purpose is to ensure stable supply, reasonable price, and better quality than the market. Supply chain strength is one of the important barriers to competition that restricts leading brands in the tea industry. A strong supply chain helps us maintain high quality while maintaining a stable gross profit margin. We will elaborate on the cost of raw materials later.

In terms of membership, the number of registered tea members of Nayuki reached 43 million at the end of last year, and the repurchase rate in the fourth quarter increased to 35.3%. We are also exploring and trying how to further activate the membership system recently, and once we have specific plans, we will report to the market as soon as possible.

Food safety is the most important thing for all freshly-made tea drinks companies. Nayuki has regarded food safety as the lifeline of the company since its establishment. In addition to continuous online monitoring through technical means, our inspection team conducts offline inspections of stores at least once or twice a month. And the monthly evaluation results of the stores, as well as the performance of the store manager and store staff, are directly linked to the inspection results. In addition, in the past year, the Group has done more work on food safety. We have introduced independent professional organizations to inspect the condition of stores, and enhanced the ability of food safety management through automated equipment and automatic expiration date management. The key to food safety is how to do it. Nayuki will continue to work hard to improve the level of food safety management so that consumers can enjoy assured and high-quality products.

Below, I will introduce the financial performance of the past year to you. For specific data, please refer to the results announcement we have disclosed. In 2021, the group's revenue is 4.3 billion, a year-on-year increase of 40.5%. The main brand Nayuki accounts for 94.7%. At present, other businesses including retail still account for a small proportion. As the retail business develops in the future, we expect to disclose the performance of the retail sector separately at an appropriate time. Although it made a good profit in the first half of the year, under the double impact of the sudden change in the consumption environment and the epidemic in the second half of the year, due to the rigidity of labor, rent and other costs, the adjusted loss last year was 145 million yuan. After the company discovered changes in the external environment, it issued a full-year profit warning in late October last year to ensure that the market was informed of the company's business situation in a timely manner and made prudent investment decisions.

In 2021, the main brand Nayuki 's tea recorded a store operating profit of 590 million yuan, and the store operating profit margin was 14.5%, an increase of 2.3 percentage points from the previous year. There was a slight decline, and the overall positive inflow remained high. In terms of products and revenue sources, the revenue ratio of tea drinks and baking continued to maintain at around 3:1. Due to the impact of the epidemic, dine-in was restricted in many areas, and consumer travel and consumption plans were affected. Therefore, the proportion of the company's takeaways increased from last year. A slight increase of 36.8%. We have noticed that the state has recently issued a series of supportive policies, including guiding measures to reduce the cost of food delivery. We are closely monitoring the implementation of specific policies and have started discussions with external suppliers. We expect that there's room for a small drop in take rate in the future.

In the middle of last year, in addition to the performance by city, we also voluntarily split the performance of standard stores and PRO stores, and further differentiated the PRO stores in different business districts. The first type of PROs are located in high-level business districts, and the relatively low-level business districts are classified as the second type of PRO stores. Since last year, most of our new stores are PRO stores, and the pace of store openings in shopping malls determines that store

openings are mostly concentrated in the second half of the year. In the second half of last year, the external environment has undergone rapid changes, and the business district has inevitably experienced a decline in traffic, resulting in a more obvious impact on the newly opened PRO stores. With the gradual deepening of the company's cost control and the implementation of automation measures, we believe that the profitability of various tea shops will be restored and improved.

In terms of cost management, thanks to the company's supply chain advantages, the cost of raw materials has been well optimized. We believe that the proportion of raw material costs in the future will remain at a level of no more than 35%, and there is room for continuous optimization. In addition, due to the rigid cost of manpower and rent, their proportion has not declined as scheduled, and even the proportion of manpower has increased. Since the second half of last year, we have had a lot of active communication with the market, reminding the market of the rigidity of company costs in the external environment, and these costs will need to be gradually reduced through digital means and continuous development and operation capabilities.

Next, I will report to you on the company's changes and future prospects in 2022. After the impact in the second half of last year, the company responded in a timely manner. In the fourth quarter of the industry's downturn, Nayuki still achieved a good recovery. In December, we achieved same store growth in some regions, which were indeed a great achievement under the circumstances. At the beginning of the new year in 2022, large-scale epidemic fluctuations occurred in various places, and the epidemic prevention policies were also greatly tightened. Among them, there are cities like Shenzhen and Shanghai with many stores, and consumers' travel and consumption habits have also been suppressed to a certain extent, which has caused serious damage to the company. an ongoing challenge. We believe that sunny days will always come, and the top brands will be more resilient and will recover faster in the future.

How to build resilience and prepare for recovery? Digitization is an important part of it. As the scale of chain enterprises grows, the management difficulty of the company also increases. Daily management optimization alone cannot fundamentally solve all the problems caused by scale growth. Therefore, digitization, automation and standardization are the only way for a chain enterprise to develop continuously. In the past period of time, the automatic tea making machine that investors have paid great attention to has started to be used in a few stores and is expected to be officially launched in the third quarter of this year. In addition to this, we see other functions of the smart store management system, such as automatic shift scheduling and automatic ordering, which are also helping companies manage and improve efficiency. After a period of running-in and testing, the automatic shift scheduling system has been applied and promoted in stores in March this year. It has been found that it can obviously help us to find the optimization point of labor costs in stores and improve the efficiency of labor use. We always believe that digitalization will be an important competitive advantage for the company's development.

Under external pressure, the company has also strengthened its control over costs. In terms of the three major elements of cost rigidity: store manpower, middle and back office manpower and store rent, with the gradual implementation of digitalization, continuous optimization of manpower, and stricter rent negotiations, we will be able to reduce the impact of external pressure on profitability. As of the end of 2021, the company has 4.05 billion in cash and cash equivalents, and reserves are very generous. Before the pressure is relieved, the company will be highly cautious in the use of funds to ensure the safety of funds.

Finally, I would like to tell you about the retail business. Since the pilot program started in September last year, we have started from the South China market, which occupies 1/3 of the Chinese beverage market, and started with bottled fruit tea, sparkling water, pure tea and other products as an entry point. The products are successively reaching the main business areas of the country. Different from traditional beverage companies in product design, we insist on selecting materials first, then decide on pricing, and insisting on using the best quality raw materials to ensure consumer experience. For example, in terms of sugar substitutes, despite the high cost of monk fruit fruit juice and the relatively new raw materials, which leads to a lack of experience from others and the difficulty of product development, we still insist on using healthier natural monk fruit juice instead of traditional artificial sweetener. At present, our retail products have gradually entered the supermarkets and other channels in major markets across the country, and some products are also sold in the store network. Interested investors can try to buy them nearby. We believe that the retail business will also become an important pillar of the company in the future.

That's all for my introduction, and the following time will be handed over to all investors, thank you!

Lu Cheng: Thank you Mr. Shen. Investors are invited to ask questions below.

(Q&A)

Q1 (Guosen Securities): Good morning, management team! The changes in the epidemic in the past two years have brought many operational pressures to the high-end tea industry. The company has recently launched the “Lite” series of products to provide a more diverse product to meet the needs of different consumers. After the launch of this product, will it have some impact on our sales and gross profit margin? And I would like to ask, is this a temporary strategy, or will a more diversified price strategy be considered in the future?

Zhao Lin: Launching lower-priced products is our long-term strategy, covering a wider range of consumer groups with products with wider price bands. With more and more stores, having such cost-effective products will better support the company's performance.

Just now you mentioned whether it will affect our profit or sales. We launched the “Lite” series, which actually started in March. In March, the epidemic situation in the country was relatively serious, and for the time being, it has little impact. It can be seen that after the launch of the “Lite” series, the normal products still maintained sales level, and the “Lite” series of products are more additional sales, which is good for profits.

Q2 (Guosen Securities): We are very interested in the optimization of the company's single-store model, which is also the most discussed issue. The company just mentioned that the automatic shift scheduling system will have some promotions starting in March, and some pilots of automatic tea making machines have also started before. Can you share with us the possibility of a single store model based on the current preliminary situation? Where is the optimization?

Zhao Lin: The research and development of the system has been in progress last year. The three systems of automatic shift scheduling, automatic tea-making equipment and automatic ordering are the three systems that have the most direct impact on us. Since March, we have started to implement automatic shift scheduling projects in some stores one after another. We found that the optimization of personnel costs is still very strong. Compared with manual shift scheduling, it is more scientific and removes many human emotional factors. I believe that in the near future, when we fully implement automatic shift scheduling, the manpower will definitely drop significantly. Of course, there is also an automatic tea-making equipment, which is currently being tested in individual stores, which greatly improves the efficiency of tea-making. We expect that after all stores nationwide in the third quarter, we can reduce our training costs and further reduce the labor costs of stores by adding part-time jobs.

We believe that if the epidemic continues in March this year, automated equipment and digital management can effectively adjust the rigidity of costs. If the operation is reasonable, even if the sales cannot increase significantly, losses can be reduced as much as possible. After operating automatic equipment and automatic scheduling system, our profitability will be greatly improved.

Q3 (MSJY Fund): This year's annual report on capital expenditure disclosed about 750 million. If 340 stores are opened in one year, the capital expenditure of one store is 1.25 million, and the total expenditure is about 400 million. Why does it reach 750 million?

Shen Hao: Last year, the company invested in fixed assets and purchased two offices for self-use in Shenzhen and Shanghai. Because the current office in Shenzhen has been designated to be dismantled by the government and needs to be demolished, we will need a new office this year or next year.

Q4 (Tianma Assets): What is our schedule for launching new products? For example, on a quarterly or half-yearly basis, what is the general product reserve or product pipeline?

Peng Xin: Our current pace of launching products is actually relatively fast. We usually launch a fruit tea and a hot drink every month from September to February of the next year to meet the needs of customers in the north and south. From April, we will enter the summer, which is the season of performance improvement. The frequency of our fruit tea will maintain the rhythm of once or twice a month.

For product reserves, we are very rich, so in terms of new products, we will coordinate with the current hot spots, and sometimes make some adjustments, and we will launch one or two new drinks every month.

Baking accounts for 25% of the revenue, and we also have a new baking product launched every month, which is a new rhythm of our products.

Q5 (Tianma Assets): Regarding the continuation of “increasing density” in 2022, how to calculate and measure the flow of people in low-tier cities , how to arrange store openings?

Zhao Lin: Starbucks' store opening plan is a good reference indicator. It should be adjusted based on its own experience in the selection of actual locations and the forecast of turnover. The level of turnover is not an indicator of opening a store, but whether it is profitable or not.

Q6 (Yuanta Securities): Regarding the cities where the epidemic has been lifted, can you share your observations on how the epidemic control this time is different from the past? After the unblocking of Shenzhen in March, Nayuki saw many order peaks . Have you seen any positive indicators of the same-store sales changes in the two weeks after March?

Zhao Lin: In fact, we can see that the epidemic situation this year is still much more severe than last year. In terms of epidemic prevention and control policies, if there are one or two new cases in some northern cities, the entire city will be very tense. Although Shenzhen's control measures have been improved in March this year, the people may not be so nervous. At present, Shenzhen's recovery after the unblocking is still good, but there are still many other cities in the country that are continuously

affected by the epidemic, and it is not optimistic at present.

Q7 (JPMorgan): Two questions. First, about the short-term issue of the epidemic, investors have just mentioned it one after another. Please help us to describe it in more detail: Take Shenzhen as an example, starting from the epidemic, then closing for a week, and then about the performance of these stores after unblocking So, what is the short-term impact of the epidemic? What would happen if other cities also locked down? Second, what are the store opening plans for this year and next year? What will the guidance for this year be like? For example, if the epidemic ends in April, May, June or July, what will the revenue and profit be like?

Zhao Lin: If it is only a short-term store closure and opening, the impact on us will be controllable. However, if the switch is on and off, it will still have a great impact on our overall performance. First, it has direct impact on performance. Second, after a period of time, the proficiency of store employees in tea making will also be affected. And sometimes the store is open, but residential areas are still closed, and employees cannot come to work, which is still a big challenge for us.

If the situation in March continues this year, we will still plan to open 350 stores. While we encounter challenges, it also brings us great opportunities. Now almost all store brands in the country are cautious in opening stores, and even a lot of brands have closed their stores. However, this also gives us a higher bargaining chip in the recent rent negotiations, and the pressure on future operations will be reduced by winning the low rent point now. In the long run, we are still optimistic about the strong rebound of consumption after the epidemic eases. For example, in March, we used to think that tea is not a necessity for many customers, but judging from the store's orders, consumers had to order a cup of Nayuki even in the state of home isolation. All sales in March were basically from necessity purchases. If the epidemic situation improves, this performance will definitely recover quickly. At this point, when others are not opening stores, we open stores and get more favorable rental conditions, which will enhance our future competitiveness.

For 2022, challenges and opportunities go hand in hand. We have to make good use of this opportunity to complete the goal of opening 350 stores. Even if the epidemic will continue to affect, I think we can still achieve this goal of opening stores.

This year is a very important year for us. In addition to getting cheaper rents, this year is also the most comprehensive year for automation equipment and systems. If the epidemic continues this year, we must strive to ensure this year's opportunities. If the epidemic is brought under control quickly, the possibility of profit this year is very high.

Q8 (Western Securities): We now divide the stores into three categories: standard stores, type I and type II PRO stores. There should still be some differences in the profit margins of these three stores, which are mainly related to the time of opening the store. Looking forward to the follow-

up, what will be the level of profit margins of these three stores, or the difference between them in the future? How much is the overall investment in the automatic tea maker ?

Zhao Lin: We can see from the financial report that the profit margin of PRO stores is lower than that of our standard stores. The main reason is that PRO stores focus on opening stores in the second half of 2020, and the store efficiency is greatly affected by the epidemic, and we prepare for PRO stores . The manpower is relatively large, resulting in a relatively high overall cost. Our store opening now is not the same as before. It turned out that the stores we opened in 2016-2019 or 2020 had the effect of new stores, and they became popular as soon as they opened. Now more and more new stores have a ramp-up period. With continuous operation, the turnover will be higher and higher, so the profit margin of the store in the initial stage is relatively low. Judging from the relatively mature PRO store we operate, its overall efficiency and cost are better than the standard stores in the past. In the future, we will still focus on PRO stores. With the more skilled use of the entire automation equipment and automation process, the future profits of PRO stores will be further improved.

The difficulty of the whole automation equipment is in the software, not in the hardware. We self-developed software and hardware, and we will put all SOPs on the cloud. When customers click on these things, the cloud will give instructions to the store, while the hardware is very simple.

Shen Hao: To add, the investment is mainly in the entire technical team, mainly in software research and development. Last year, the labor cost of this part exceeded 100 million yuan. From the perspective of the cost of the equipment itself, it is very low. Even if we have 800 stores across the country, we have installed over a thousand of automatic tea-making equipment. The short-term fixed asset expenditure is limited, and the impact on profits is also limited. The main cost is still concentrated in our entire R&D and labor cost of the 200-person digital team.

Q9 (Tianfeng Securities): This year, we still aim to maintain the goal of opening more than 300 stores. We mentioned that the rent requirements will be more stringent in the future. The rent may be about the previous level, such as the previous level. How much? In addition, we have seen other catering formats temporarily adjusted the goals of opening some stores. It is not entirely because the rent is not cheap enough. If the duration of the epidemic is longer than we thought, we will open so many stores this year. Will there be pressure in the future? If we encounter extreme situations, how do we think about it?

Zhao Lin: The importance of rent deduction points to us should be emphasized here, and it is also an important reason why we dare to open a store at this time. For example, the original rent is guaranteed rent, and the deduction point is gradually increased. When the turnover is high, the deduction point is deducted. When the turnover is low, the guaranteed minimum rent is very high, and the proportion of rent has always been relatively high. In the case of pure deductions, even if the turnover is low due to the epidemic, and the amount of rent is dynamically adjusted, we can control the profit.

Second, just now we talked about why automatic scheduling and the use of automatic equipment are so important to us. In fact, we hope that labor is flexible. For example, once our automatic equipment is put into operation, we do not need to use so many skilled workers, the pressure of training is reduced, and the proportion of part-time jobs can be increased, because everyone only needs to do some simple tasks, and anyone can do it. And through automatic scheduling, under normal circumstances, peak periods or epidemics, we can adjust the use of part-time jobs at any time, and the flexibility of labor costs is improved. Before breaking away from the rigidity of labor costs, most of them were full-time employees and could not be well adjusted. question. If we keep rent and labor costs under control, the pressure on us to open stores will be reduced even under the epidemic.

Q10 (Tianfeng Securities): We mentioned areas with relatively good performance and areas with relatively poor performance. We analyzed that it was more of a one-time impact of the epidemic, or the weakening of consumer demand brought about by it, or that the surrounding competition is relatively strong, or a combination of factors? How to judge these relatively weak areas ? In the second half of the year, in some months that were less affected by the epidemic, is the gap between PRO stores still relatively large compared to standard stores?

Zhao Lin: In fact, the level of turnover in a region is affected first by the epidemic and secondly by consumption power. There is a relationship between the two. We found that in some areas, people think Nayuki's products are expensive, but customers with enough spending power will not be affected, and still feel a strong sense of value. There are also consumers whose disposable income has been greatly reduced due to the epidemic, and they have become reluctant to buy, and some customers know that we are more expensive and dare not enter our stores at all.

The launch of the Lite series product this time can increase customer choice and stickiness for long-term customers who consume Nayuki products, and can attract new customers to the store in cities where spending power is not so strong. With the improvement of the epidemic situation and the improvement of digital transformation, we believe that the performance of PRO stores will further improve.

Q11 (Guotai Junan): First, you just mentioned that the future retail sector is a more important layout for us in the future. In the initial stage, we mainly rely on the current stores and brand strength. If we want to expand later, the logic of marketing and channels may be different from the opening of store. I would like to ask about the team behind the retail business and future plans, especially in terms of channels and marketing, the company's long-term planning.

Second, the proportion of takeaways is relatively high now. I calculated the proportion of takeaways between the distribution service fee and income in the financial report. The second half of these two years will be significantly higher than the first half of the year by three or four points. What is the specific reason for this?

Peng Xin: We have observed that there are three most important things to do well in retail products. The first is the brand, the second is the product, and the third is the channel. When we built the retail product team, we actually operated the system as an independent business unit. The business unit director in charge of this team was the general manager of Vita China before. The person who started it in the mainland has worked in Vita for 13 years, and before that, he was in charge of sales in the Coke system. The person in charge of research and development comes from a professional RTD (ready-to-drink) research and development team, such as PepsiCo, and is equipped with the core strength of the original research and development team of Nayuki.

In terms of products, in the past, different products actually had different understandings and requirements for quality and the degree of innovation and adoption of raw materials. We adopted the method of matching the old and the new. Next, if you experience our products, you can find that the tea we use is also very good tea for Nayuki. The juice content in the juice tea is also more than 40%, and the taste is very fresh and full. In terms of sugar replacement, monk fruit juice is used instead of synthetic or artificial sweeteners that everyone used in the past. Monk fruit juice should be said to be the most advanced plant sugar in the RTD industry.

The brand section is mostly done by Nayuki's existing team. We found that the entire publicity and promotion method is different from the original. The traditional brand is the way of TV advertising or title column, but in fact, they are also trying it now. Transforming to do some online and offline marketing is precisely what the Nayuki brand team is very good at, so we are such a combination to do retail products. At present, we can also see that the products are selling very well in channels such as convenience stores.

Shen Hao: Regarding the proportion of delivery fees, in 2020, delivery fees accounted for 5.5% of revenue, in 2021 last year, it accounted for 6% of revenue, and in the first half of 2021, it was 5.2%. The proportional change in the rate is related to the proportion of takeaways to the total revenue. Affected by the epidemic in the second half of last year, the proportion of the entire takeaway increased slightly, resulting in a certain increase in the overall delivery fee in the second half of the year. In fact, it will be the same in 2020. The core point of view is the increase in the proportion of takeaways, which was 37.8% last year, and the second half of the year was higher than the first half of the year.

Q12 (Online text question) I noticed that the daily sales of the PRO store is significantly lower than that of the standard store. What is the reason behind it? Has the situation changed since the beginning of this year?

Shen Hao: The previous standard store, especially in 2018, 2019, and 2020, still had a very large store opening effect, and it reached its peak as soon as the store opened. Now PRO stores mainly reside in first-tier cities, and they will not have a similar peaking opening effect. The brand was already well-known in the local area, as it was popular as soon as it opened. In this case, the PRO store may see ramp-

up. The PRO stores were also opened in the second half of last year, especially in the fourth quarter. Many PRO stores did not have a long ramp-up period. Recent data shows that these PRO stores are gradually improving. I believe that after a period of climbing, their sales will gradually increase. Some PRO stores that opened a little earlier, in the same business district, actually sell very well, mainly due to the opening time and the climbing period. Last year, we also had a lot of standard stores switched to PRO stores. After the transition, the store revenue of PRO stores was basically maintained.

Q13 (Shenzhen Red Chip Investment): If the duration of the epidemic is very long, are you thinking of further changing the strategy in terms of store type? For example, opening some stores that are smaller than the existing ones and only provide self-pickup or takeaway? Recently, we have seen that Shenzhen and Shanghai are under lockdown, and the demand for food delivery is still very strong. Can this strategy help us reduce risks?

Zhao Lin: Most of the stores we sign now are %-of-sales only stores. When signing a contract of 200 square meters or 100 square meters, the rent is based on the turnover, so the size of the area has no direct impact on the rent. Although there are many customers who may order takeout or self-pickup, there will still be many customers who have the demand for in-store consumption, and the offline demand will increase when the epidemic resumes. At present, the average area of the PRO store is about 1,000 square meters, with about 30 to 40 seats. It is also in good condition, and there is no pressure to increase the rent.

Q14 (China Merchants Securities): May I ask a question about new products, what is the proportion of our sales of new products in 2021? In fact, our new products in 2021 have performed better than before, especially the research and development of new products of emblica and Phoenix Oolong, which has driven additional growth in store sales. Our December data is relatively good. Especially the introduction of Phoenix Oolong. And I want to know about the research and development of new products. What are the process or team improvements compared to the previous ones, including the more effective new product launches, whether they are sustainable in the next few years, or whether the probability is relatively high. ?

Peng Xin: This is probably all about feeling the brand's actions through new products, but in fact, the vast majority of our sales are still classic products. We shared with you when we did the roadshow last year. Our sales mainly come from our classic product.

Last year, we launched two products that impressed consumers all over the country, one is the emblica in the first half of the year, and the other is the milk tea and fruit tea made from the traditional Phoenix Oolong tea (Yashixiang) in the second half of the year. We refresh beverages and bakeries once or twice a month. New products are our way of marketing our products and content to interact with consumers. You can see that our marketing accounts for more than two points in our turnover. You can

see that other retail brands have a very high proportion of advertising. While we maintain a high brand voice, we have interesting products through our products. interactive, fun content, come to communicate with our customers. We make all new products, the purpose is to be able to better interact with users .

What we really like most is to create Nayuki's classic products, such as emblica and Phoenix Oolong, we find that the repurchase is very good, we have turned it into our classic product line. Most of the new products are rolled out on a monthly basis, using seasonal fruits to make seasonal fruit teas. Basically, they will be removed from the shelves within one to two months.

There is another insight. We will find that the seasonal return products have actually formed very good classic products. For example, the bayberry product that has returned for six years, you can say that it is a new product, and it can be said that it is a classic product. Every time it returns, there will be a very good performance boost and turnover contribution. For us, we will continue to discover interesting products. This year, we will find that there are more regional and local ingredients. We can make them into products, and they all have very good performance. We recently pushed the Chaoshan Qingmang (green mango), and we saw that there are very hot topics whether it is on the Douyin platform, Xiaohongshu, or Wechat Circles.

New drinks will continue to be launched, and what we value more is the creation of classic products and repurchasing products. This is our thinking on products.

Q15 (Anxin International): The main concern is the problem of stores. First, the number of standard stores decreased last year. Are most of them converted into PRO stores? Will there be additional expenses in the process of conversion, such as remodeling for decoration and the like. Second, judging from the performance of standard store profit margins, although the second half of the year was affected by the epidemic, the decline in profit margins was not particularly large. Is it understandable that a relatively mature store is actually relatively more resistant to risks? ? Looking at some more mature PRO stores, is it possible to observe such a phenomenon, relatively speaking, the profit will be more stable? What is the climbing time of the PRO shop now?

Zhao Lin: First, last year, about 40 standard stores turned into PRO stores. After the contract expires, our standard stores will basically be changed to PRO stores, because we do find that the efficiency of PRO stores may be higher. PRO shop products can also meet the needs of customers. Because our design and decoration are also constantly iterating and upgrading. Basically, when we change the PRO store after the expiration date, we will need to re-decorate it, but it will not be able to use as big size of the previous standard store. Now the PRO store can actually achieve the original effect with more than 100 square meters, so we will still sign a new contract or relocate to near locations.

Second, in the long run, a mature PRO store should also be like a mature standard store, with stronger anti-risk and anti-epidemic capabilities in the future. Just like a store growing here, it will affect the people around it for a long time and form a habit. During the “increasing density” process, many

customers do not know whether the store is open or not. As time goes on and more people know about it, the store 's sales will become more and more stable. more and more mature.

The current ramp-up period is related to the location. For example, if it is opened in a very mature commercial center, the visibility is very high, and the climbing period must be short. If it is opened in a community type, the attention may not be so good. The ramp-up period will be relatively long. We also found that the more stores there are in a city, the longer the ramp-up period is relatively speaking, but under normal circumstances, without the impact of the epidemic, I think it can basically mature gradually in about 3 months.

Lu Cheng: Thank you, Mr. Zhao, and thank you investors for your attention. Due to time constraints, today's press conference ends here. Thank you all!

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